

THE HARBOR MAINTENANCE TAX & CONGESTION RELIEF (v.9.1.05)

Summary

The potential for moving intermodal cargo within the United States along coastal and inland waters is attracting the attention of industry and Federal policy makers as well as private sector investment. Such coastwise and “short sea” shipping can be especially appealing in regions where the waterways parallel major highway and rail corridors that are capacity constrained and promise to become more congested in the coming years. Existing operators and those who are working on start-up service initiatives have identified the Harbor Maintenance Tax (HMT) as a major discouragement for the use of waterborne transport of domestic intermodal cargo, notably goods moving in containers and on trailers. When asked how Federal policy might be adjusted to foster this system capacity enhancing development stakeholders suggest as a first priority exempting certain domestic cargo from the HMT.

The Harbor Maintenance Tax

- *IN BRIEF...It is estimated that a small fraction of the HMT collection on domestic shipments comes from the intermodal cargo that this paper proposes to be exempted from the HMT.*
- The HMT was created by Congress in Title XIV of the Water Resources Development Act of 1986 (PL 99-662) and took effect in 1987. Initially a charge of 0.04 percent on the value of international and domestic cargo and cruise ship passenger tickets, the HMT was increased to its current level of 0.125 percent of cargo value in 1990.
- The purpose of the HMT is to offset the cost of Federal channel maintenance dredging conducted by the US Army Corps of Engineers. The law also allows the use of HMT receipts to support the administrative costs of HMT collection, offset the St. Lawrence Seaway tolls, and build dredged material disposal facilities. Certain cargo, types of vessels and trade routes are exempt from the HMT coverage.
- The HMT is collected in coastal and other ports that are not a part of the inland waterway system and where the Federal government has constructed navigation projects. This is in contrast to the inland waterways system, where the construction of locks and other navigation infrastructure is supported by a barge fuel tax that travel the U.S. river system.
- Spending offsets authorized in the law have not kept up with revenues. Since 1987 the Harbor Maintenance Trust Fund has accumulated a year-end balance that is currently projected for FY 2006 to be \$3.072 billion (source: FY06 Budget).
- The Supreme Court in 1998 found the HMT as it was applied to US exports to be unconstitutional. That left HMT collections on imports and domestic cargo as well as on foreign trade zone activity and cruise passenger tickets. The substantial portion of HMT receipts collected annually is on imports. FY 2002 receipts, the last year for which data is reported, are from the following sources:
 - Import: \$544.7 million
 - FTZ: 69.1 million
 - Domestic: 27.8 million
 - Cruise: 9.6 million

- The HMT is applied to cargo and therefore is paid by cargo owners i.e., shippers or importers. US Customs & Border Protection (CBP) collects the HMT on import cargo as part of the cargo clearance process. The HMT on domestic cargo is received by CBP as cargo owners send in payments due as on an “honor system.”
- In FY 2002, total collections from domestic cargo were \$27.8 million. Inasmuch as domestic waterborne transportation—US port to US port—carries primarily liquid and dry bulk commodities e.g., petroleum, grain, minerals, the majority of HMT receipts collected on domestic cargo is thought to be sourced in those bulk shipments. Thus a very small portion of the total annual collections of the HMT on domestic cargo is thought to come from intermodal cargo.

The Coastwise or “Short Sea” Shipping Option

- *IN BRIEF... The waiver of the HMT on certain cargoes traveling in the domestic trade would be a cost-effective way to stimulate the use of vessels in domestic freight movement for good public policy reason.*
- Major interstates are increasingly congested, especially in metropolitan areas and in many regions around the country.
- Corridor congestion has led to the increased use of rail freight service by trucking companies. However even sections of the US rail freight system are experiencing congestion. The national transportation system is strained by the growing demands of international and domestic commerce and passenger travel. A 2001 study of mid-Atlantic rail freight needs by the I-95 Coalition found that even with rail capacity improvements there is a limit to how much of the projected growth in freight will be able to be carried by rail.
- Waterborne transportation cannot directly serve every market in the country, however where it could be an option it is capable of providing extensive system capacity at comparatively little infrastructure cost. The US Department of Transportation estimates that the construction cost of a lane mile of interstate highway is \$32 million. The water route for coastwise service would rely primarily on infrastructure—new or existing—at the end-points of its route.
- In order to be an attractive option waterborne transportation must be competitive in one or more of the following: price, service, time, and reliability. There is no question that, depending on the market; vessels can compete in those areas. This paper addresses the issue of price.
- The Federal government as a matter of transportation policy should consider how the national transportation system capacity can be improved by encouraging coastwise shipping, especially for types of cargo that for the most part do not now move on water. That would include international and domestic freight containers, trucks (including tractor-less trailers), vehicles and break-bulk cargoes.
- Trucking would not be disadvantaged; in fact it would benefit. With container volume growth projections being what they are, any increase in the use of coastwise services should see truckers moving a smaller percentage of total containers but the total volume being carried by trucking on land still will increase in absolute terms.
- New coastwise shipping service should not be viewed as in competition with trucking. In addition to being a reliever for the growing demand on trucking vessels would provide a service to trucking e.g., ferry service for driverless trailers over long hauls. The planned Bridgeport service is an example of the

- trucking community seeing the water highway as an alternative to the congested interstate system.
- Vessels that serve the coastwise market are and would be shallow draft vessels such as barges or new high-speed ships. Those that would have shallow draft requirements would rely little on the channel maintenance work for which the HMT is collected to support.
 - The waiver of the HMT on certain cargoes traveling in the domestic trade is just one way that Federal policy could support the increased use of vessels in domestic freight movement. It may also be one of the least costly and programmatically easier Federal policy solutions.
 - The cost of the HMT applied to a container of goods will vary according to the size of the container and the value of the cargo. A Port Authority of New York & New Jersey study estimated the potential cost in key studies involving shipments between the Port of New York/New Jersey and the Ports of Camden and Bridgeport to range between \$40 and \$84 for a container. Estimates in other markets have been higher. That cost can be almost as much or even more than the differential between the delivery costs of shipping by vessel or truck.
 - U.S. cabotage law requires all cargo and passenger vessel movements between US ports to be on U.S. flag vessels. Therefore the American maritime sector, including labor, ship builders and owners, would benefit by an increase in domestic shipping.
 - There is a strong public policy basis for the Federal government removing disincentives to coastwise shipping of intermodal cargo. By taking trucks off highways, short sea service can create equivalent highway capacity. In the case of the Port of NY/NJ to Port of Albany service, using a 450 TEU barge twice a week creates the equivalent of 3.23 lane miles. When annualized construction costs and annual operating and maintenance costs (for a 40 year pavement life) are taken into account, the service actually ends up creating highway capacity valued at \$1.1 million per year for 40 years. Using the same assumptions for the Albany barge service, the service would save approximately 1.7 million gallons of diesel fuel per year.
 - The industry is already seeing a shortage of drivers needed to move boxes out of the terminals. Long haul movement of freight by water would give trucking companies the option of putting trailers (not drivers) on the vessels and allow more efficient use of the driver population.

Amending the Harbor Maintenance Tax

- *IN BRIEF...Waiving the HMT would be a low cost way to encourage the expansion of the transportation system's usable capacity and would eliminate the double taxation of certain cargo.*
- Stakeholders have suggested various ways for Federal assistance: start up operating subsidies, capital support for the construction of integrated vessels, the increased funding of the Title XI Shipping Financing program, among other things. Waiving the HMT is expected to have a very small effect on revenue, perhaps \$2 million per year.
- The waiver of the HMT would provide encouragement for the waterborne transport of purely domestic cargo and on international cargo moving in feeder service e.g., import containers arriving in Norfolk and then barged to Baltimore.

- International cargo moving on feeder service has to pay the tax twice (for the international and domestic trips). That double taxation is unfair particularly because Congress previously eliminated the second application of the tax on cargo traveling between Alaska and the lower forty-eight. Such a double hit is inequitable and alone is reason to change the law as it applies to domestic moves of cargo.

Examples of Coastwise Service

- ***IN BRIEF...Coastwise shipping of intermodal cargo is hardly new but new services can be difficult to start in untested markets. There currently are 14 coastwise intermodal cargo services along the East, West and Gulf coasts. More are planned but entrepreneurs are finding that the added cost of the HMT is a discouragement.***
- A few vessel operators maintain a recently started service hauling containers of import and domestic cargo between certain ports in the Northeast, the Southeast and the Gulf. Feeder service of international cargo has been around for many years but has not handled a substantial number of containers. Columbia Coastal Transportation and Osprey Lines are the best examples of current operators that have proven there is a market for this service.
- The Port Authority of New York & New Jersey's Port Inland Distribution Network (PIDN) is an example of a start-up effort intended to ease landside congestion. PIDN is an initiative to improve productivity at the marine terminals and lessen the use of trucking of international containers in the NY/NJ/CT region. PIDN includes rail and vessel strategies. The first waterborne element of PIDN to start is the Albany barge service carrying import and export containers between the Port of NY/NJ and the Port of Albany. The Port Authority has planned, with other ports in the Northeast, similar feeder service and is eager that those new starts be successful.
- A third example of coastwise service is the prospective service, such as plans for the use of high-speed vessels. The speed of a vessel carrying cargoes can be important to meet the needs of the shipper. In some instances the slower barge service is fully adequate and in other instances long haul trips by high-speed vessels would be necessary to meet market needs. An example of a potential service is SeaBridge, which would offer high-speed ferry service marketed directly to long haul trucking.