

DEPARTMENT OF TRANSPORTATION
STATEMENT OF THE MARITIME ADMINISTRATION

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BEFORE THE SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
OF THE COMMITTEE ON MERCHANT MARINE AND FISHERIES
HOUSE OF REPRESENTATIVES

TAXES VERSUS COMPETITIVENESS IN THE MARITIME INDUSTRY

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Mr. Chairman and members of the subcommittee:

Thank you for the opportunity to discuss taxes and the maritime industry.

The Maritime Administration, operating within the authorities provided primarily in the Merchant Marine Act of 1936, is charged with fostering the development and maintenance of a merchant marine sufficient to carry our domestic waterborne commerce, a substantial portion of our foreign commerce, and capable of serving as a naval and military auxiliary in time of war or national emergency. MARAD also is concerned with the economic health and competitiveness of U.S. ports and the adequacy of intermodal connections to marine cargo terminals. Our programs are promotional in nature. A primary concern regarding the growing number of taxes is their cumulative impact on the U.S. maritime industry and its ability to compete in the world market.

The taxes that we are reviewing today affect the competitive position and profitability of the maritime industry. These tax

increases, which were enacted in part to shift the burden of industry-specific programs from the general taxpayer to the shipping public that benefits from them, have the effect of raising the cost of doing business in U.S. ports.

I will now describe the specific tax increases.

The shallow-draft waterways fuel tax increased from 11 cents to 13 cents a gallon this year in accordance with the schedule contained in the Water Resources Development Act of 1986. It will rise to 20 cents a gallon in 1995. This "tax" can be considered a user fee since it is designed to recover a portion of the cost of services, including construction and major rehabilitation of inland waterways, provided to the waterway operator. This is the tax of most immediate concern to one segment of our industry, inland waterways operators. In a typical tow from, say, St. Louis to the Gulf, a barge operator may incur additional costs of about \$3,000 in fuel taxes on top of his fuel bill of about \$22,500.

The harbor maintenance tax that was established by the 1986 Act increased by 212 percent on January 1 of this year, from .04 percent to .125 percent of cargo value. This tax is an important, integral part of a broad program designed to share costs of water projects more equitably between Federal taxpayers and project beneficiaries. These taxes are intended to be paid by shippers. The resulting harbor maintenance revenue is forecast to be almost \$500 million in FY 1992 and is intended to fund fully federal harbor maintenance and provide for some NOAA

projects. This "tax" might also be considered a user fee, since its proceeds are used to maintain and improve harbor depths which are vital to shippers. The increase is designed to recover up to 100% of the Corps of Engineers expenses in this area. Since the Act of 1986, there have been a number of significant channel improvement projects: Hampton Roads deepened to 50 feet, Mobile deepened to 45 feet, Lower Mississippi River deepened to 45 feet, and Baltimore nearing completion at 50 feet.

Vessel tonnage duties were raised by 350 percent effective in FY 1991, increasing collections from around \$15 million each in FY 1989 and FY 1990, to a projected annual rate of \$67 million in FY 1991.

While assuring that a greater share of the costs of harbor and waterway improvements are primarily borne by those who benefit from them rather than the general taxpayer, a reasonable market response to the increased cost of doing business in U.S. ports would be the diversion of U.S. origin or destination cargo to Canadian ports. Figures indicate that the amount of cargo diverted to Canadian ports has been rising. Whether or not there is a direct correlation between cargo diversion and increased taxes, it is the case that the U.S. ship operating industry is losing the equivalent of 5 percent of the liner trade through diversion to Canadian ports. These diverted cargoes represent a loss of business for U.S. ports. Clearly, this needs continued monitoring.

The Administration does not support any legislation to repeal the recreational boater fee mandated by the Omnibus Budget Act of 1990, and we are concerned that the revenues which would be lost by that repeal not be transferred to the commercial maritime industry.

Taxes imposed on maritime operations generally do not discriminate between U.S. and foreign shipping companies doing business in the United States. Although they are flag blind, the taxes on maritime operations are distinctly associated with the cost of moving cargo out of and/or into U.S. ports and distinctly affect the profitability of those operations. To the extent that ship operators must absorb taxes as another cost of operations, profits are reduced. Most U.S. shipping companies already are operating at the lean edge of their profit margin. If taxes are passed through to the consumer in transportation costs, as may often be the case, higher costs can result in reduced sales volume and, inevitably, reduced profits to U.S. exporters and importers.

We also can conclude that any measures that would lead to further increased tax costs on U.S. exports will also create a shift in trade advantage toward our foreign competitors. This is particularly important for bulk exports. Fully one-third of major U.S. grain crops are exported and it is estimated that the recently enacted trade taxes have increased the cost of exporting a ton of wheat by 30 cents. Similarly, the shipping cost for coal exports has increased by 47 cents per ton.

Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions that the subcommittee may have.