

# Harbor Maintenance Tax “Land Border Loophole”

## Policy Factsheet

### BACKGROUND

The Harbor Maintenance Tax (HMT) is a .125% ad valorem federal tax paid by shippers based on the value of the imported goods. The tax was created in 1986 to fund the U.S Army Corps of Engineers’ harbor maintenance projects. However, the tax is not accounted for when cargo travels to Canadian, Mexican, and other non-U.S ports, and then is shipped to the U.S via rail or roads. This “Land Border Loophole” incentivizes diversion away from U.S. ports. On November 8, 2011, the Federal Maritime Commission (FMC) issued a Notice of Inquiry to solicit input in their effort “to study the impacts and the extent to which the U.S. Harbor Maintenance Tax, other U.S. policies, and other factors may incentivize container cargo to shift from U.S. West Coast ports to those located in Canada and Mexico.” The FMC will release results in 2012.

### WHY IT MATTERS TO WA

The “Land Border Loophole” creates two main issues for the state: loss of jobs and cargo diversion. Imports support jobs at ports and associated logistics providers; the Port of Seattle and Tacoma together employ over 200,000 jobs. Considering that approximately 70% of the cargo arriving at the Port of Seattle and Tacoma is discretionary, many companies are free to import through other non-U.S ports such as the Port of Prince Rupert, which does not charge a HMT. The Port of Seattle and Tacoma accounted for approximately 16% of containerized traffic on the West Coast of North America in 2010, a 2% decrease from 2005. During the same time, British Columbia ports increased by 8% percent to a total of 12%.<sup>1</sup> It is important for Washington companies to have access to competitive ports to keep shipping costs low.

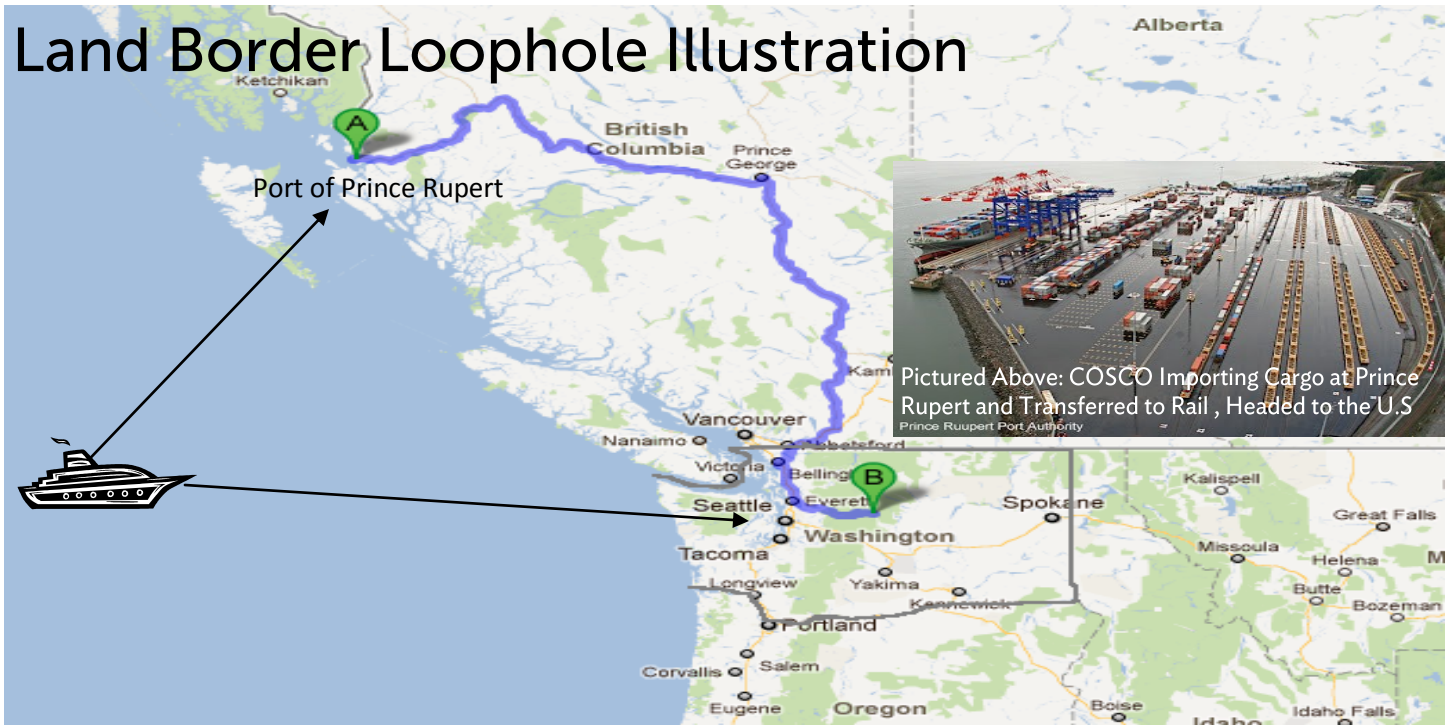
### POLICY FAQs

1. **Do WA ports use HMT funds?** Yes, particularly those ports that rely on river navigation to move goods across the state. However, some of our state’s largest ports—such as those in Seattle, Tacoma, and Everett—are naturally deep harbors and do not need extensive dredging or other related services. In fact, the Ports of Seattle and Tacoma’s maintenance costs add up to a low \$500 per ship call. However, because the Port of Seattle and Tacoma are in the top ten of U.S importers, they pay some of the largest HMT amounts.<sup>2</sup>
2. **What is the cost of cargo diversion?** The Harbor Maintenance Trust Fund is expected to lose between \$575 million to \$2.1 billion over the next 10 years due to cargo diversion to Canada, and other international ports not facing the tax. The Panama Canal Expansion in 2014 will attract additional business from larger vessels that would otherwise come to West Coast ports.<sup>3</sup>
3. **How does diversion of cargo to non-U.S. ports lower export capacity?** Cargo diversion causes less import containers to arrive in Washington. With less containers at the ports, there is a limited amount of capacity to export Washington products.
4. **What is the solution to this problem?** The Washington Council on International Trade has been working closely with our business community and elected officials to identify a fair, sustainable solution to the land border loophole issue that maintains the United State’s international commitments. In particular, we believe that cargo entering the United States should be treated equally regardless of mode of arrival.

1 Gooley, Toby. DC Velocity. “The Brewing Battle over the HMT” January 2012 | 2 Frittelli, John. The Congressional Research Service. “Harbor Maintenance Trust Fund Expenditures” January 2011 | 3 Representative Laura Richardson “Letter to Federal Maritime Commission” September 2011 |

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## Land Border Loophole Illustration



## INDUSTRY IMPACT



### AGRICULTURE

Agriculture is the State's second largest export. The agriculture industry rely on empty containers at ports to export perishable goods in a timely manner to Asia Pacific and Russia. The "Land Border Loophole" is limiting the amount of containers available at ports and increasing shipping rates for farmers and agriculture companies who export.



### AEROSPACE

The Boeing Company is dependent on aircraft parts imported from Pacific countries on a regular basis. The "Land Border Loophole" decreases business with the Port of Everett, which supports 334,000 jobs per year and imports aircraft parts for Boeing.<sup>6</sup> Along with Boeing are thousands of Washington companies in the aerospace supply chain who also rely on low cost shipping rates and competitive ports.

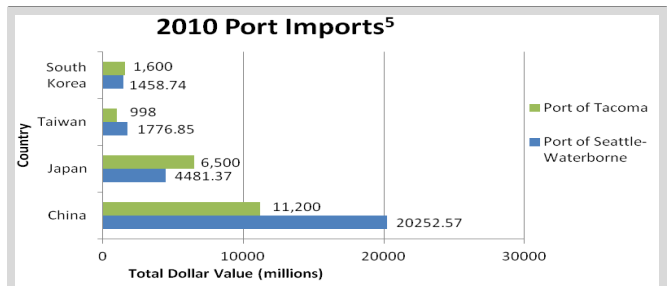


### RETAIL

Washington is home to large retailers such as REI, Nordstrom, Costco, Amazon who depend on competitive shipping rates in order to remain a leader in the industry. The majority of apparel, footwear, and other Washington retail products come from the Asia Pacific region via ships that are now being diverted.

## HMT by Numbers<sup>4</sup>

- .125 % ad valorem tax on imports (\$1.25 per \$1,000 in cargo value)
- \$1.4 billion annual revenue
- \$1.3-1.6 billion annual need
- \$5.6 billion surplus
- \$800 million actual average expenditure over the past 5 years



4 American Associations of Port Authorities "Harbor Maintenance Tax" March 2011 | 5 Port of Tacoma Annual Report, 2010 & Port of Seattle Foreign Waterborne Trade Report, 2010 | 6 Martin Associates Independent Study & Port of Everett