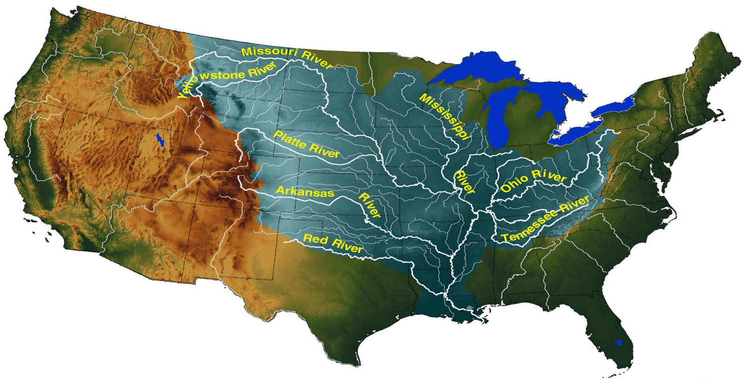
BIG RIVER COALITION



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The Big River Coalition was created in fiscal year 2011 in reaction to the announcement by the Commander of the Corps of Engineers' Mississippi Valley Division confirming the discontinuation of reprogramming funds to maintain the Lower Mississippi River navigation channel. This position change immediately meant the Mississippi River's navigation channel would no longer receive preferential treatment. Shortly after the 1989 grounding of the M/V Marshal Konyev near Pilottown which, in essence, closed the River to all ship traffic, the Corps' Headquarters announced in a position statement that it would maintain the nation's most critical navigation channel. The Big River Coalition's main focus has been to obtain additional funding to supplement the shortfall in the Corps' annual budget, to strive to establish a legislative firewall around the Harbor Maintenance Trust Fund, and to represent members of the Mississippi River navigation industry in matters related to coastal restoration.

The Big River Coalition has watched the Harbor Maintenance Tax (HMT) revenues increase while the Harbor Maintenance Trust Fund surplus grew to over \$6.3 billion. This surplus is merely an accounting of what has already been diverted from the maintenance of our nation's critical trade arteries and deep-draft harbors. Our nation's most important waterways for international trade are often operating at channel dimensions significantly below their Congressionally authorized depths and widths. The Corps agreed that of our nation's 59 busiest waterways, fully authorized dimensions were only available 35 percent of the time. The ad valorem HMT is paid by shippers, and they have the right to expect these funds are used to maintain our critical navigation channels. However, because of the disconnect and surplus of funds, the same shippers who pay the tax are often further penalized by having their vessels delayed or negatively impacted by reduced channel availability.

The Lower Mississippi River (LMR) has been described using colorful monikers over the years, but for shippers it is often referred to as the "world's economic superhighway." This channel connects 31 states, 2 Canadian Provinces and approximately 12,500 miles of navigable channels to the world's free trade markets. The channel contributes approximately $125 billion annually to the U.S. economy. The Corps' New Orleans District (NOD) agrees that, on average, they require $110 million annually to maintain the navigation channel; however, they are often funded at a level around $65 million (unless supplemental funding or reprogramming of funds is approved). On January 31, 2012, the NOD received $54 million in supplemental funding due to the support and efforts of the navigation industry and the entire Louisiana Congressional Delegation. However, the funding increase was only made available after several draft and transit restrictions had to be enforced on the LMR and, most notably, after several vessel groundings occurred that were directly linked to the NOD being underfunded.

The NOD devised a budget-driven dredging plan based on the level of Congressional funding secured through normal funding sources. The NOD announced this budget-based dredging schedule in the form of a document known as the *White Paper.* Prior to receiving the $54 million, the NOD released their dredging planned based on the $72.6 million it had previously been budgeted. Because of the shortfall in this amount and the need for $110 million, the NOD was unable to dredge at times when the channel became deficient. The NOD recently released an amended *White Paper* based on the receipt of supplemental monies.

This supplemental funding should provide the NOD with adequate funding to maintain authorized dimensions on the 250 miles of LMR channel, barring any unforeseen circumstances such as flood stage river levels or significant hurricane or tropical events. However, the supplemental funding will only help to maintain the channel this Fiscal Year. As the next fiscal year starts without adequate changes in the budget, the LMR channel will again risk being compromised due to inadequate funding. Please remember that the shippers paying the HMT are the ones most unfairly penalized by the reduced channel dimensions. During the reduced draft recommendations that began in early January 2012, many of the shippers who pay the HMT were negatively impacted by vessel delays and were forced to absorb additional costs. The LMR deep-draft channel is Congressionally authorized to 45 feet deep by 750 feet wide over the majority of the channel, although there are several places where the width is narrower (Southwest Pass

Jetties and the Crossing above New Orleans). At times the channel has been less than 100 feet wide and well below the authorized depth. The channel was reduced to 44 feet on January 2, 2012, and it was further reduced to 42 feet from January 17, 2012 through January 26, 2012.

The loss of 3 feet of draft on the world's economic superhighway comes with severe financial ramifications for the shippers who pay the .125% tax on the value of their imported cargoes. The Big River Coalition commissioned and released an Economic Impact Study by Dr. Tim Ryan, which documented problems associated with inadequate channel maintenance of the LMR navigation channel. Dr. Ryan's Study and the Executive Summary are available, along with other critical LMR channel information at:

http://bigrivercoalition.org/news.html

Dr. Ryan's Study clearly demonstrates what shippers have long known regarding the failure to fully fund the NOD's budget to preform channel maintenance—which is that the economic impact has huge financial penalties. Results of the Study highlight that there is an annual shortfall of approximately $45 million between the NOD's authorized budget and their actual maintenance costs. Dr. Ryan details that the failure to fund this additional $45 million could amount to economic losses to the nation totaling nearly $10 billion through reduced cargo and production cutbacks.

Dr. Ryan's Study featured several draft reductions based on announcements by the NOD during the high river stages that were associated with the flood of 2011. During this historic event, the NOD was openly concerned and advised the navigation industry that it may only be able to maintain the authorized channel to depths of 40 or 38 feet. Certain vessel operators, mainly those handling petroleum or hazardous cargoes, require up to three feet of under-keel clearance. Therefore, a loss to 40 feet would limit those vessels to a maximum draft of 37 feet or 35 feet, respectively. The economic losses now will only be further exacerbated when the new locks open on the Panama Canal. With the opening of the new locks, this will mean that the maximum draft on the LMR will become the limiting draft for vessels transiting the new Canal, which will have a deep draft of 50 feet. Clearly, in order for the U.S. to maximize the economic boom of the Panama Canal offering Post-Panamax vessel transits, our nation's critical trade channels will need to be maintained at 50 feet year round.

The following example offers a glimpse into the reality of taxation without channelization as it pertains to one vessel on a channel that sees roughly 6,000 vessel arrivals annually. A shipper regularly transits the LMR with shipments of about 70,000 tons pig iron, which has an estimated value of $500 per ton. The Harbor Maintenance Tax this shipper will pay is calculated as follows: 70,000 tons x $500 a ton = $35,000,000 cargo value x .125% = $43,750. This one vessel movement generates $43,750 via the HMT. The vessel has been unable to load to the Congressionally authorized depth of 45 feet because of the recently imposed draft restrictions of 42 and 44 feet (currently 44 feet). One foot of draft on a Panamax size vessel averages about 2,300 tons. The loss of one foot of draft equates to $1.1 million, and at 42 feet, the loss of cargo would be $3.3 million.

Therefore, the shipper who is paying the HMT is being penalized because our government is using money that his company paid into the HMT for other purposes. Take it a step further and say that products made from pig iron cost more to the American Tax payer because economies of scale are reduced. Consider that in relation to oil and gas imports, and you can see where the American taxpayer is being substantially penalized across the board, which has been clearly demonstrated in Dr. Ryan's Study.

The shipper paying the HMT is being unfairly penalized because the purpose of the HMT, as authorized in the Waterways Resources Development Act of 1986, was to fund the Corps' channel maintenance program. The vast majority of the funds were designed to cover the cost of dredging but, ironically, as more of the HMT goes unused, the government is also driving up the cost of maintenance dredging. Because of the loss of proper funding, the unused tax diminishes the effectiveness of the U.S. dredging industry. Conversely, with full use of the HMT monies, the dredging contractors would logically respond by building new, advanced equipment in U.S. shipyards as per the Jones Act requirements. The misuse of the HMT hurts the American economy and jeopardizes jobs, drives up the cost of products, and harms U.S. trade competitiveness.

The Big River Coalition encourages Congress to pass legislation that will stimulate the economy, create jobs, increase trade, maintain the nation's most critical deep-draft channel, and stop penalizing shippers who pay into the HMT. The Corps, at Headquarters level, has stated that with the approximately $1.5 billion generated by the HMT, it would be able to satisfy its deep-draft navigation commitments. The HMT is badly needed to encourage trade and promote the future of our nation has tied to international trade. President Obama stated that he wanted to double trade over the next few years. Clearly, without proper and routine channel maintenance, this goal will never be met. Countries around the world envy the Mighty Mississippi, and it is time the country realizes and nurtures the "world's economic superhighway." The President's Export Council sent a message last year in the form of a letter on Transportation Infrastructure. This letter stressed the importance of maintaining the Mississippi River channel and is available at:

http://www.trade.gov/pec/docs/PEC_Transportation_Infrastructure_Letter_031111.pdf

Taxation without channelization is a key concern to the nation and, most notably, to the members of the Big River Coalition whose membership is represented from New Orleans to Minnesota northward, and from New Orleans to Pittsburgh in the Northeast. The HMT should be used for its intended purposes in order promote reliable channels across this nation to ensure and protect our position in the future of world trade.

The Big River Coalition extends our sincere thanks to Congressman Boustany, Chairman of the House Ways and Means Subcommittee on Oversight, for hosting the recent hearing and for his support to fix the broken trust fund mechanism via the Realize America's Maritime Promise Act (RAMP). The Coalition also thanks Congressman Pat Tiberi, Chairman of the Select Revenue Measures, for co-hosting this Hearing.