CONFERENCE HIGHLIGHTS

# Maritime User Fees

## Perspectives on the Upper Great Lakes

January 13-14, 1983

Sponsored by the
UNIVERSITY OF MINNESOTA SEA GRANT
EXTENSION PROGRAM

HIGHLIGHTS

# Maritime User Fees

## Perspectives on the Upper Great Lakes

January 13-14, 1983
Radisson Inn and Yacht Club
Barker's Island Marina
Superior, Wisconsin

**NANCY BERINI, editor**

sponsored by
Minnesota Sea Grant Extension Program
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# INTRODUCTION

More than 40 maritime user fee proposals for deep draft ports have gone before Congress since the Reagan Administration presented the first one in February 1981. The range and disposition of the proposals vary considerably, from one that calls for 100% recovery for operation and maintenance (O&M) costs to another that asks for appropriating 4% of customs duties to pay for O&M of all the nation's ports. Controversy surrounds each proposal. Each industry potentially affected is concerned for its own interests. There is disagreement among ports: those wealthier or low maintenance ports don't object to a port-specific user fee; high maintenance ports prefer a national uniform user fee or none at all.

In the midst of this controversy and before the 98th Congress convened, a conference was held under the auspices of the Minnesota Sea Grant Extension Program. "Maritime User Fees Perspectives on the Upper Great Lakes" brought together economists representing the Administration, representatives of the iron ore, grain and coal industries, representatives of maritime labor and lake carriers, and port authorities.

The purpose was to foster better understanding of the maritime user fee issue and to provide a forum for the expression and clarification of differing viewpoints. The result took the shape of a clear image of Great Lakes navigation and how it differs from tidewater navigation.

Issues which surfaced and garnered agreement of the Great Lakes community were:

1. Much of the cargo shipped on the Great Lakes is domestic, with a low per-ton value. User fees based on tonnage would be to the advantage of tidewater ports only.

2. Exporters using the Great Lakes ports would pay a double tax: the Seaway toll and a user fee.

3. There is a need for an impact analysis on the effects of user fees on the Great Lakes in terms of evaluation of the social and economic displacement which could occur once user fees were in place.

4. Because no new construction is planned for any Great Lakes ports for the remainder of the century, harbor construction funds should not come from a national fee; the Great Lakes would only be helping pay for projects which would not benefit them.

5. An initial fee system could be a foot in the door for escalated user fees in the future.

All of us in the Sea Grant Program who made this conference a reality believe it was not only timely but provided the necessary forum for the Great Lakes shipping community to express its concerns to the nation. The conference, summarized in the following "Highlights," appears to have fulfilled its objectives.

Conference Coordinator
Dale R. Baker



# FEDERAL VIEW

**ERIC W. BESHERS, DEPUTY DIRECTOR OF ECONOMICS, U.S. DEPARTMENT OF TRANPORTATION**

"If users are willing to pay for the services and improvements they want, rather than scramble for a share of the general taxpayer's dollar, they can be much more confident that their real needs will be met.

There is no reason why the general taxpayer should be asked to pay costs of government provided services and facilities when the users of those services are able to meet the costs and there is no overriding social objective to be served by providing a subsidy."

**Reagan Administration policy to reduce the role of the federal government in economic decision making and reduce the role of federal government spending of the national income applied to the transportation area:**

**User Fees:** We want to recover federal costs from users to the maximum extent. Urban mass transit is the only areas where we recognize a need for ongoing subsidy.

Commercial aviation has traditionally covered its share of the air system costs and continues to do so. Congress recently decreased the fuel tax on private aviation to bring this group somewhat closer to full coverage of its costs. Recent legislation should end subsidy to Conrail within a couple of years. Over last few years, some federal financial assistance in form of loans was been extended to certain marginal Midwest rail carriers. We do not propose to continue this program after the existing appropriation is exhausted in FY83.

2. **Market Tests:** Proposals for major new investments must be subjected to the strictest possible economic scrutiny. New investment proposals should be subjected to marketplace tests.

When not distorted by subsidy or arbitrary regulation, the marketplace lets shippers decide how much of which commodity they will ship by which mode, with decisions based on each mode's respective cost and service characteristics. The transportation rates that face the shipper must accurately reflect costs of each mode.

User fees will help justify and finance needed investments, i.e. deeper channels, when costs would be recovered from port-specific fees: Will the traffic in a port pay for the cost of a deeper channel?

**Why now? User charges provide an effective way of maintaining long-term stability. Without these charges, you are going to face a very tough fight to keep our ports as good as they are, let alone improve any of them.**

Beneficiaries of government transportation spending are unanimous in asking for stability over time in the government's funding levels. It is only through user charges that this kind of stability can be obtained. Priorities set by political mechanisms are constantly changing. Nonetheless, basic transportation requirements go on, shaped by changing technology and changing market conditions, i.e. highway user charge revenues have kept this vital program going in a stable fashion.

Given our current economic conditions and the need for fiscal frugality, battles for federal money are going to be much sharper and there are going to be far fewer winners.



**G. EDWARD DICKEY, ECONOMIC ADVISOR TO THE ASSISTANT SECRETARY OF THE ARMY FOR CIVIL WORKS**

> "It is clear that without basic changes in the cost sharing and financing policies governing water projects, the continuing budget deficits will not create a more hospitable climate for funding of new projects in the near future, and it will be increasingly difficult to maintain high levels of financing for operations and maintenance of existing projects."

**Federal Water Program: The FY 83 Civil Works appropriation for navigation, flood control and other water projects of the Corps amounts to about $2.9 billion under the continuing resolution, essentially the same dollar level as FY 78. O&M expenditures have increased, primarily at the expense of new construction: Between 1978 and 1983 O&M funding increased about 30%; construction funding decreased about 20%. Of more than 200 construction projects recommended by the Corps since 1973, only 14 have been authorized and funded.**

The Administration's 1981-82 deep draft navigation cost recovery proposal was not well received in the Great Lakes region. The project-specifc user fees implicit in the proposal were viewed as disruptive to the existing competitive relationships among the region's ports as well as between water and overland transportation systems in the region. The fact that domestic commerce had to pay twice--once at ports for loading and again for unloading--was troublesome to the region with its large volume of internal commerce. And the region was concerned about maintaining the connecting channels as these costs implied further user charges to the region's commerce.

Key elements for a proposal which will improve the framework in which decisions about the development and maintenance of our nation's deep-draft waterways and ports are made and will be politically achievable:

1. The cost of O&M and of future investments

for the nation's waterways should be recovered in large part from the commercial users.

The argument that harbors already pay for themselves on the basis of customs revenues they generate is not a productive one. Earmarking customs revenues is at best an exercise in accounting and does nothing to increase federal revenues.

The argument that there is a basis for taxpayer subsidies to harbors is difficult to build on economic grounds and should be left to other disciplines and the political process.

2. Recovery of future capital costs should be port-specific.

3. Existing patterns of commerce should not be disrupted without good reason. Consequently, recovery of O&M costs should be largely on a systemwide basis.

While the annual cost of deep draft harbor and channel maintenance amounts to only about $.23/ton of cargo handled at U.S. ports, the range in cost per ton among ports is enormous. In Great Lakes region, annual maintenance costs cover the full range (nil to $1000).

4. Fast-tracking: when projects are not heavily subsidized by taxpayers, there is less need for detailed review and project-specific authorization which now inordinately delay projects.

"I recognize the competitive position of U.S. Great Lakes ports vis-a-vis Canadian ports and other transport routes for domestic commerce would be altered (with a nationwide standard user fee), but because the charge would be small, I cannot believe the impact on existing trade patterns in the Great Lakes Region could be of any significant magnitude."



# questions

**Has the federal government done an impact study on the effect of user fees on the Great Lakes?**

Beshers: The Inland Waterway Act of 1978 required that we take into account the impact of inland waterway fees on the Great Lakes, not of deep draft fees on the Great Lakes. After the act was passed the funding we received from Congress was reduced and we had to exclude a number of things, one of which was the impact of inland waterway fees on Great Lakes shipping.

**Should a cost allocation analysis be done for the deep draft navigation system? Should any proposal include a phase-in schedule for fees?**

Dickey: No. It's an altogether different problem. Allocating costs on the basis of vessel use is impossible. The way to solve the problem is in terms of the amount the federal government recovers on a system-wide basis. Cost allocation procedures are arbitrary; there's no right way to do it.

There are very few multipurpose deep draft harbor navigation projects on the Great Lakes. St. Mary's River is the only one I'm aware of.

No, there shouldn't be a phase-in, if you're oriented toward a system-wide approach, because you're talking about peanuts.

Beshers: What Dickey says about the futility of prolonged analysis of cost allocation is absolutely true. You're talking essentially about arbitrary allocations of a joint cost, a situation where there is no equitable means of saying this much of the channel is here for that guy and this much of the channel is here for this guy. It becomes an argument over fairness, essentially a politcal argument.

**The recently passed $.05 gas tax guaranteed that no state receive less than $.85 of what is paid into the fee. Is there any such provision considered here?**

**At $.15/ton we would generate $4.5 million, but our dredging costs are only $2 million.**

Beshers: No. That would push it back toward port-specific charges for O&M. If you do port-specific charges for O&M you will have one hell of an impact. Some ports just might close up. There's a deliberate inequity in a system-wide charge to prevent another inequity: the abrupt disruption of the existing patterns of commerce.

**What about users that don't carry tons--passenger boats, ferries, recreational boaters, fishermen, Coast Guard search and rescue vessels, Navy vessels--would you anticipate charging them as well as commercial ships carrying high tonnage payloads?**

Dickey: The question is not so much who uses the thing but who benefits from it. Why are you spending the money? There are a few cases that can be argued we're maintaining a deep draft project for recreation. On the West Coast there are some recreation only deep draft ports....The reason is there is some use other than commercial navigation. Certainly, if you had a scheme where you expected local sponsors to bear some of the cost of maintaining a very high cost port, we'd expect him to have the flexibility to charge whomever he can. Presumably, if you're willing to pay that much for some reason other than commercial navigation, you should be able to identify and collect some of the costs...But that's a local problem.

**You said you didn't think there'd be a significant shift of cargo out of the Great Lakes. Yet the fee on inland waterways is nowhere near the recovery of their costs. Isn't this a distortion of trade?**

Dickey: No one would deny in the case of inland waterway fees there are significant impacts. There hasn't been a study on deep draft because its clear the focus is going to be system-wide and the amount of money we're talking about on a per ton basis is so small it's inconceiveable, to me at least, that it can have an consequential impacts.



The question of cost recovery for improvements is quite different from ongoing O&M.

**You state that a fee of less than $.20/ton per ton should not have a negative impact...The aggregate user tax with $1.8 billion tons of cargo is $360 million, ($.20/ton). Don't you think an impact study on deep draft is necessary with a tax of this magnitude?**

Beshers: No. The aggregate of $360-$400 million doesn't change the initial point. It's a tiny fraction of the total. We're talking about several 100ths of one percent of the total value of trade.

**If there is a national uniform fee, will we on the Great Lakes have to pay the U. S. portion of the Seaway toll on top of that?**

Beshers: Yes. In any likely administration proposal the U.S. portion of the Seaway toll is unlikely to be eliminated. Their existence in and of themselves is not any reason to not have a system-wide fee. The additional impact of the system-wide fee on what is already in place remains slight.

**The administration has proposed inland O&M and capital charges, deep draft O&M and capital charges, Coast Guard tax, highway tax, etc. What will be the cumlative impact on the economy of the Midwest with all these new taxes, particularly on basic steel and mining?**

Dickey: We economists are trained with the theory that when people pay for the things they get, the system functions better. We don't know what the impacts of all these things are. We don't know who's going to benefit and who's going to lose. To be sure, some will benefit and some will lose. Patterns of trade may change.

Economists are concerned with the efficient allocation of resources: making the prices for goods and services better reflect their costs. We're very comfortable supporting these sorts of things because we believe whatever the result, the new world will be better than the one we have. So we don't need studies. Others do. Studies are important in the political process, but in terms of addressing the problems economists are interested in, they're not terribly important.

Beshers: When we did the inland waterway study, we noted that farmers were going to likely end up paying noticeably more money to move their grain. The point here: Is there some aggregate effect that's being overlooked? I don't think so. Deep draft fees will have minimal impact on O&M but significant on new construction.

**Can you estimate the number of Great Lakes ports that will go out of business due to user fee charges?**

Beshers: We don't think any ports on the Great Lakes will go out of business for the reasons I've just given.

Dickey: The system-wide approach we are going to keep what we have, at least for the forseeable future...If it becomes clear that many ports will have problems, any proposal won't go very far.

In addition to the economic efficiency argument there's the stability argument: It will reduce the adverse impact on ports that can't invest in improvements.

**Have you considered the impact on competitive relationship between Canada and the United States iron ore and grain with a $.20/ton user fee? (Canada does not have a user fee; they are watching what we do.)**

Dickey: The impact would be very, very small. The Senate Committee on Environment and Public Works reported the cost per ton of all the ports in the U.S. and included an analysis of the port charges. In the context of the total port charge, the $.20 is indiscernable...even when you add in transportation costs and unloading fees at the other end.

**Are exchange rate fluxuations, a much stronger dollar, as important as any proposed user fee?**

It would absolutely swamp the effects.



# WATERWAY ASSN. VIEW

**HARRY N. COOK, PRESIDENT OF THE NATIONAL WATERWAY CONFERENCE, INC.**

> "For years waterway cost recovery pointed to the St. Lawrence Seaway as a model of a user-financed navigation system. Most observers now admit that the toll structure restrained Seaway traffic. Both the Administration and Congressional leaders conceded in the recent deliberations (lame duck session of Congress) that full cost recovery as originally envisioned was unworkable. The tolls would be so high as to depress traffic volume until the waterway might eventually see no use at all.
>
> Yes, there may be a larger role to be played by user contributions in the future. But an immediate shift to full cost recovery would not help waterborne commerce, interior regions or the national economy. It would virtually kill our vital navigation system."

**I believe our best chance of staying afloat lies in working together on common solutions. When the economic pie grows too small, our efforts are better spent trying to enlarge the pie than to simply try to grab someone's inadequate slice.**

There are faint signs that the Administration is willing to consider a change in its course. Port directors and waterway industry representatives are being invited to suggest alternative financing schemes to relieve at least part of the burden of the federal treasury for navigation programs --part but not all.

As this debate unfolds, I hope the entire navigation community will demand to have addressed these key considerations:

1. **The true costs of federal navigation support.** Accounting for Corps of Engineers expenditures has been loose at best. Cost allocation was often arbitrary and since the navigation account was non-reimbursable, scant attention was paid to the expenditures which were labeled "navigation."

2. **Impacts.** The Administration's simplistic view that carriers and shippers can merely pass along increased user taxes to consumers does not bear up under close scrutiny, especially in export grain, in which the U.S. is largely a residual supplier captive to world market prices.

3. **Cumulative effects of all types of user charges, tolls and fees.** At the same time the Dept. of the Army was seeking legislation in the 97th Congress to fully recover Corps' expenditures at ports and waterways, the D.O.T. twice sent forward proposed legislation to tax commercial vessel operators, both deep draft and shallow draft for USCG costs.

4. **Timing.** A gradual phase-in where the bulk of the impact is felt only after a national economic recovery is well under way.

5. **To agree on the importance to the entire nation of maintaining a modern and efficient navigation system.** True, there are private beneficiaries; waterway transportation provides "public goods" as well.

Defense preparedness by a system capable of moving large quantities of bulk materials, fuel and heavy equipment.

Contribution to world trade, with reliable, efficient transportation of commodities to world markets. This also keeps alive the industrial and agricultural producing regions in the interior of the country. Many of the interior regions, including the Great Lakes states, would become captives of unregulated railroad monoplies in the absence of waterborne transportation competition.



# ALTERNATIVE VIEW

**MICHAEL V. MARTIN, VISITING PROFESSOR, HUBERT H. HUMPHREY INSTITUTE OF PUBLIC AFFAIRS, UNIVERSITY OF MINNESOTA**

> "Analagous to the international tramp carrier market is agricultural trucking. Look at the domestic transportation rates in agriculture commodities: they're all the same, no matter where you are because they reflect variable cost pricing. The only determination that a licensing fee has on the trucking industry is whether or not it enters or leaves a state.
>
> So what you've got is a ton/mile rate in Washington virtually identical to that in Minnesota, Nebraska, New York or Florida. If the variable costs are higher, the rates show up. If the fixed costs are higher, there's no difference in the rates."

The objectives of a user charge is to recapture some or all of the public costs, to minimize displacement or change in current traffic flows and to minimize the effect of the U.S. competitive position in world trade.

**I propose we consider a user fee which is associated with a fixed cost to the ship or carrier: a licensing fee, a fee which says: "To serve <u>any</u> U.S. port you must have a license."**

The international transportation system for bulk commodities is a highly competitive industry with:

1. a large number of firms competing worldwide
2. technology, capital and labor inputs are readily available
3. largely unregulated
4. services offered are fundamentally homogenous
5. firms enter and/exit market freely and

capacity moves relatively easily between specific markets
6. information on charters and rates is readily available

The fixed cost burden of a tramp shipping firm or tramp ship determines whether or not the ship is in the market. It affects the overall worldwide supply of service and that's how it ultimately affects rates. If fixed costs rise, ships drop out and rates worldwide rise. If fixed costs fall, older ships can be brought back into service and the supply moves to the right, lowering rates. This is true around the world: as supply moves toward a port district, rates there fall. For example: On the Pacific Northwest rates for international grain shipment were lowest when the demand for service was the greatest. (Ships move to an area in response to anticipated demand; and frequently oversupply the port and bring rates down).

**So that charges which affect <u>variable</u> costs will show up in rates—port-specific rates; and charges which affect the traffic itself, i.e. tonnage, will show up in the produce price.**

If that fee averaged $33,000/year (or roughly equivalent to the cost of 3 lay days in port), and 80% of world bulk carriers continued to serve U.S. ports, that would recapture approximately $246 million in public expenditures. The fee could be scaled to draft or deadweight tonnage.

It could be disguised even more by associating the charge on a three year period: $100,000 for three years. It then gets built into the fixed cost structure and is not reflected in domestic rates.

**Who then pays it?**

The whole world pays it because the ships that can't afford it will drop out of the world market. So in essence, the Japanese and the Austrailians will be subsidizing ports in the U.S. because it will be affecting <u>fixed cost</u> charges rather than variable and will not be reflected in a specific country or specific port rates.



# questions

**If one looks at the Great Lakes, one sees that the essential cargoes moved are bulk materials in domestic trade. Therefore, the burden of your fee would fall on the domestic sector. The impact would be that it couldn't permit more manufactured products from overseas to come to the U.S., as our costs would become higher and theirs would not be affected. Therefore, I think your proposal stinks. It doesn't relate to the Great Lakes as a region and would be a serious detriment. Because the Midwest is the basis for the economy in this country, anything that is to its detriment is to the detriment of the nation.**

Martin: What I'm saying is we have to think more imaginatively. When we say it wouldn't be good for the Great Lakes....Unless we try to end the notion that we're only coming up with our little provincial view, we're going to end up with a bad proposal.

**What kind of compromise do you think will emerge, how does this compare with the $.15/ton national fee, and how does your organization view it in comparison with port-specific charges?**

Cook: There are three or four simultaneous tracks along which there could be user charge legislation. If there is an authorization bill they'll have to be accompanied by a new cost sharing formula. There was some talk last year about allocating incremental and customs duties. Spreading the burden, maybe federal tax on land transfers or sales along navigable waterways...

I think the general realization is navigation can't pay 100% of the cost...With about 1/3 of the general barge fleet tied up because of weak markets, user charges can't be passed on.

The waterway people on the inland side are concerned about the fuel tax...there's roughly one bankruptcy a week in the inland waterway field now.

By the same token, a user charge bill could be passed that didn't start until FY86 or 87...If it were related to something specific (60% O&M; 40% for O&M) rather than a figure arbitrarily arrived at, I think it would have a lot more credibility and might fly...

**Are you familiar with the lighthouse dues system used in some South American countries? Chili is now charging about $100,000/year. I believe funds are used for port and navigation improvements.**

Martin: I'm not familiar with Chili but Korea is doing something similar. That's a good suggestion and I'll look into it further.

**How many foreign flags vs. U.S. ships? Do you envision payment for port improvement or only O&M coming from this fee?**

Martin: There are about 8,000 - 9,000 bulk carriers in service worldwide flying something other than U.S. flags. I was looking at desireable recapture level (for O&M) and asked myself what a reasonable fee was.

**How will this user fee proposal affect our export trade?**

Martin: Certainly subsidizing exports and trade increases our share of world trade, if you want to call the current system subsidizing.

One problem we're having right now in the GATT battle with Europe is that they argue that we subsidize our trade much the same way they do, only we disguise it differently. So when we go to argue for free trade with Europe they throw it back in our faces.

How do you make the pie bigger? I think we ought to think about that rather than how we divide the pie up differently. First, we've got to put the world economy back on some long-term, upward trajectory; we've got to straighten out the world monetary system: there are 6 or 8 countries almost prepared to take the world banking system down, there's no credit available, and that's contributed to the overevaluation of the dollar; we've got a lot of countries who've decided for one reason or another to



pursue self sufficiency and impose barriers or internal subsidies...we've got conflict in international trade, policies in general, that make even our closest partners wonder what we're doing..."You seem to shoot yourselves in the foot all the time," they say.

Almost any user fee is going to have some detrimental effect, I would suspect, on those segments of the country whose primary link to the world market is through exports.

**If, as you say, European and Asian countries are subsidizing shipping industries, why is this country considering a user fee program that would create a greater cost burden to the maritime industries here and lessen their competitiveness?**

Cook: That's a good question; that's what I've been asking. The NY Times reported on the negotiations going on now on agricultural exports, saying the President had authorized our negotiators to say we were prepared to offer export subsidies so other nations could buy more of our agricultural products. At the same time the Administration is talking about export subsidy in order to send more of our stuff abroad, it's talking about putting the screws to the interior parts like Duluth/Superior.

**Your licensing fee approach appears to be aimed at international commerce. Could it not be sensible then to exempt domestic trade navigation?**

Martin: I think that's perfectly legitimate...My calculations, crude as they were, only looked at foreign commerce. So we can get around the bias against the Great Lakes by calling this a domestic transportation system, by and large. If a Polish ship wanted to call here or at any other port in the U.S. to take overseas cargo, it'd have to have a license...a U.S. ship could be exempted just as a university vehicle doesn't have to pay any taxes.

**Would it be easy for other countries to impose a retaliatory license fee?**

Martin: It might well happen....I haven't thought that far ahead.

# A CONGRESSMAN'S VIEW

**JAMES L. OBERSTAR, CONGRESSMAN, EIGHTH DISTRICT OF MINNESOTA, U.S. HOUSE OF REPRESENTATIVES**

"This is the year of grace, of triumph. When we've won yet another milestone for the Great Lakes in finally setting aside the requirement to pay back capital cost of building of the St. Lawrence Seaway.

Little by little we're winning national recognition that the Great Lakes is a major port range."

**Status of user fee legislation**

- House Merchant Marine will reintroduce the Biaggi bill when Congress reconvenes. Biaggi bill is not bad for Lakes: user fees would be charged only against new over-45-foot ports. The Lakes did not support the Biaggi bill last year.
- House Public Works Subcommittee on Water Resources will take up the Omnibus bill as their first order of business.
- New bill by Administration expected:

Deep draft (including Great Lakes)

New construction on a sliding scale:
for depths 15-35 feet, 30% non-federal
for depths up to 45 feet, 45% non-federal
for depths up to 55 feet, 75% non-federal
for depths up to 60 feet, 90% non-federal

O&M
national uniform fee of $.15 per ton

Inland Waterways

New Construction 30-50% recovery
O&M a ton/mile fee phased in over 5 years to reach a 50% recovery



In a "good" year, the Administration's $.15 per ton user fee would take $30 million from the region's economy. How much can farmers, the steel industry bear of these additional costs?

**Great Lakes supply 45% of nation's agricultural commodities; 45% of nation's industrial capacity and 25% of the nation's industrial workforce.**

- Iron ore is down to about half its 1981 total of 84 million tons compared with best year, 1979, of 102 million tons, which it doesn't expect to duplicate.
- Coal remains a question mark, according to Bob Lewis of the Seaway. Less demand now, plus better organization at tidewater ports.
- Grain also a question. Grain embargo resulted in Soviet's buying from many countries, including newly developed markets of Western Europe. They don't intend to become dependent on U.S. again. Other countries also fear embargos.
- At Water Resources Subcommittee hearing a representative of U.S. Agriculture Dept. said, "This department has a responsibility to speak on behalf of farmers, and we feel that farmers would unnecessarily be burdened by having to accept user fees."

**Reagan has said it is wrong to increase taxes during a recession. There should be no new user fees on the Lakes or inland at this time. Before we consider them for the future we have to look at:**

- dislocation of ports
- impact of modes of transportation
- impact on international competitive position
- impact on commodities
- impact on consumers and producers

The Public Works and Transportation Committee is taking an inventory of the condition of all public capital resources in the country. We may have as much as $2.7 trillion invested in public capital. Estimates range from $1- to $3- trillion to keep that in working order over the next decade.

# INDUSTRY VIEW

**JOHN S. PARRINGTON, REGIONAL OPERATIONS MANAGER, CONTINENTAL GRAIN CO.**

"I've never found a tax yet that has added anything to the product....

The consumer's plate--that's where the buck generates back into the system....What I'm more concerned with is getting people back to work. Once they go back, they're going to pay those taxes, they're going to generate that cash flow, and that cash flow is going to go into the multiplier effect."

**What are the economies which prohibit maximization of a port which lies within a 400-600 mile radius of a great production area in favor of a port system which is 2,100 miles from the production area? One that is only 18 days away from the consumer's plate for a port 25 days away?**

Last year, 2.164 billion bushels of small and coarse grain were grown in the Tri-State area covering North and South Dakota and Minnesota. This is 14% of the nation's total. Duluth/Superior port handled only 168.7 billion bushels compared with 282.3 billion bushels that went through facilities in the Twin Cities and down the Mississippi.

Collectively, Twin Cities and Duluth/Superior moved only 20% of Tri-State production, 60% of the quantity the river handles. And Duluth/Superior handles only 3% of all grain grown in the U.S., although we produce 14%.

An educated estimate of potential grain exports for 1983: 87% of total grain export will be in coarse grains, corn and beans. <u>If there is to be any noticeable increase in volume of grain tonnage through Duluth/Superior ports, it has to be in either one or both of these commodities.</u>



Because little or no corn or beans is grown north or east of the Twin Cities, we must look at the cost of moving corn from a productive area of southern Minnesota through:

1. Duluth/Superior direct to Europe with no stopping: $124.51 per long ton, 17 days.

2. Duluth/Superior to St. Lawrence, direct to vessel: $125.20 (American) per long ton by laker to Lawrence for tran shipment.

3. Duluth/Superior with top-off at Lawrence: $125.88, 18 days.

4. Mississippi River to New Orleans for export: $112.79, 25 days.

**There is an $11.72 per long ton differential between shipping grain out of Duluth/Superior port and shipping it out of New Orleans; the longest, most time consuming but cheapest mode.**

Even if there were the remote hope of equalization of the overland freight rate, there would still be a $4.78 differential between New Orleans and Duluth/Superior. To cover this, barge rates would have to move up 50% to at least 200%. (And we haven't had that since we've been in an embargo situation. We expect the rates to stay between 130% and 160%).

Is it advantageous to bring grain into this area when we're competing against the Argentines who, this year, will increase productivity from 3.6 million metric tons to 7 million metric ton of wheat alone--and when they're going to double the amount of corn produced?

Australians, Canadians and South Africans are all developing their agricultural products. If we are going to compete, we cannot suffer the liability of $4.78.

In addition, we have to eliminate auxillary Seaway charges which total $2.20 per long ton.

If we did, we'd be within $2.25 of competing with the Gulf.

**PETER DEWITT, VICE PRESIDENT C. REISS COAL CO. AND OF ORTRAN, TERMINAL OPERATOR IN SUPERIOR FOR MIDWEST ENERGY RESOURCES, A DETROIT EDISON SUBSIDIARY.**

"If maritime user fees are imposed, some Midwestern all rail coal will benefit, as will coal that can reach the inland waterways....The area up here will probably find more detriments than any other area. A judicious approach must be used to continue the vitality of smaller ports. Coal's cost advantage to natural gas continues to grow, but the increase in its usage is not dramatic and does not promise to be. User fees sensibly applied will not change this advantage. It is important not to lose the benefit of the many ports and waterways which will serve the energy, heating, industrial and power generation needs of the Midwest."

In 1960, Detroit Edison saw a need for economical, low sulphur coal for their generation plants in Detroit. They signed a long term committment for western coal in Montana and made long term committments with vessels to move that coal from the transshipment terminal down to Detroit Edison.

The facility, designed to handle 12 million tons, presently handles only 4 million.

**The imposition of maritime user fees will serve to further reduce the competiveness of western coal against eastern coal in any waterborne Midwest market:**

1. It will restrict throughput through this terminal and curtail construction of other similar terminals in the Upper Great Lakes area.

2. It will affect the relative levels of western coal to total shipments from Duluth/Superior. We expect coal handled through the Superior Midwest Energy Terminal to increase from 4.2 million tons last year to 7.8 million tons a year within five years.



If iron ore shipments decrease, and it appears they will, Detroit Edison will be faced with carrying a higher burden of O&M costs for this port: Though Detroit Edison will continue to take coal through this terminal, the added costs would further restrict coal tonnages and prevent additional terminals for western coal from being built in this area.

3. User fees added to a low priced product such as limestone may render waterborne limestone to consumers in western Minnesota and North Dakota uncompetitive with rail movement.

4. The effect of a user fee on eastern coal moving through this area could be minimal, if charges are based on port volume not product value. The timing of this proposed enactment could have drastic effects in relation to massive adjustments currently taking place in lake traffic and the steel industry.

5. The burning equipment of most upper Midwest industries and utilities is not currently suited to the burning of lower BTU western coal. If waterborne eastern coal is required to bear more of the cost of Great Lakes maintenance, marketing of this coal against rail movement could be difficult.

6. If these fees are cumulative, which though not mentioned here has been mentioned before, it could make eastern coal uncompetitive with all rail movements of midwestern or western coal.

7. Concentration and efficiency of handling of cargo from several key ports is a serious concern to smaller port communities and the industries and utilities served by these ports.

To these smaller ports coal is vital to the power generation and industrial needs of these industrial areas.

**THOMAS J. MANTHEY, VICE PRESIDENT PUBLIC AFFAIRS, PICKANDS MATHER & COMPANY**

> "These (user fee) bills, with one or two exceptions, seem to be fixed on one approach: of a fee tied to tonnage. The vast majority (over 90%) of our Great Lakes shipping is heavy, relatively low value commodities which, of all transported goods, can least bear the added cost burden....
>
> Should a ton of scotch whiskey or a ton of fur coats pay the same fee as a ton of stone, grain, coal or iron ore?"

**I don't believe the Administration knows what the economic impact would be on the Great Lakes. Nor does it understand the economics of the Great Lakes. We've got a situation where the tonnage is entirely different from any other parts of the nation:**

The trade patterns and types of goods in commerce are far different from those on our other coasts. Tonnage fees imposed on the Great Lakes might well reduce tonnages of at least some of these commodities, creating a domino effect upon the remaining Great Lakes trade (mainly agriculture) called upon to finance O&M.

**In a "normal year" 75% of the tonnage is iron ore bound, either for U.S. or Canadian ports; 10% are agricultural products (largely grain); 8.5% is coal; and 2.5% is stone.**

The higher value cargoes representing a large and significant part of the value of Great Lakes trade are those incoming cargoes which would pay only a very small fraction of user fees if they were based on tonnage:

The opening of the Seaway did nothing to enhance the competitive position of Lake Superior iron ores and our country's steel industry, vis-a-vis its foreign competitors.



Of all the foreign trade coming in through the Seaway in the Great Lakes, well over 50% of it is foreign steel products--raw steel. The port of Cleveland runs 85%-90% of its tonnage on foreign steel.

Before the imposition of user fees on the Great Lakes, a number of questions should be addressed:

1. What is the impact of port specific fees?
2. What about connecting channels not associated with any port?
3. What is the impact of national uniform fees for ordinary O&M?
4. What are the implications with respect to the international channels on the Great Lakes?
5. What is the overall economic impact on ports and cities?
6. What are likely impacts upon basic industries on the Lakes?

**I cannot believe the Administration could say to us we don't need an economic study, we don't need to know the effect of user charges on the Great Lakes because they are peanuts: In the usual year of shipping these peanuts would amount to about $5 million for my company and though, by Potomic economics, $5 million is pocket change, to my company that's a significant number. We in our industry are fighting for our very existence.**

But when we ask to see what the impact would be on the Great Lakes, the response we get from Congressional committees is that we're stalling.

I believe that $.20 is going to be the ultimate number; those things always seem to creep up. As sure as night follows day, you can double that number when the government says there will be no subsidies except for mass transit. There's a bill for the Coast Guard which is a minimum of $.20....

Despite iron ore tonnages representing the vast majority of shipments on the Great Lakes, negotiators of the so-called "compromise" (65-35% split on costs of most projects) have not consulted with any of us in the iron ore shipping trade....This compromise completely ignores the realities and problems existing on the Great Lakes. You could take that $4 billion the government is willing to pay for new construction and you'd pay for the O&M, and dredging throughout the entire nation.

During one of the hearings of Senator Byrd's bill, it came up that it would take about 4% of customs duties $350- to $400 million annually to maintain our deep water ports nationwide: Some of us in the iron ore business believe that using a very small fraction of our customs duties to maintain our existing port system has great merit and equity.

**When one considers how our country has contributed....in the building of additional iron ore and steel facilities around the world, including our most recent participation through the World Bank in some $300 million in loans to Brazil....this approach (of using customs duties for O&M) seems emminently reasonable.**

I recognize this does not raise new revenues for our government...I suggest there are legitimate other ways of making up this revenue...and the social costs may be far higher if we do irreparable damage to our industry on the Great Lakes.

Dr. Martin's alternative proposal of an annual licensing fee is conceivable, if the data he submitted are reasonably accurate: that ordinary O&M could be accomplished without economic disruptions on the Lakes.



## GEORGE J. RYAN, PRESIDENT LAKE CARRIERS' ASSOCIATION

"When thinking of user taxes, I think most of the planners are looking at the big dollars, at international trade: What does $.20/ton mean when you are spending $30 a barrel?

When we on the Great Lakes get rolled into this, and we do want to get rolled in when Washington starts thinking of about the Fourth Seacoast, but when it starts to lead to this we have to tell them more about our business....We're talking about pennies for transportation here."

There are separate tax proposals for deep draft, and port capital construction, deep draft O&M, inland water capital and O&M, Coast Guard service, U.S. Customs Service, highway use, airports....The only mode excluded is the railroad--so far.

Yet the only competition to the water transport industry in carriage of bulk raw materials on the inland waterways and Great Lakes shipping is the railroads. Despite this, the government has not included the railroads in the new user tax plans.

**No one has studied the cumulative impact of these tax increases on the transportation costs of bulk raw materials. The Administration has focused on international trade of high value cargo, not the low value bulks in the domestic trade, particularly here in the Midwest.**

I believe collective taxes could cause irreparable harm to the U.S. mining industry in Minnesota and Michigan and to the Lake Superior steelmaking industry. In so doing, it would also harm the Great Lakes domestic fleet and the shipbuilding and repair industry.

The only way we can consider the impact would be to put all these transportation tax proposals together and then look at what the impact will be. I cannot accept that $360 million here, $350 million here and another $500 million there is trivia. I don't care of it's less than one percent of our national budget, it's a lot of money and a lot of it will have an impact on the transportation industry of bulk raw materials.

There is great misinformation, I believe, about the fragile nature of the iron and steel industry and bulk trade in the face of national and international competition. It is therefore, our common task to explain the potential serious negative impacts.

At the $.20 per ton level, Great Lakes shipping would be affected on the order of $20-25 million. Other proposals would cost $65 million. And if we are to include a national tax on new construction it could cost $100 million.

1. We're not concerned about one user tax but many. There must be no national port tax which makes the Midwest pay for capital construction elsewhere.

2. We're concerned with the future level of the tax, not only its initial level: This is the "foot in the door approach."

3. We're concerned not only with the national competition for iron ore and other raw materials but also international competition.

4. We're concerned with the new taxes on a ton of iron ore <u>and</u> the taxes on a ton of limestone, coal, slag, and finally the finished product when it's moved.

5. Once we put in a user charge system will the Canadians put one in?....How much extra will a ton of U.S. produced steel cost as a result of these cumulative taxes on tons of iron ore, etc., after it's finally been delivered to the steel mill?

When Congress got a foot in the door with the first user fee for inland waterways in 1978, it was passed after great debate...In 1980 the barge fuel tax of $.04 per gallon was to be placed into effect and by 1985 it would gradually be increased to $.10 a gallon.



Before that tax was one year old, the Administration was proposing assessments which would sharply increase that tax: The foot was really in the door. By 1982, the idea of increasing that waterway taxes to as high as $.35 per gallon were among the "revenue enhancement measures" that were being proposed. Where was this compromise?

Steel is now a worldwide commodity. For the domestic steel industry to survive it must be competitive with steel producers around the world--in technology, quality and cost. Low transportation costs and foreign government subsidies to their mining industries will seriously affect the domestic market.

By 1985 Brazilian mined ore will commence at 15 million metric tons per year. By 1987 the target is 35 million tons. This would place about 78 million tons of Brazilian ore in the world market.

Under certain transportation arrangements, some Brazilian ore would come into the western Great Lakes through the rivers along with increased Canadian ore--all to the detriment of the Minnesota Iron Range.

The Lake Carriers' Assn. position: We are supportive of the Administration's effort to reduce federal spending and to take the government out of the decision making process when it comes to the economy. We're not opposed to transportation user taxes which are equitably applied to all transportation modes and are equitably applied within water transportation mode to reflect the multi-purpose users.

If a user tax is implemented, capital expenditure for new harbor construction should not be financed through a uniform national user tax. On O&M we don't have a position since there is no economic impact analysis on all of the tax proposals.

I believe Dr. Martin expressed one of those fresh approaches to the subject.

# questions

**Beshers: I don't think the foot in the door idea is a viable fear: This is not like a general revenue source, like a state coal severance tax; there is a ceiling at which you'd get back by what you're spending. I don't think, in light of the current political environment, we'll soon be at 100%.**

Mr. Ryan's characterization of the 1978 Inland Waterway Act is naive. Everyone realized it was the initial stage in the development of the program. Section 205 of the Inland Waterway Act requires the executive branch to come back with further recommendations on possible higher taxes.

I welcome wholeheartedly the endorsement of 100% port-specific cost recovery for new construction.

**On the inland waterway fee impact on the Great Lakes: I'm beginning to regret the decision we made not to study the Great Lakes; I think we would have built a whole new constituency for shallow draft user fees. I don't see how they can do anything but help the Lakes.**

I'm not sure of the figures, but 100% cost recovery for O&M, shallow draft, systemwide probably would have added \$2-\$3 per ton to the price of moving a ton of grain from the Twin Cities to New Orleans.

The \$.20 per ton for O&M would not affect the situation at all because it would apply equally to grain going out of Duluth as it would from New Orleans.

**The notion of license fees as a flat annual payment per ship has a lot of appeal. Both Dr. Dickey and I have found this to be one of the most interesting things at the conference.**

**Because of the low value per ton, and more importantly, because of the many short trips, a fee that would bear lightly on long distance ocean movements might bear more heavily than we expected on Great Lakes shipping.**

On customs duties: Taking a slice of customs duties is no more meaningful than taking a slice out of the income tax. It's money the government has already got.

**Manthey: If the message gets back to Washington that you gentlemen believe an economic study that we've been asking for is appropriate, we will have accomplished a great deal; we'll have made great strides in this conference.**

**Let's go with 100% for capital construction and tie it to user fees and 100% federal participation for ordinary O&M. That's the equity we've got to look for on the Great Lakes....To be made to come up with a different justification for these facilities that have been in place for many years is not equitable. The cost to the government would be far less than the compromise the government is talking about, say picking up 50% of \$8 billion in capital construction. Take 10% of that \$4 billion, invest it and take the interest and you'd pay for all the ordinary maintenance and dredging in the country.**

# LABOR'S REACTION

**WAYNE BRANDT, FIELD REPRESENTATIVE, SEAFARERS INTERNATIONAL UNION**

> "Our U.S. flag vessel fleet, currently operating at only an estimated 60 percent capacity, is in an extremely fragile condition...The imposition of user fees upon this already depressed region could virtually extinguish any hope for a rebirth of the U.S. flag Great Lakes maritime industry. It is important to remember that we are not speaking merely of lost cargo or lost dollars but, more importantly, of lost jobs."

Because the maritime industry on the Lakes is particularly dependent on raw materials, it is centrally tied to the overall economic health of the nation.

**Despite the fact that this region represents over one quarter of the Gross National Product, the Great Lakes maritime industry has been largely ignored by the U.S. government**

The Great Lakes operate under a unique set of economic and operational constraints which are not found on the tidewater seacoasts. For example, Great Lakes bulk carriers concentrate on Jones Act trades--frequent short trips between points in the U.S.

My obvious concern is jobs lost because of diverted or lost traffic...Any increase in transport costs will utlimately translate into a drop in world demand for the agricultural goods of the region.

**The Minnesota Department of Transportation claims that under a port-specific full cost recovery program, iron ore and grain shipped from Minnesota's Lake Superior ports would suffer significant financial costs.**



One of the purposes of a user fee program as articulated by the Administration is supposed to be the introduction of market forces into the allocation of scarce resources.

A major problem with the proposed approaches is that while market forces are introduced on the demand side of the equation, the supply side is left virtually untouched.

That is, the Coast Guard and The Corps of Engineers can continue to provide whatever level of services they or Congress desire, regardless of the level of demand for those services in the private sector.

As for the railroads not receiving any subsidy, I would like to call your attention to federal outlays by the Railroad Administration for rail rehabilitation, and improvement, rail service assistance, research and development, safety programs, railroad crossing elimination programs, the Railroad Retirement Administration fund and the land grants made to the railroads.

Grain movement is likely to suffer from modal diversion. Taconite shipments from the Iron Range to lower lakes ports, while not subject to modal diversion, are highly susceptible to the competition of foreign ore.

We are further concerned that the burden of user fees will fall entirely on U.S. flag vessels.

Professor Martin's proposal which would shift the entire burden of user fees to foreign flag operators, while laudable in its goal, would run into serious problems with the General Agreement on Trade and Tariffs which prohibits goods involved in domestic commerce to be treated more favorably than goods involved in foreign commerce.

## MIKE MARTIN, VICE PRESIDENT, GRAIN MILLERS INTERNATIONAL

"The grain business today is very competitive worldwide. It is the Grain Millers view that any user tax would have been a detrimental effect on worldwide selling of our grain exports. Because there have been no studies of the repercussions in any area, we feel we're looking at a foggy issue and we're worried. We understand somebody has to pay for repairs, but if we're going to do something differently from the way we're doing it now, we can't do it overnight.

Because the grain business is so intense the smaller companies are having a tough time competing....It was tough competing during the good times."

## GENE A. ROACH, ASSISTANT DIRECTOR, UNITED STEELWORKERS OF AMERICA

"We're against anything that would increase the cost of the product at this point. In the steel industry we have massive layoffs and the industry as a whole is in a lot of trouble. Today our main competition is foreign ore. This competition is heavily subsidized by foreign governments....

Walk into a hardware store. There will be two pipe wrenches, one from Japan and one from the U.S. The one from Japan will cost $9.95 and the one from the U.S. will cost about $24 and they're identical. This is the problem we're facing. It's not just labor costs, it's government subsidized industry. They're spending their money on the industry; we're spending ours on welfare and unemployment. We'd



do well to recapture a part of the domestic industry as far as iron and steel are concerned.

It's sad to see, in a region like ours, half of the Arrowhead Bridge built with Japanese steel."

## ALEX OKASH, INTERNATIONAL LONGSHOREMEN ASSOCIATION

"User fees will be the straw that breaks labor's back. The first priority of our government should be to get the economy back on a sound footing. Proposed user fees is the reverse of that, no way aiding in the recovery of our present recession. There's been more than 25% decrease in the working hours of longshoremen. A larger amount of federal budget outlay should be geared to aid the competitive position of the maritime industry."

# questions

**Would elimination of the U.S. portion of the Seaway toll (about $.29 per ton) be significant in exchange for a national uniform user fee of about $.15 - $.18?**

Parrington: $.29 is significant when you trade at 1/8 of a cent a bushel. Very often we trade even-up. But the advantage is mainly from a local perspective, not when you consider international competition. The real issue is originating a cash flow which you can do by putting people back to work and reducing the amount of expenditure in the transfer payments on such things as welfare and unemployment.

Martin: Any more costs on a vessel of wheat will be devastating. We've got a hell of a time selling our grain now....

Brandt: As Congressman Oberstar said last night, federal maintenance of navigable waterways goes back 200 years...Then suddenly, for a lousy $350 million, we're talking about jeopardizing whole segments of our (maritime) industry as well as the industry itself.

In the case of our membership, we carry less than 4% of import/export cargo on U.S. flag vessels...There hasn't been a U.S. flag ship to Duluth/Superior in four or five years.

Beshers: With respect to the deep draft proposal, no other administration than Reagan's has proposed it, but every administration, as far back as Roosevelt, has endorsed user fees for shallow draft ports.



# REGIONAL VIEW

**NEIL FULTON, CHIEF, BUREAU OF RESOURCE MANAGEMENT, ILLINOIS DIVISION OF WATER RESOURCES, DEPARTMENT OF TRANSPORTATION**

"My fear is that we sometimes take the view that we should fight the legislation and not try to shape it, with hopes that we'll never see a bill.

We need a two-pronged approach: One to work to shape the form of any legislation being considered in committees of either the House or Senate to make certain interest of the Great Lakes are known and the impacts on our economy are clearly specified.

The other to take a strong stand against Coast Guard user charges...and do everything within reason to delay Coast Guard charges as long as possible."

**About 9%-10% of the total U.S. deep draft waterborne commerce moves on the Great Lakes.**

The system is unique in

* its size; it is 2400 miles long, has 350 miles of connecting channels, 1200 miles of water artery
* it's limited in size and draft of vessels
* there is a limited navigation season
* we have a large domestic movement -- about 67%
* we have been paying tolls since the opening of the Seaway
* it serves the industrial and agricultural heartland of the U.S.: 52% of domestic

movement is ore; 20% coal, and limestone 17%.

* 28% of total movement on Lakes is U.S. - Canada: 45% of that is coal, ore about 17%, limestone about 7%, coke 3%.
* Canada to U.S. movement is 57% ore, 10% aggregate-sand, gravel and crushed rock.
* export movement small at 14.7 million tons of grain (1980); iron and steel second greatest and coal(recently) at one-two million tons.

**We know that:**

1. Port specific user charges would have a tremendous bias against many of our ports.

2. The Great Lakes states as a whole send more money to Washington than comes back.

3. The $35 million in user charges that would move out of the Great Lakes states would make the balance of payments on a national level worse. Plus somehow that $35 million is going to represent jobs.

**What do we think we know?**

1. User charges will have an impact on domestic trade: Domestic movements differ from export movements and in many cases are opportunities for a competing mode.

2. For U.S.-Canadian movements there are alternatives (rail transportation) which don't exist for export movements.

3. I'm not sure I know anyone who could predict what would happen in the world trade market with an increase in the price of grain, one of our major export commodities.

We don't know what the response of the rail industry will be to user charges on the deep draft system where a competitive structure is in place. In the Section 205 study...this was one of the great



unknowns and you (could see) a significant difference in the impact, depending upon rail response. How much additional profit will they take? What will they do with the additional quantities they could move?

**What we should know:**

The impacts on our maritime industry, our labor unions, our grain shippers, our coal shippers, our iron and steel shippers. That impact ought to be transmitted to the Administration and to members of Congress from this region.

The National Governors' Association developed a national policy on deep draft user fees:

1. If user fees are implemented they don't want to see a greater cost-recovery level than 25%.

2. There needs to be recognition of the importance of the National Port System to national defense: there is reason and a rationale for continued federal participation in a significant portion of the cost of maintenance of the system.

3. Having the ability to export is important to our industrial and agricultural economy which contributes to the national wellbeing.

4. Because of the uniqueness of the Great Lakes, some of the impacts on our industry can be quantified and a study of that impact needs to be done. (For U.S.-Canadian movements and the domestic movements, impacts can be quantified.)

5. Fast-tracking must be a component of any legislation.

6. If there is a fee, it should be a national uniform fee.

7. The O&M charges for the U.S. portion of the St. Lawrence system ought to be folded into any national user charge system.

**DAVIS HELBERG, EXECUTIVE DIRECTOR SEAWAY PORT AUTHORITY OF DULUTH**

> "We're willing to work with the Administration and proponents of user fees, but we're getting damn tired of working with people who are unwilling to work with us.
>
> Maybe it's time we started to say no a little more effectively. And we should keep saying it until or unless our good friends in Washington come forward with a national analysis of where all of these user fee proposals are going to lead us."

Peter DeWitt said something earlier about getting a foot in the door. In the Middle East the saying is a camel getting his nose in the tent. We on the Great Lakes know a lot about user fees on the Great Lakes and the camel's nose: they're called Seaway tolls.

**In 1959 there were two classifications: $.40 a short ton for bulk cargo and $.90 per short ton for general cargo and a $.04 per gross registered ton per vessel. Except for lockage charges added in the early 1970s, those basic rates remained unchanged for the next 18 years.**

**ST. LAWRENCE SEAWAY JOINT TARIFF OF TOLLS**

(Figures Shown Are Combined Tolls for Montreal-Lake Ontario and Welland Canal)

**--CARGO TOLLS PER METRIC TON--**

| | 1959-77 | 1979 | 1982 | 1983 |
|---|---|---|---|---|
| Bulk (Other Than Grain) | $.44 | $.86 | $1.10 | $1.16 |
| Bulk Grain | .44 | .65 | .79 | .83 |
| General Cargo | .99 | 1.88 | 2.41 | 2.56 |
| Government Aid Cargoes | .99 | .65 | .79 | .83 |
| Containers | .99 | .99 | 1.10 | 1.16 |

**Seaway tolls are roughly three times the amount on grain that's required for fuel tax paid by shippers using the Mississippi River downbound.**



**LOCKAGE CHARGES**

| | 1959-66 | 1967 | 1968 | 1969 | 1970 |
|---|---|---|---|---|---|
| | None | $160 | $320 | $480 | $640 |

| Total, One-Way Transit | 1971-77 | 1978-81 | 1982 | 1983 |
|---|---|---|---|---|
| *Loaded Vessels. | $800 | None | $1,200* | $2,000* |
| ** in Ballast. | | | $600** | $1,500** |

Our basic fear is that once the door is even slightly ajar, it'll be only a matter of time before it's all the way open. An administration or a congress can say with all honesty...it won't be changed...but administrations come and go. When the system is in place and someone else comes along, its quite easy for him to also honestly say, "But I wasn't here when that was implemented and we're going to change it."

1. Any user fee scheme would impose double taxation on Great Lakes international cargoes for as long as we're saddled with Seaway tolls.

2. It threatens our domestic shipping industry.

3. It has the potential of isolating Lake Superior ports, particularly if connecting channels are included.

4. Would create a crazy quilt of new bureaucracy; it must be left in hands of federal government and Corps of Engineers.

5. Any of these schemes ignores Canadian shipments through U.S. waters; while Duluth and Superior do not compete for same grains, U.S. and Canada are major competitors as grain exporters.

Nothing has divided the AAPA like this issue. The ports with wealth or with minimum dredging requirements (Baltimore, Seattle) are saying "let's get on with it." Those that require major dredging (Portland, Charleston) say "over our dead port you will." So Mr. Stockman and Mr. Gionelli are admonishing the AAPA to come back with an alternative plan in the form of a compromise.

I don't believe the onus should be on us. For now we should just say, No.

**JERRY FRUIN, ASSOCIATE PROFESSOR, DEPARTMENT OF AGRICULTURE AND APPLIED ECONOMICS, UNIVERSITY OF MINNESOTA**

> "Transportation is a social expense: We need it to move people to work, to move goods in a national market and in international markets, and to increase our productivity. Transportation is a defense expenditure too.
>
> To maintain our transportation infrastructure, to finance it and maintain a competitive position is the world market, we have to be aware of the trade offs between efficiency and equity.
>
> With grain we are looking at competition among ports in the United States. With iron ore the competition is between domestic and foreign sources. For coal it is between eastern and western sections of the United States. Each are a different set of issues. Each will determine a different set of results."

**The debate over the past two days strikes home at some of the things we have to look at to maintain our transportation infrastructure. We need to maintain an investment but we don't want to maintain unneeded facilities.**

We've seen in the past 20 years, the abandonment of many miles of railroads. We're starting to discuss the abandonment of rural roads, facilities that were put in at a time when we moved smaller amounts of goods.

I haven't looked at the port system in the United States to see where we have redundant ports, but from my work on railroads and roads, I know as we go around the country there are a lot of disinvestment decisions to be made.

The people from Washington talked about not wanting to disrupt the existing flows. But that's almost impossible to do. Land transportation deregulation, whether we admit it or not, has disrupted and will disrupt the existing flows to our



ports. We have already seen the ability of the railroad to write contract rates that throw away the old port equalization tariffs.

**The impact of user fees will be large but will vary between regions and will depend on the mix and competitiveness of industry that the port serves. It will depend on how important the port is to the area, how important the industry generating that commerce is to the area and whether it is in the area or passing through.**

Who pays the user charge? Can it be passed on?

That depends on the demand for the product. Who benefits from the lowering of the landed cost of U.S. grain to foreign ports? The foreign consumer and the landowner. Not the farmer.

We also have to consider the impact of user fees on employment rates, welfare and the dislocation of industry.