PORT OF HOUSTON AUTHORITY

Via FedEx 8626 0547 9735
December 21, 2011

Karen V. Gregory, Secretary
Federal Maritime Commission
800 North Capitol Street NW
Washington DC 20573-0001

Re: U.S. CONTAINERIZED CARGO FLOWS – RESPONSE TO NOI – FMC DOCKET NO. 11-19

Dear Ms. Gregory:

Thank you for the opportunity to provide comments to the Commission as it studies the Harbor Maintenance Tax (HMT) and its possible impact of shifting U.S.-bound cargo from American ports to facilities in Canada or Mexico. As you are well aware, ports are critical economic engines for the nation. As such, maintaining the health and competitiveness of the country's maritime navigation system is essential to the economic health of the U.S.

Because of this economic impact, federal policies related to ports have a significant bearing in Texas. It is the top maritime state in the country and moves 25 percent of all U.S. waterborne tonnage. The Port of Houston alone is responsible for nearly $285 billion in economic activity, more than 1.5 million direct and indirect jobs and generates $16.2 billion in tax revenue nationwide. The Houston Ship Channel is also integral to our nation's energy security as host to the largest petrochemical complex in the U.S. and the second largest in the world. Houston's is the largest port in the nation for foreign tonnage and second largest in terms of total tonnage. In Fiscal Year 2010, the customs port area that is the Port of Houston was the top in the nation with regard to waterborne export cargo by value, handling 15.7% of the nation's total, which is almost double the second ranked port and more than the ports of Los Angeles and Long Beach combined.

The HMT is one of the most significant federal policies affecting the Port of Houston. However, its impact is felt primarily because revenues generated by the tax are not fully allocated to their intended purpose –maintaining the nation's waterways. For example, in a typical recent year, the tax collected around $1.3 billion but only $700 to $800 million was ultimately spent on waterways.

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The Houston Ship Channel needs approximately $40 million to $50 million of maintenance dredging annually to keep it at its authorized depth and width. Unfortunately, federal appropriations to the U.S. Army Corps of Engineers (Corps) to maintain this channel in recent years have been far below actual needs. Furthermore, the Port of Houston generates far more revenue from the HMT than it is allocated, collecting $127 million annually in recent years. Despite this and the $86 million of identified critical dredging and capacity needs for the Houston Ship Channel for Fiscal Year 2012, the funds allocated were just above $20 million.

This challenge causes significant economic impacts. The Corps' hydrographic reports for the Houston Ship Channel have shown that approximately 80% of the channel is not at its designed depth and it has been losing an average of 8% of usable depth per year. As a result of not having the full depth and width needed, some larger vessels cannot enter the channel, requiring them to lighter loads. This circumstance involves offloading cargo to a smaller ship that can navigate the channel and it requires multiple trips. Lack of proper dredging increases the cost of transportation for both exports and imports, and causes additional and unnecessary fuel emissions. Lack of adequate depth affects every port on the channel.

A recent study analyzed the direct economic effects of channel restrictions and the loss of 1 foot of draft from the Houston Ship Channel. Data was collected from the years 2008 and 2009. The study determined that a direct economic impact of the loss of 1 foot of draft over this period was $373 million.

With respect to cargo diversion. Canadian and Mexican ports have been strategically positioning themselves as an alternative to U.S. ports. They are taking advantage of several factors present in many West Coast ports that increase the cost of those supply chains, including the labor environment, environmental policies, and congestion. These are the major factors that should be addressed when considering how to regain cargo lost by US West Coast ports to Mexican and Canadian ports.

Currently, a larger percentage of the goods from Asia are handled by West Coast ports than ports in the Gulf of Mexico. Looking forward, however, the fastest growing trade for the Port of Houston Authority may be with Asia. That growth, however, will primarily be a result of increased volumes through an expanded Panama Canal.

Other Gulf ports, and East Coast ports, in addition to the Port of Houston, have significant annual dredging needs which are unmet at the present time. Thus major segments of US waterborne commerce would be adversely affected by any changes to the HMT that reduced resources available for dredging maintenance and improvements on Gulf and East Coast ports.

It is our hope that this perspective is helpful as you consider this issue. Please do not hesitate to contact me if you have any questions or need additional information.

Sincerely,

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