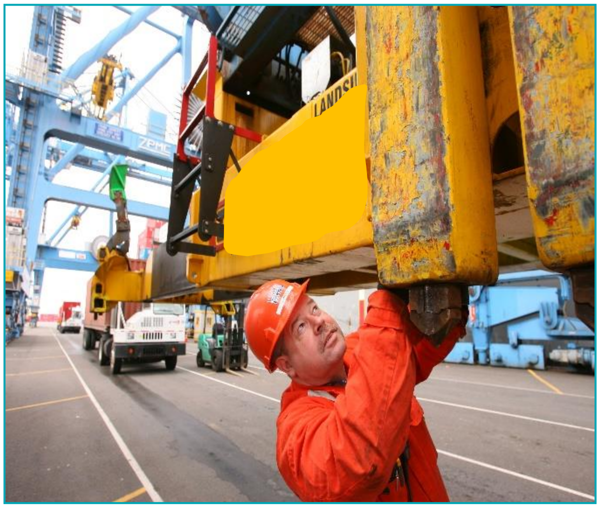
Harbor Maintenance Tax

Background

The Harbor Maintenance Tax (HMT) is assessed on ocean-going cargo that lands at US ports to fund port and waterway infrastructure nationwide. While the HMT is a critical tool for maintaining the nation's infrastructure, the current law has several shortcomings, and US ports view HMT reform as one of the most significant steps our nation can take to help US seaports. In a trade dependent state like Washington, our economy depends on keeping our region's cargo gateways competitive.

The HMT issue is of critical concern to The Northwest Seaport Alliance (NWSA). The tax is not assessed on importers who route cargo through non-US ports and afterwards move the cargo into US markets by land, which creates an incentive to divert cargo from Puget Sound ports to ports in Canada. In addition, Seattle and Tacoma traditionally have been unable to benefit from the HMT because they require minimal maintenance dredging, the primary use of HMT. The NWSA is seeking changes to HMT law that will address the HMT cost disadvantage and allow Seattle and Tacoma to receive a return on the revenues generated at our ports.



Other ports in Washington state and around the country also are seeking reforms to the HMT. US ports have come together to support a comprehensive solution that includes:

- Guaranteed full use of HMT revenues
- Ensuring equitable distribution of HMT revenues, including for HMT donor ports that traditionally have received only minimal benefit from the Harbor Maintenance Trust Fund (HMTF)
- Mitigating the cost disadvantage ports like Seattle and Tacoma face relative to non-US ports because of the HMT
- Guaranteed funding for our nation's small ports

Guaranteed full use of HMT revenues

As a result of federal under-investment, federal navigation channels now have available on average only about 50 percent of the authorized and required channel dimensions. Users have paid sufficient annual revenue into the fund to cover the need, but a significant percentage of annual HMT collections are diverted into the General Fund instead of being used to facilitate the movement of marine cargo at our nation's ports. The US port industry solution will ensure that all HMT revenues collected are spent to improve the efficiency

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and safety of our nation's harbors, result in a significant investment in the US navigation system, and help ports contribute to a more competitive US economy.

Greater equity in the HMT system

Six donor ports were responsible for generating 53 percent of total HMT collections in 2017. Yet historically these ports have received only 3 percent of appropriations from the HMTF because their naturally deep harbors require minimal maintenance dredging. This translates into only pennies for the ports of Seattle and Tacoma for every HMT dollar generated at our ports. By establishing a program for donor ports and creating categories of work these ports can use, the port industry's proposed solution will ensure all ports, and the shippers who are using them, are able to benefit from the HMT system.

A competitive disadvantage

Northwest ports are ready to compete on a level-playing field to efficiently move goods to market. Unfortunately, the HMT creates an unintended incentive for international importers to divert cargo through non-US ports. For Northwest ports and others near our nation's borders, this represents a growing competitive disadvantage and threat to our economy. In addition to putting transportation sector jobs at risk, this also reduces the vessel capacity, supply of containers and other services that US farmers and manufacturers depend on.

The Federal Maritime Commission (FMC) validated that the HMT's cost is a factor in cargo diversion, finding that the tax is responsible for approximately half of the US-bound cargo that passes through Canadian ports. Furthermore, the US government is projected to lose several hundred million dollars in HMT revenue over the next 10 years because of cargo diversion to both Canada and Mexico. The port industry seeks to correct this unintended shortcoming of the original HMT law by allowing donor ports to issue meaningful rebates to shippers.

Ensure funding for small ports

Our nation's small ports have a disproportionately large economic impact in the communities they serve. Unfortunately, the allocation of funding from the HMTF for small ports has been inconsistent and insufficient. As a result, many of these ports have struggled to perform at their full potential. US port policy should include a minimum, guaranteed funding level for operations and maintenance activities at small ports.