

TESTIMONY OF CHARLES SWINBURN
ACTING ASSISTANT SECRETARY OF TRANSPORTATION
FOR POLICY AND INTERNATIONAL AFFAIRS
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SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
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Mr. Chairman, Members of the Sub-Committee, good morning. I am pleased to be here to talk about the important port development issues that are before you. You are certainly to be commended for calling this hearing to grapple with a problem that is very difficult, but that may be crucial to the full development of our nation's foreign trade potential. I also want to commend Senator Warner and Senator Hatfield and their colleagues for their work and vision in the introduction of S. 865. Their bill represents a very encouraging effort to deal with the difficulties we all have been facing in developing good legislation. I understand that work is continuing to revise further and improve S. 865. Senators Stafford and Moynihan are also to be congratulated for introducing S. 970. Both of these bills have interesting and constructive features.

Your letter of invitation poses several specific questions concerning port improvement, cost recovery and S. 865 and S. 970. I will address these questions, but first I would like to define the overall issues which concern us here.

These issues can be stated very simply. First, we need to make sure that it is possible to improve our national port system. When economically warranted, ports should be deepened so that large cargo vessels can operate out of them. At this moment, we have no deep-draft ports on

the East or Gulf Coasts, yet it is important for the efficient development of our foreign trade that we have the ability to create such ports.

Second, we also need to provide a secure and adequate source of financing to maintain our existing port system in good operating order. Ports cannot function efficiently without adequately maintained and improved navigation channels.

Those are the problems. Now let me try to answer your questions, taking the last two first, since they raise issues of general principle.

These issues have to do with the need for a Federal policy that places greater financial responsibility on users of ports and inland waterways and whether any change in current practices with regard to user charges is necessary to keep up with needed improvements on the inland waterways and deep-draft ports.

In this connection, there are two principles that are very important to this Administration and which apply with equal force to both our port and inland waterway programs. These are:

--- First, to the maximum extent feasible, decisions on which improvement projects to carry out should be made by the economic forces of the marketplace, not by the political processes of the Federal government.

--- Second, commercial interests should assume their share of the costs of maintaining the existing deep-draft and inland systems and of the burden of any improvements.

There are good reasons for holding to these principles. The urgent need for the Federal government to practice fiscal stringency is one of them. By placing maximum reliance on the forces of the marketplace for making decisions on improvement projects, we reduce the chance that we will carry out unneeded or "gold-plated" improvements. By having users pay for the costs of both maintaining and improving the existing system, we generate a stream of new revenue that eases the pressure on the budget. Very frankly, if we cannot generate some new revenues, we simply are not going to be able to have the kind of port modernization called for by the President in his State of the Union Address. I would like to stress our belief that that would be a very unfortunate development for our economy.

I would like to add, though, that there are good reasons for holding to these principles even if we did not have the urgent requirement to hold the budget in check. We should always use rigorous investment standards, and the best way to do this is by allowing marketplace forces to have the maximum influence on our decisions. Similarly, both from the point of view of fairness and in the interest of an efficient transportation system, we believe that the users of Federally funded facilities or services should bear the costs of such facilities or services to the maximum extent possible in all transportation modes.

We believe that these principles of marketplace test and cost recovery should be embodied in any port modernization legislation. There are a number of ways of putting them into practice. With regard to improvements, we think the best approach would be one which recovers the cost of

the improvement through levies specific to the traffic using that project. This would require local sponsors of a deepening project to give careful consideration to the effect on their future traffic of the resulting cost recovery charge. With higher levels of cost-sharing, S. 865 would meet this test. In addition, S. 865 contains clauses which permit non-federal authorities to finance and build channel improvements under an agreement with the Secretary of the Army. Obviously, those authorities would have to be very certain that the benefits justified the cost, and a true market test would, thus, be applied. We favor this provision.

With regard to the operations and maintenance of existing channels, we find some difficulties with charges that are specific to a particular channel. Some argue that it makes the best economic sense to vary operating and maintenance charges according to actual costs at particular ports. We must recognize, however, that the current channel system, the investments in shoreside facilities and the associated traffic flows have evolved over a long period of time in an environment free of user charges. It is important that the shift from general revenue financing to user financing of system maintenance be carried out so that any changes to existing competitive relationships among ports and port ranges are minimized. There can be no question that the continued maintenance of the current system should be financed in the least disruptive and least discriminatory manner. Thus, we are agreeable to recovering such costs by means of a uniform fee as is done in both S. 865 and S. 970.

The three other questions in your invitation are about the specifics of S. 865 and S. 970, both now under consideration by your sub-Committee. In one, you ask about the relative merits of ad valorem and tonnage fees. Both types of taxes may have merit. The Maritime Administration is conducting an analysis of these charges to determine the relative impacts of the two types. When we have this information in hand, we will share it with you and with others in the Senate. It may allow us to give you a better answer on this point. We do not necessarily object to the use of either an ad valorem charge or a tonnage fee.

It is difficult for me to comment on the relative ease of administration of S. 865 and S. 970, since I understand that the sponsors of S. 865 are receiving technical advice from the Treasury and the Justice Departments, and that changes are being worked out.

You asked whether S. 865, S. 970 or some alternative is most likely to let us have early, priority development of one or two 55-foot ports. In order to achieve this kind of development, we must be able to focus our resources on those projects that are truly needed. For this to happen, the cost recovery provisions must provide a marketplace test that is strict enough to deter marginal projects. The stream of new revenue generated by user fees must also be large enough to meet the costs of priority projects. S. 865 provides for Federal financing of the local share of a project, with local reimbursement to the Treasury over a period of up to 50 years. This does provide a marketplace test since local authorities will probably have to charge their traffic in order to reimburse the Treasury. However, with its sliding scale

for local share, S. 865 applies its mildest marketplace test to shallow-depth projects and the most severe test to the deepest draft projects. When that feature is combined with the fairly low level of cost recovery in the bill and the limited amount of funds available for the Federal share of improvements, it may simply be that available funds would not be large enough to sustain priority deep-draft projects if many other projects are also being funded. Thus, we believe S. 865 might benefit from some adjustment both with respect to the sliding scale on local share and the overall level of cost recovery.

S. 970 provides that 75 percent of the costs of projects with depths exceeding 45 feet must be raised by local sponsors, half provided during construction and half recovered over a period of no more than 30 years after initial operation. Clearly, a cost recovery level of this magnitude would provide a stronger market test, while reducing the Federal budget impact of the port development program.

Further on the question of early development of our ports, both of the bills before you, S.865 and S.970, contain language designed to coordinate and speed up the approval process for improvement projects. This "fast tracking" is one necessary condition of any port development bill, and would represent a significant improvement over current practices.

In conclusion, we consider enactment of a port development and cost recovery bill to be essential to our nation's economic health. There are some port projects with genuine economic merit which should go forward in the national interest. As President Reagan said in the

State of the Union Address, "Our trade position can only be improved by making our port system more efficient. Better, more active harbors translate into stable jobs in our coalfields, railroads, trucking industry and ports."

Secretary Dole has asked me to say that she will be very pleased to work with the Committee to develop a sound bill to which we can all agree so that we can get on with the important business of improving our national port system.

Thank you very much. I will be pleased to answer any questions.