STATEMENT OF RICHARD F. WALSH, DIRECTOR, OFFICE OF ECONOMICS AND PUBLIC INVESTMENT, OFFICE OF THE SECRETARY OF TRANSPORTATION FOR POLICY AND INTERNATIONAL AFFAIRS BEFORE THE MERCHANT MARINE AND FISHERIES COMMITTEE OF THE U.S. HOUSE OF REPRESENTATIVES REGARDING LEGISLATION RELATING TO THE PROMOTION, FINANCING, AND FACILITATION OF MAINTENANCE AND DEEP DRAFT NAVIGATION IMPROVEMENT PROJECTS FOR PORTS OF THE UNITED STATES, JULY 28, 1981.

Mr. Chairman, Members of the Committee:

I am pleased to be here today to discuss proposed legislation currently under consideration and about to be introduced in Congress which deals with the promotion, financing, and facilitation of maintenance and deep draft channel navigation improvement projects for ports of the United States.

The Department of Transportation fully recognizes that ports are extremely important, both in terms of regional economic development and as intermodal connectors, in the international and domestic transportation networks of the Nation. Ports serve vital and essential national public interests in this country. Approximately two billion tons of commerce in foreign and domestic waterborne trades with astronomical values move through port gateways each year. The public and private investment in ports and cargo handling facilities since the end of WW II approximates $7 billion and port generated economic activity provides employment for well over 1.0 million people.

The Department of Transportation was to have originally included the marine mode. As this Committee is well aware, the Maritime Administration did not become part of the Department of Transportation and remained instead an element of the Department of Commerce. Thus, while the DOT's responsibilities in maritime matters have been considerable, much of the maritime agenda has been outside our statutory purview. The Department's principal marine activities over the last 15 years have included (1) the U.S. Coast Guard, which is responsible primarily for safeguarding

life and property at sea and for protecting the marine environment both by providing rescue and assistance services and by taking steps to prevent marine casualties; and (2) the St. Lawrence Seaway Development Corporation, (SLSDC), which is responsible for the operation and maintenance of that part of the international St. Lawrence Seaway within the United States. The SLSDC is funded entirely from user charges, and is a special purpose modal administration within the Department of Transportation. It is responsible also for developing and promoting trade and traffic throughout the Great Lakes/St. Lawrence Seaway navigation system.

Another marine-oriented function for which the Department has authority involves the oversight and review of applications filed with the Federal Government for licenses to own, construct and operate deepwater ports off the coasts of the United States and beyond the three-mile limit. The Deepwater Port Act of 1974 (P.L. 93-627) gave the Secretary of Transportation responsibility for authorizing and regulating the location, ownership, construction and operation of deepwater ports beyond the territorial limits of the United States.

The Department has fully licensed one deepwater port located 18 miles off the coast of Louisiana, known as the Lousiana Offshore Oil Port, or LOOP. This facility, costing over $700 million, was licensed in early 1977, and in May, 1981 received its first shipment of crude oil. The Department is currently reviewing another deepwater port license application from a consortium of private companies called Texas Offshore Port, Inc. (TOP) which proposes to build a similar port facility off the coast of Freeport, Texas. We hope to have our review of the TOP license application ready for Secretarial decision by September of this year.

In addition to the Coast Guard, St. Lawrence Seaway, and the deepwater port licensing activities, the Department has been involved from time to time in many other matters relating to maritime commerce. The Department, about a year ago, completed a preliminary assessment of transportation connectivity problems at U.S. ports. This assessment, Landside Transportation at Ports, was made by a working group of representatives from the Economic Development Administration and the Maritime Administration of the Department of Commerce, together with representatives from the Federal Highway Administration, the Federal Railroad Administration and various other DOT offices. The assessment focused exclusively on rail and highway access links to the immediate port area. The general conclusion was that many specific rail and highway connectivity problems could be mitigated by better integrating the concerns of port operators and port landside transportation planners into the local and metropolitan transportation planning processes. New planning guidelines were also issued by the Department of Transportation to highway and urban mass transit planners to require for the first time the inclusion of "goods movement" as a consideration in their planning process, as well as people movement. The overall conclusion of the Port Connectivity Study was that most connectivity problems tend to be unique to a particular port and could best be handled at the local level by metropolitan, state and port planners. No specific federal action appeared to be indicated.

The Department has also participated with other agencies of the Federal Government on the Interagency Task Force on Coal Exports, chaired by the Department of Energy. Representatives of the Department participated in the Inland Transportation and Ports and Ocean Transportation working subgroups under the Task Force.

The Department of Transportation has also guided the Congressionally mandated study of the impact of inland waterway user charges called for by Section 205 of the Inland Waterways Revenue Act of 1978. That Section 205 Study is now nearing completion with a target date of September 30, 1981 for a final report.

While the Maritime Administration did not become part of the Department of Transportation when it began in 1966, it has now been proposed that the Maritime Administration be moved organizationally from the Department of Commerce to the Department of Transportation. This shift could provide for a much more comprehensive and better integration of transportation modes by bringing all modes, finally, under one roof.

Now, as to the specific proposed legislation under consideration here today, H.R. 3977 introduced by Rep. Paul Trible of Virginia, which provides that users and other beneficiaries of federal water projects should share in their cost. The legislation provides priority, or "fast-tracking", for those projects on which local people agree to share costs. The proposed legislation provides that ports pay 40 percent of the total construction cost of new channel deepening projects and not more than 25 percent of future operating and maintenance costs. The proposed legislation, of course, finds that ports serve the national interest and that improvements to these ports are necessary if they are to continue to serve the national interest.

Also under consideration here today is proposed legislation soon to be introduced, which is now identified simply as Committee Print dated June 29, 1981. This proposed legislation, similarly finding that ports are in the national interest, would provide a mechanism to expedite on a priority basis the authorization, funding and construction of federally

authorized navigation improvement and maintenance projects. Priority would go to those state port authorities entering into agreements with the Secretary of the Army for cost-sharing. The Federal Government would provide funding in the first instance, with state authorities reimbursing the Federal Government from user charges for 50 percent of construction outlays and 75 percent of the incremental operating and maintenance costs.

The Department of Transportation has long advocated the cost recovery principle in most modes of transportation where federal financial facilities are used -- the aviation and highway modes are prime examples. The Department of Transportation strongly supports the extension of cost recovery to the freight carrying modes, including deep draft navigation projects. The proposed legislation being considered by this Committee today, however, differs from the Administration position on this subject, as embodied in S. 809, which calls for 100 percent cost recovery on deep draft navigation projects, both for initial capital improvements, and for operations and maintenance. S. 809 also requires that an appropriate non-Federal public body agree with the Secretary of the Army to reimburse the Federal Government for federal expenditures by the Corps of Engineers for such operations, maintenance, or rehabilitation activities and requires that reimbursement be on a port by port basis.

The Department has taken an internal, informal look through staff studies at the possible impacts of deep draft recovering the Federal costs of navigation programs cost recovery and I would like to share with you the following few preliminary navigation program conclusions:

1. Deep draft cost recovery would result in different impacts on different U.S. ports. Requiring the users of a given waterway to assume

the cost burden of operation and maintenance would result in varying charges, depending on the magnitude of these O&M costs, and the level of traffic using the waterway. On a tonnage basis, our analysis shows that the charge per ton of cargo might vary from nil to more than $1.50 depending on the waterway, the amount of maintenance dredging required and the traffic.

With respect to export and import traffic, user charges would tend to increase the cost of imports to U.S. consumers, as well as the cost of our exports to foreign markets. However, the degree to which such cost increase will diminish demand or increase prices of these goods is exceedingly difficult to predict, with any confidence, particularly in view of the small size of the user charges relative to the value of commodities in our foreign trade.

2. Lower-valued commodities will experience a relatively greater percentage cost increases if user charges are levied on a tonnage basis. For example, for the Port of Baltimore, which is one port we looked at in some detail, the volumes of cargo moving in foreign trade ranged in value from $50 to $5000 per ton. User charges imposed on a tonnage basis would have a relatively greater impact on the prices or demand of the lower-valued commodities, i.e., bulk commodities, raw materials, and the like. By the same token, user charges levied on the basis of value would result in a relatively greater dollar contribution from the higher-valued cargoes.

3. On the basis of our examiniation of Baltimore, which we view as rather representative of U.S. ports generally, the additional cost to shippers due to user charges does not appear unduly burdensome. For Baltimore, the Federal cost for maintaining its existing waterways would be euqal to about $0.04/ton.

The average value of exports and imports moving through Baltimore is approximately $330.00 per ton, with a range of $50 to over $5000 per ton. Using these values, the highest cost increase due to user charges would be equal to 0.1 percent of declared value. Obviously, for other ports this would vary, depending on the level of traffic, O&M costs, volumes and the relative proportions of high and low valued cargoes.

4. Bulk cargo services will experience greater impacts due to cost recovery than general cargo services. In most cases, bulk shipping operations (e.g. coal and crude petroleum) involve low-value commodities, which move in ship-sized lots on a contract basis. Transportation costs for such movements are sensitive to the economies of scale, and shippers can be expected to make use of the largest ship available in their pursuit of these economies. In many, but not all, cases, this maximum ship size is dictated by the available waterway depths in port. Accordingly, movements of low-valued commodities not only are the more sensitive to user charges (especially on a tonnage basis), they also involve the types of ships that make the greatest demands on waterway capacity in terms of channel depths.

Both of these factors suggest that, if user charges are levied by ports, bulk shipping systems will tend to gravitate towards those ports with relatively lower charges, all other things being equal. In addition, shipping system improvements and innovations designed to make maximum efficient use of available depths will be encouraged. General cargo services may be less sensitive to these costs, due to the higher values of the cargoes they handle, the smaller ship sizes involved, and the dispersed nature of their operations (i.e., multi-port operations as

opposed to the point-to-point movement characteristic of bulk cargoes). Thus, it will be the lower-valued commodities that will be most sensitive to cost recovery and user charges, the very same commodities which are today driving the desire to dredge the Nation's port channels deeper.

As I said, these observations are only preliminary and tentative. We intend to continue to observe and analyze the impacts of cost recovery for deep draft navigation channels. However, from our analysis to date, there would appear to be no reason for believing that full cost recovery is not both feasible and desirable.

In summary, the Department of Transportation feels strongly that ports are an important element in the overall transportation chain, that ports serve various national interests, that the administrative and decision-making processes for dredging projects ought to be accelerated, and that it is but reasonable and fair to recover the federal costs of providing and maintaining deep draft navigation channel improvements. Further, because of the importance of ports to our overall transportation system, the Department of Transportation has a significant role to play in port development policy, particularly with the imminent transfer of the Maritime Administration to DOT. As part of our overall review of maritime policy, we are undertaking an examination of our role in port development.

This concludes my prepared remarks. I will be pleased to answer any questions you may have.