

BIG RIVER COALITION



Sean M. Duffy, Sr.
Executive Director
4741 Utica Street, Suite 200
Metairie, LA 70006

Office (504) 833-4190 x 805
Cellular (504) 338-3165
sean.duffy@bigrivercoalition.org

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U.S. Port and Inland Waterways Modernization: Preparing for Post-Panamax Vessels Comments

The Big River Coalition (BRC) was created in Fiscal Year 2011 in response 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 (LMR) 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 that, 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 original focus was 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. As the Coalition grew and continued to make effective progress on these initiatives, members requested that the Coalition focus on advocating for deepening of the LMR channel to 50 feet to prepare for the post-Panamax environment.

The BRC appreciates the opportunity to remain engaged with the U.S. Army Engineer Institute for Water Resources (IWR) on the Report requested by Congress as the Conference Report for the Consolidated Appropriations Act of 2012. The recent webinar once again offered open dialogue that confirmed many navigation representatives felt that the Report was overly focused on the container trade (vessels, terminals, terminologies, etc.). Container vessels represent less than 20 percent of the vessels arriving into the U.S.

"The Conference Report for the Consolidated Appropriations Act of 2012 (Public Law 112-74) requested a report from the Institute of Water Resources on how Congress should address the critical need for additional port and inland waterway modernization to accommodate post-Panamax vessels."

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There is no doubt that international trade and the economic future of the U.S. depends on our ability to maintain and establish navigation channels that allow unrestricted access of post-Panamax vessels. The Report is so focused on container traffic that it fails to realize that many of the cargoes listed in the tables detail cargoes that move as bulk or breakbulk commodities. Cargoes such as coal, grain, cement, petroleum products and ores dominate these lists and are moved on bulk carriers or tankers. Another example of the Report's container focus can be seen on Page 18 under the heading, "*Panama Canal Expansion Impacts on Vessel Fleets*" and on Page 21 under "Port Utilization" where the examples and table are all related to container cargoes and exclude bulk or other non-containerized cargoes.

In their March 11, 2011 letter to President Obama, the President's Export Council acknowledged the importance of the Mississippi River. This letter specified that 60 percent of all U.S. grain exports are shipped via this trade artery and that because of this channel's national importance, adequate funding was needed to dredge the River. In the Fiscal Year 2013 Budget, the President also called for the creation of a Task Force to develop a Federal Strategy for port modernization. The members of this Task Force were recently announced, but clearly it is time the nation began to prepare for its maritime future in order to maintain our place as a trade superpower.

President Obama and his Administration recently announced that, as part of the "We Can't Wait Initiative," five ports would benefit by having seven major infrastructure projects expedited (Jacksonville, Miami, Savannah, Port of New York/ New Jersey and Charleston). The IWR Report focused on these ports; however, none of these ports import or export large amounts of bulk or petroleum products.

Based on the Initiative's announcements, the silver lining for the LMR may be that the seven major infrastructure projects announced were just the first of 43 such projects to be expedited by Executive Order in the coming weeks. Clearly, the IWR Report grasps the importance of the Lower Mississippi River channel:

"One-half of the growth in Center Gulf bulk exports is expected to use the Panama Canal and it is projected that the Center Gulf will increase its share of total U.S. exports over the next 10 years. These exports will transit the Mississippi River to the Port of New Orleans."

The BRC members understand that the IWR was only given approximately six months to deliver this Report to Congress, and the Coalition believes the Report offers a great deal of valuable and accurate information. There are several key areas in the Report that warrant further explanation. One of the cornerstones of this Report is the definition of post-Panamax.

"For this report, a port is (sic) be considered 'post-Panamax ready' if it has a channel depth of about 50 feet net of allowance for usable tide, as well as sufficient dock and crane capacity."

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Assuming this criterion, it is hard to understand why the LMR is not listed as being post-Panamax ready when the Port of Charleston's channel operates with the same maximum draft (with tidal variance). This is further confused on Page 51:

“There are 10 deep draft navigation projects along the Gulf Coast with container yards and related infrastructure. Depths of these projects range from 36 to 47 feet. None of these ports is considered post-Panamax ready.”

However, the table that precedes this quote shows, among other factors, post-Panamax ready ports, and lists only one port with a draft of 47 feet (San Diego Harbor). None of the Gulf ports are listed with a draft of 47 feet. In response to these and other questions and concerns, the BRC requested a meeting with the IWR for clarification. The BRC also hoped to explain some of the complexities of the Lower Mississippi River, which connects 31 states and 2 Canadian Provinces to world markets.

The White House recently took a bold position and threatened to veto any appropriations bill that did not include funding for coastal restoration projects as part of the Louisiana Coastal Area plan that never received funding but were approved in the Water Resources and Development Act of 2007. This led to funding for this project at \$10 million as part of the President's Budget for Fiscal Year 2013. The post-Panamax environment warrants deepening the Lower Mississippi River channel. Clearly, the Mississippi River system is the world's economic superhighway, and it should be deepened and maintained to promote full access and benefits in the post-Panamax future. This point becomes even more crucial when paired with the projects for our ever-increasing population and the need for increased agricultural resources.

For many years this channel has been maintained to depths greater than 45 feet as maximum draft restrictions of 47, 48 and 49 feet have been used since the channel was deepened to its limited authorization of 45 feet. It is important to remember that the channel has been authorized for many years to 55 feet below Baton Rouge. This was not achieved because of the tremendous cost share of the local sponsor. The deepening of this channel to accommodate post-Panamax vessels would appear to be one of the most important parts of capitalizing on the economics of the nation's most critical artery of trade. The Mississippi River Basin drains 1,245,000 square miles, or 41 percent, of the contiguous area of the U.S and maintaining the LMR to 50 feet would mean over half of the United States could be directly connected to a post-Panamax channel.

“This study will not impede nor delay port or inland waterway projects already authorized by Congress. Factors for consideration should include costs associated with deepening and widening deep-draft harbors; the ability of waterways and ports to enhance the nation's export initiatives benefitting the agricultural and manufacturing sectors; the current and projected population trends that distinguish regional ports and ports that are immediately adjacent to population centers; the availability of inland intermodal access; and the environmental impacts resulting from the modernization of inland waterways and deep-draft ports.”

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The deepening of this channel would certainly be an important step to prepare the nation for the post-Panamax economics. Louisiana is being impacted by a flux of efforts to restore our coastal zones that have been negatively affected by a myriad of factors. But the IWR Report notes in several sections that in 1992, the Corps was authorized to beneficially use dredged material for environmental improvement. The channel deepening along the Lower Mississippi River could be used to promote environmentally effective methods that would assist in coastal restoration. In fact, because of the channel hydrology, if the deep-draft channel were deepened and maintained at 50 feet from Venice, Louisiana (approximately Mile 12) to the Sea Buoy, much of the river system would be available to post-Panamax vessels because the vast majority of the LMR channel is naturally deep. Deepening and maintaining the first 30 miles of this channel would open this channel up to about Mile 154 Above Head of Passes, or 175 miles or so from the Gulf of Mexico, without the need for further dredging of the channel.

Recently, Congressman Cedric Richmond (D-LA) proposed his Dredging for Restoration and Economic Development for Global Exports Act of 2012 (DREDGE Act of 2012), which the Big River Coalition supports as a way to address channel deepening. Congressman Richmond also sent a letter to President Obama stating the importance of deepening the Mississippi River navigation channel in order to support the five deep-draft ports that handle approximately 6,000 vessel calls per year. These ports make up the largest port complex in the world, with over 250 miles of deep-draft channel.

As taken from the IWR's *U.S. Port and Inland Waterways Modernization: Preparing for Post-Panamax Vessel* Final Report:

"Preparing the Mississippi River for larger ships will make products cheaper for American consumers and expand access to foreign markets for small-businesses nationwide."

"Gulf ports play key roles in the transport of these commodities, such as New Orleans being the dominant port for the export of grains from the U.S. Therefore the expanded canal could provide a significant competitive opportunity for U.S. Gulf and South Atlantic ports and for U.S. inland waterways – if we are prepared."

and:

"On the export side the ability to employ large bulk vessels is expected to significantly lower the delivery cost of U.S. agricultural exports to Asia and other foreign markets. This could have a significant impact on both the total quantity of U.S. agricultural exports and commodities moving down the Mississippi River for export at New Orleans."

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The IWR Report appears to comprehend the importance of the Mississippi River, but it demonstrates a lack of specifics regarding the cargoes moved by the five deep-draft ports on the Lower Mississippi River. The IWR Report addresses this quandary in places by suggesting that Gulf Coast ports could be served by transshipment hubs on the East Coast or in the Caribbean, while also expressing concern that this transshipment might reduce the beneficial cost reductions offered by transport on the post-Panamax vessels. The Report also points out the increased fervor on behalf of Argentina and Brazil to update and repair their maritime infrastructure to promote their agricultural cargoes in the post-Panamax environment.

The benefits of post-Panamax vessels calling LMR ports and the increased cargo carrying capacity will offer significant cost savings that would serve to solidify the country's position as a world leader in grain and oilseed exports, all the while connecting the 139 million hectares of land used for traditional crop production in the Greater Mississippi Basin and the 27 million hectares in the Canadian Prairie Provinces that could also be increasingly exported out of the LMR to world markets. The LMR is also the only deep-draft channel in the country that offers mid-stream buoy systems that can be used to accommodate the larger length vessels without portside expansion.

There is no doubt that the funding mechanism for channel deepening, port related construction, and repair and maintenance of the inland navigational structures (locks and dams) needs to be carefully documented. However, the Harbor Maintenance Trust Fund (HMTF) mechanism is not one that needs to be burdened with growing expenses. This user tax model has failed, and until it is fixed and shown to operate properly, it will force the importers of cargo who pay the Harbor Maintenance Tax (HMT) to object to any tax increase. The HMT funds are placed into the Harbor Maintenance Trust Fund which, by the end of Fiscal Year 2012, will have a surplus of approximately \$7 billion that was supposed to be used for channel maintenance. There are ongoing efforts in Congress that could finally fix this broken mechanism, but the true, unadulterated version of the originally authorized projects are all that should be funded through this so-called "Trust Fund." Current efforts to fix this user fee and harbor maintenance have taken five years of extreme dedication by numerous members of the maritime industry and Congress. Although these efforts continue, there are positive signs that the message has been heard.

The navigation industry and the Corps, at Headquarters level, believe the monies collected by the HMT are sufficient to maintain our nation's deep-draft channels at their authorized dimensions and repair and maintain the approved projects.

The following quote is reproduced from a letter dated October 17, 2011, written by Mr. Michael G. Enschede, Chief-Operations and Regulatory, Directorate of Public Works, to Congressman Boustany:

"I believe full access to HMTF revenues would allow the Corps to adequately maintain all active projects. These revenues would be used to provide greater channel availability at presently maintained channels, maintain a larger number of projects, and with the additional dredging quantities, provide expanded opportunities for beneficial use of dredged material. Additionally, construction of dredged material placement sites and sand mitigation projects, maintenance of

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jetties, breakwaters, and other coastal navigation structures are eligible for reimbursement from the HMTF. As we discussed, full implementation would be anticipated to occur over several years because not all projects require maintenance dredging on annual basis. Additional work would be done as environmental clearances and dredged material placement sites are established.”

The financing options listed for coastal ports include: Business as Usual for Harbor Improvement and Continued Maintenance; Increase Appropriations from General Federal Revenues for Harbor Improvements; Modify Authority to use HMTF Revenues as Appropriations for Harbor Improvements; and Increase Cost Share Contributions to Harbor Improvements, and Individual Port Initiative.

The BRC believes that the first option is what is needed, with full allocation of all funds received on an annual basis. The Coalitions also believes each of the other proposals would cause catastrophic collapses of channel maintenance. As previously stated, the surplus in this Trust Fund is nearing \$7 billion. Any effort to increase this tax without a guarantee that all monies are spent for their intended purpose would be disruptive. Surely the payers of this tax would have explicit and powerful arguments regarding paying increased ad valorem taxes knowing how under utilized these monies have been. The Report mentions the surplus of funding but uses the term reserves. Navigation does not believe these monies are truly being held in reserve. The funding appears to have already been spent on other projects from the General Treasury. Increasing the non-Federal cost share would also be a catastrophic failure as the non-Federal sponsors are already underfunded. Please remember that the reason the LMR channel was not deepened is because the non-Federal sponsor could not afford the annual maintenance costs.

“Because of the continuing revenue streams dedicated to the HMTF, and because of the reserves in that fund, financial support for maintenance dredging of existing channels would be assured, at least for the near term.”

The Big River Coalition strongly believes that the first repair to the funding mechanism must be to the HMTF so that it can maintain our channels at their currently authorized dimensions. This is an important initial step and is something that could begin once the additional funding was made available. There must then be a new funding procedure established to begin deepening the first tier channels and, clearly, the Mississippi River should be among the first to be deepened. Requiring ports to be responsible for funding their own channel needs is a scary concept, especially since few ports would be able to handle complex dredging contracts or contracting large scale navigation features and related projects.

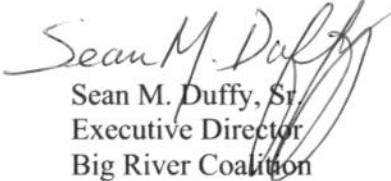
After that, the inland mechanism and repairs could move forward. The most likely scenario would be the mechanism proposed in the WAVE4 Inland Waterways Infrastructure Investment Bill, as proposed by Congressman Ed Whitfield (R-KY) and as supported by the Waterways Council, Inc.

“The biggest role of inland waterways in the export market has been in the global trade for grains and coals.”

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The Big River Coalition also strongly disagrees with the removal of channel maintenance from the mission of the Corps. Corps' experts in contracting, pricing, modeling, hydrology and dredging are depended upon and trusted by navigation stakeholders. It is our belief that the complaints against the Corps are because they are underfunded to perform their missions. The Corps' national budget in 1970 was over \$7 billion, and today (FY 2013) their proposed budget is less than \$5 billion. This number is even more telling when you consider that the Corps now has hundreds of additional projects.

The Big River Coalition remains dedicated to assisting the Institute for Water Resources on this and future efforts. The Coalition will also seek to address the LMR channel deepening directly with the new Presidential Task Force on Ports and with Delegation members in the states that rely on unimpeded navigation along the LMR. The Report supports the need to deepen the Lower Mississippi River and understands the economy of scale that would impact the diverse cargoes moved on the nation's greatest channel of maritime commerce. The Report details the expected population growth along the South and Gulf Coast, while also demonstrating an appreciation of the importance of grain, coal, petroleum, oilseed, chemical products and other cargoes that our nation's economy was built on. The BRC will steadfastly work to assist the IWR on refining this Report.


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