

SENATE BILL REPORT

SJM 8007

As Reported by Senate Committee On:
Trade & Economic Development, February 21, 2013

Brief Description: Requesting Congress pass legislation imposing a fee on United States bound cargo when it crosses the Canadian border.

Sponsors: Senators Shin, Conway, Harper, Nelson, Kline, Becker, Hobbs, King, Eide, McAuliffe, Bailey, Hasegawa, Honeyford, Chase and Kohl-Welles.

Brief History:

Committee Activity: Trade & Economic Development: 2/19/13, 2/21/13 [DPS].

SENATE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: That Substitute Senate Joint Memorial No. 8007 be substituted therefor, and the substitute joint memorial do pass.

Signed by Senators Braun, Chair; Smith, Vice Chair; Chase, Ranking Member; Baumgartner, Holmquist Newbry, Schlicher and Shin.

Staff: Edward Redmond (786-7471)

Background: The Harbor Maintenance Tax (HMT) was enacted by Congress in 1986 to recover the cost of maintaining the nation's deep-draft navigation channels. The HMT is imposed on importers of ocean-going cargo based on the value of the goods being shipped through ports. The HMT does not apply to exports as exports are constitutionally protected due to their importance to the health of the nation.

According to the 2012 report by the Washington Council on International Trade and the Trade Development Alliance of Greater Seattle entitled "An International Competitiveness Strategy for Washington State," the HMT impacts Washington State's international competitiveness because: (1) the tax is not charged when cargo goes to non-U.S. ports and then is shipped to the U.S. via rail or roads, this incentivizes the diversion of cargo away from U.S. ports; (2) current U.S. law does not require Harbor Maintenance Trust Fund (HMTF) revenues to be fully spent on harbor maintenance related investments and the balance of the HMTF has grown to over \$7 billion; and (3) the geography of HMT expenditures does not correlate with the states where HMT revenues are generated.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

A recent report by the Federal Maritime Commission (FMC) found that Pacific Northwest ports are especially vulnerable to the impacts from the HMT because as much as 26.7 percent of west coast container volume is at risk of being diverted to Canadian ports. The FMC report further found that up to half of the U.S. bound containers coming into Canada's west coast ports could revert to using U.S. west coast ports if U.S. importers were relieved from paying the HMT.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (Recommended Substitute): The Washington State Senate and House of Representatives recognizes the growing risk of cargo diversion to Washington ports due to the current fee structure of HMT.

A request is made to the President and Congress to: (1) pass legislation reforming HMT; and (2) provide for full use of all HMT revenues, ensure United States tax policy does not disadvantage United States ports and maritime cargo, and provide greater equity for HMT donor ports through limited expanded use of the harbor maintenance revenues.

Copies of the memorial must be sent to the President of the United States, the President of the United States Senate, the Speaker of the House of Representatives, and each member of Congress from the state of Washington.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Staff Summary of Public Testimony: PRO: Washington State is the most trade dependent state in the nation. Imports and exports are constantly flowing through our ports. The HMT, however, is diverting cargos that would come through Washington ports up to Canada. That cargo then comes into the United States by land, but are not imposed HMT. The collection of HMT has been a contentious issue for many decades. For ports on the Columbia River this is a very big deal because we really rely on the Revenue from the HMT to keep the river sentiments at a level for shipping. A few years ago the Columbia River was deepened to 43 feet. That was a joint project between the state of Washington, Oregon, and the federal government which cost approximately \$183 million. The annual maintenance cost to keep the sentiments clear is between \$30 to \$50 million. The current mark up in Washington D.C. for 2014 is \$28 million. There is some history with how much is in the trust fund and how much is appropriated each year. This memorial is about creating a level playing field for a very important component of Washington State which is trade flows through the state. This tax is levied on containers that come into Washington. The result of the HMT is that now containers from Asia cost less if shipped through Canada than if shipped directly into Washington State. Ports near borders are extremely vulnerable and Mexico and Canada are continuing to pursue these advantages by expanding their port infrastructure. Donor equity is a major issue. The ports of Everett, Seattle, Tacoma, Los Angeles, and Long Beach contribute about 40 percent of the money into the HMTF but on average only collect about 1 percent return on investment. If we can increase this return to 15-20 percent we would be

able to use those funds for other in water projects. This memorial identifies the reforms needed to the harbor maintenance tax.

Persons Testifying: PRO: Senator Shin, Prime sponsor; Rick Wickman, Port of Vancouver; Clare Gallagher, Port of Seattle; Sean Eagan, Port of Tacoma.