

SENATE BILL REPORT

SJM 8017

As Reported by Senate Committee On:
Trade & Economic Development, January 27, 2016

Brief Description: Requesting Congress to reform the harbor maintenance tax.

Sponsors: Senators Roach, Dammeier, O'Ban and Warnick.

Brief History:

Committee Activity: Trade & Economic Development: 1/27/16, 1/27/16 [DP].

SENATE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: Do pass.

Signed by Senators Brown, Chair; Braun, Vice Chair; Chase, Ranking Minority Member; Angel, Ericksen and McCoy.

Staff: Jeff Olsen (786-7428)

Background: The Harbor Maintenance Tax (HMT) was created by Congress in the Water Resource Act of 1986 to support the cost of harbor maintenance activities at maritime ports. The HMT is imposed at a rate of 0.125 percent of the value of cargo shipped or cruise tickets sold. Revenues from the HMT are deposited into the Harbor Maintenance Trust Fund, which provides funding primarily to the U.S. Army Corps of Engineers for dredging channels, maintaining jetties, operating locks, and other harbor maintenance activities.

U.S. bound goods shipped through a Canadian or Mexican port that arrive in the U.S. via truck or rail are not subject to the HMT. A 2012 report by the Federal Maritime Commission (FMC) studied the movement of containerized cargo through Canadian and Mexican seaports to investigate the possible diversion of cargo away from U.S. west coast ports due to the HMT. The report estimated that up to 26.7 percent of container volume for U.S. west coast ports was 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 joint memorial contains a series of findings, including:

- the HMT is not collected on trans-pacific cargo shipped to the U.S. via rail or roads, which provides an incentive to divert cargo away from U.S. ports;

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- the ability to move cargo through Canada and avoid paying the HMT is an incentive to divert cargo away from U.S. ports;
- up to half of U.S. bound containers traveling to Canada's west coast ports could revert to using U.S. west coast ports if U.S. importers were relieved from paying the HMT;
- the Northwest Seaport Alliance has received just over a penny on every dollar of harbor maintenance tax paid by shippers who use their ports;
- west coast ports face increasing competition for maritime goods with the recent widening of the Panama Canal and potential addition of a canal in Nicaragua; and
- Washington ports are ready to compete on a level playing field.

The Legislature requests that Congress pass and the President sign legislation reforming the HMT. The reforms should ensure U.S. tax policy does not disadvantage U.S. ports and maritime cargo, and provide greater equity for HMT donor ports through expanded use of HMT revenues.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Staff Summary of Public Testimony: PRO: The HMT gives certain ports that compete with Washington ports a competitive advantage. For example, goods shipped through Prince Rupert are not subject to the HMT tax. With the widening of the Panama canal and potential new canal in Nicaragua, ports on the South and East coasts will benefit from increased shipping capacity through the canals. At the same time, a large percentage of the HMT revenues being paid by West coast ports are going to pay for dredging projects at ports on the South and East coasts. While some Washington ports need funds for dredging, there is insufficient HMT revenues being spent to maintain Washington ports. Washington is a trade dependent state, and the maritime sector provides good, family wage jobs. The HMT is \$109 on average per container, and shippers are looking for the lowest cost ports to move their goods. Washington must coordinate with its federal delegation to reform the HMT.

Persons Testifying: PRO: Senator Roach, prime sponsor; John Creighton, President, Port of Seattle Commission; Gordon Baxter, International Longshore and Warehouse Union; Masters, Mates & Pilots.

Persons Signed In To Testify But Not Testifying: No One.