

Cost-Sharing of Federal Channels

AAPA Position: AAPA recommends revising the federal cost-sharing formula for navigation improvement projects to reflect the growing size of general cargo vessels and their corresponding navigation channel needs, as well as the significant burden on local port authorities of maintaining channels deep enough to accommodate the larger general cargo vessels. The growth in size of the ships is largely driven by shippers who continually seek greater economy of scale. **The channel depth threshold for significantly higher local cost-share on construction and maintenance projects should be increased from 45 feet to 53 feet to reflect the size of the current world ship fleet.**

Current Cost-Sharing Formula

The Water Resources Development Act of 1986 (WRDA '86) set forth the following cost-sharing formula for navigation improvement projects:

- Construction of channels with depths greater than 45 feet, locals pay a 60 percent cost share;
- Construction of channels with depths less than or equal to 45 feet, locals pay a 35 percent cost-share;
- Maintenance of channels greater than 45 feet, locals pay 50 percent of cost for increment of increased costs over 45 feet; and
- Maintenance of channels less than or equal to 45 feet, locals pay zero percent of cost. (Cost is covered entirely by funds generated by the Federal Harbor Maintenance Tax, paid on certain cargoes entering the port.)

According to the legislative history for WRDA '86, the rationale for setting the channel depth threshold for transition to significantly increased local participation at 45 feet was that

“[t]he Committee has surveyed the manner of financing navigation projects in most developed countries. Based upon this survey, the Committee found that most of the

national Governments in those countries financed general navigation improvements, including main and entrance channels, to a depth of 45 feet to accommodate general cargo vessels (emphasis added). This assistance is normally justified on the basis of national and regional economic development.”

With allowances for safety and considering the emerging trend towards the construction of vessels that exceed the post-Panamax size, AAPA believes the norm for general cargo navigation channels is as great as 53 feet.

Growth of General Cargo Vessels

Currently, there are more than 336 post-Panamax ships in service, and several worldwide shipping industry consulting firms are reporting that more ocean carriers are placing orders for ships that exceed this size. For example, shipping lines report that there were 23 vessels of 8,000 TEU capacity in service since 2006, with an additional 60 more to follow over the next few years.

The construction of post-Panamax size container ships reflects the dramatic increase in total industry capacity, which grew by approximately 60 percent per year to 10.6 million TEUs in 2007, according to figures cited by Paris shipbroker Barry Rogliano Salles.¹

The new, post-Panamax size container fleet is playing a key role in Asia-Europe as well as Asia-North America shipping routes, particularly for ships traveling east via the Pacific Ocean. The *Journal of Commerce* reports that “unless there is a rush of similar small carriers to enter the Pacific and put downward pressure on rates, the existing mega-carriers will dominate the trade.”²

The average draft of current post-Panamax ships is 45.9 feet. The largest ships have drafts of about 47.6 feet, which require channels that are at least 50 feet deep. With allowances for safety and considering the emerging trend towards the construction of vessels that exceed the post-Panamax size, AAPA believes the norm for general cargo navigation channels is as great as 53 feet. That is particularly true of vessels which will be transiting the expanded Panama Canal beginning in 2014.

Impact on Jobs and the Economy

Updating the cost-share formula to today’s needs to accommodate the world fleet would have a significant positive impact on jobs growth and level of economic activity. Funds currently dedicated to cost-sharing for both new construction and maintenance dredging for projects greater than 45 feet would be available for re-investment in needed port infrastructure and an increased labor force. It would provide an incentive for port modernization and an increased opportunity for U.S. exporters and importers to achieve greater transportation

savings that benefit U.S. workers and consumers.

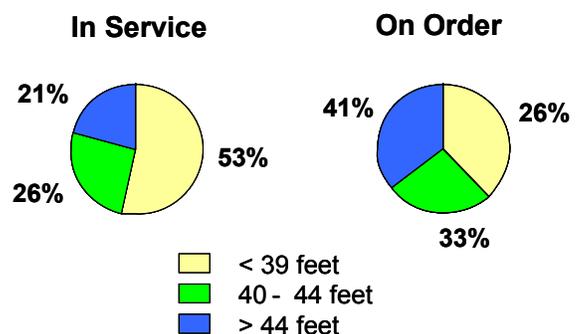
Burden of Maintenance Dredging

The federal contribution of maintenance dredging costs is funded from the Harbor Maintenance Trust Fund (HMTF). When it was established in 1986, the HMTF paid only 40 percent of maintenance dredging costs; since 1990, the HMTF pays 100 percent of such costs for channels with depths less than or equal to 45 feet.

Maintenance dredging for channels deeper than 45 feet poses a significant burden for local port authorities because:

- Calculating the increased cost of maintenance on deeper channels is difficult and time-consuming;
- The current cost-sharing threshold does not reflect the increased use of the HMTF for maintenance dredging costs, as revised in 1990.

Distribution of General Cargo Vessel Depths (deadweight tons)



¹ <http://www.joc.com/cgi-bin/Printable.asp>.

[Accessed 12/10/2003]

² Mongelluzzo, B. (2003). “Special Report: Container Shipping Forecast.” *The Journal of Commerce*. December 8-14, 2003, pp. 18-24.

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