

HJR

8

HOUSE COMMITTEE REPORT

(7)

Date Referred to Committee: February 7, 2007

FURTHER REFERRALS: Labor and Commerce

Date of Committee Action: February 15, 2007

The TRANSPORTATION Committee considered:

HJR 8

HOUSE JOINT RESOLUTION NO. 8

WASHINGTON CONTAINER FEE

Opposing the enactment by the Washington State Legislature of a bill proposing to impose a fee on the processing of shipping containers in the State of Washington because of the negative impact of the fee on the people and the economy of this state.

Recommends it be replaced with HCS or CS for HJR 8 (TRA)
 For Senate Bills with new title: Technical Title New Title: HCR _____ Same Title New Title

- attach amendments
- add new referral to _____ Committee
- Letter of Intent _____ Committee

List of Abbrev for Depts.:
 ADM
 CED
 COR
 CRT
 EED
 DEC
 DFG
 GOV
 HSS
 LEG
 LAW
 LWF
 MVA
 DNR
 DPS
 REV
 DOT
 UA

<u>NEW FISCAL NOTES</u>				
*Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
Leg.				✓

<u>PREVIOUS FISCAL NOTES</u>				
List by Dept(s):	FN#	Fiscal	Indet.	Zero

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
	DOONAN	X			
	Johnson	X			
	Kohring	X			
	Salmon	X			
Chair:	NEUMA	X			
Chair:					



REPRESENTATIVE BILL THOMAS

ALASKA STATE LEGISLATURE DISTRICT 5

e-mail: Representative.Bill.Thomas@legis.state.ak.us webpage: www.akrebublicans.org/thomas/

State Capitol

Juneau AK, 99801-1182

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888-461-3732

FAX 907-465-2652

MEMORANDUM

DATE: 2-07-07

TO: Representative Johansen

FROM: Representative Thomas

A handwritten signature in blue ink, appearing to read "Bill Thomas".

RE: HJR 8 Opposing Washington State Container Tax

I respectfully request that you schedule HJR 8 for a hearing in House Transportation at your earliest convenience. HJR 8 asks that the Washington State Legislature not to enact additional fees on shipping containers being shipped to and from that state.

If you have any questions please contact by staff, Kaci Schroeder Hotch. Thank you.



REPRESENTATIVE BILL THOMAS

ALASKA STATE LEGISLATURE DISTRICT 5

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Sponsor Statement for HJR 8 Opposing the enactment by the Washington State Legislature of a shipping container tax.

Alaska depends heavily on goods shipped through ports in Washington state, which has long been a gateway to this state. In 2003, Alaska was the Puget Sound's 5th largest trading partner. The close economic connection between Alaska and Washington is responsible for at least 103,500 jobs and over \$4 billion in labor earnings.

Currently there is a bill before the Washington State Senate that proposes to create a Freight Congestion Relief Account and taxation structure. A fee will be imposed on marine terminal operators at the rate of \$50 per twenty-foot equivalent unit. The terminal operator will be allowed to keep 10% of the fee as compensation for accounting costs, but must remit the rest back to the state which will then go into this account.

With shipping fees in Alaska already astronomical this additional tax could be devastating to the flow of goods to and from this state. HJR 8 brings this negative impact to the attention of the Washington State Legislature and asks that the Washington State Legislature find some other means to fund infrastructure improvements to the ports of Washington. I strongly urge your support of this resolution.

MEMO

Dated: February 12, 2007
To: Tamara Cook
Director, Legislative Legal and Research Services
From: Representative Kyle Johansen 
Re: Drafting of a Committee Substitute for HJR 8

Dear Tam:

Enclosed is draft language for an addition of language to HJR 8. The Transportation Committee would like to adopt the CS at a hearing this Thursday afternoon at 1:00 pm.

On page 2, line 26, insert:

FURTHER RESOLVED, the Alaska State Legislature urges the Attorney General for the State of Alaska to use the resources of the Department of Law to research the legal issues presented by a container tax as set out in SB 5207, and if such a tax is enacted, and the facts and law support it, to immediately file a complaint and request for an injunction in Federal Court and any other forum that could provide relief.

FURTHER RESOLVED the Alaska State Legislature urges Talis Colburg, Attorney General for the State of Alaska, to use resources of the Department of Law to research relevant issues presented by a container tax as set out in SB 5207 and if such a tax becomes law, to file a complaint and request for an injunction in Federal Court in Washington State.

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: CSHJR 8(TRA)
 (H) Publish Date: 2/19/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Legislature
 Title "Opposing the enactment by the Washington RDU Legislative Council
State Legislature of a bill proposing to impose a fee on the..." Component Various
 Sponsor "Representatives Thomas, Samuels, Wilson, ..."
 Requester Office of the Governor Component No. 782

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time	0	0	0	0	0	0
Part-time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

This legislation has zero fiscal impact on the Legislative Affairs Agency.

Prepared by: Karla Schofield, Deputy Director
 Division: Legislative Affairs Agency
 Approved by: Pamela Varni, Executive Director
 Agency: Legislative Affairs Agency

Phone 465-6626
 Date/Time 2/13/07 10:00 AM
 Date 2/13/2007

LEGAL SERVICES

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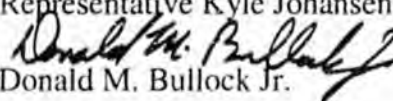
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

March 9, 2007

SUBJECT: GATT and Customs Convention on Containers
(Work Order No. 25-LS0731)

TO: Representative Kyle Johansen

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

You asked for a review and comment on the validity of the fee proposed on containers by SB 5290 in light of Art. VII of the General Agreement on Tariffs and Trade (GATT) and the Customs Convention on Containers (CCOC). SB 5290 is being considered by the Washington State Legislature.¹

As noted in an earlier memorandum to you regarding SB 5290, dated January 31, 2007, I am not sure what activity the bill proposes to subject to the fee. The bill refers to processing a container without defining what activity constitutes processing. For the purpose of this memo, I will assume that the proposed fee attaches in some way to a container that is either empty or carrying goods in international commerce.

GATT and CCOC are international trade agreements that address the shipment of goods and movement of containers. A shipping container is an interesting tool of commerce in that the container itself has value, moves across international boundaries, remains in one country for a period of time, and then moves out of that country either loaded or empty. Both GATT and CCOC recognize that the goods within a container are subject to duty and other fees, but distinguish fees applied to the contents of a container from those applicable to the container itself.

Article VII of GATT addresses the valuation of imported merchandise for customs purposes. For that purpose, the value of imported merchandise "should be based on the actual value of the imported merchandise on which duty is assessed, or of like merchandise." Opponents of a fee on containers proposed for several major California ports claimed that a fee on shipping containers in those ports would breach obligations

¹ In California, Senator Lowenthal has again introduced a bill to impose a container user fee on containers processed through the ports of Long Beach, Los Angeles, and Oakland. SB 974 was introduced on February 23, 2007, and is similar to Senator Lowenthal's SB 927 that was vetoed by Governor Schwarzenegger in September 2006.

Representative Kyle Johansen

March 9, 2007

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under Art. VII.² However, Art. VII does not directly address a fee imposed on a container, and I have not found an interpretation that describes how a flat fee, such as the container fee, is addressed in Art. VII or is inconsistent with that article.³

Customs value is also the subject of the CCOC cited by opponents of state container fees. The CCOC defines "import duties and taxes" to include "Customs duties and all other duties, taxes, fees and other charges which are collected on, or in connection with, the importation of goods, but not including fees and charges limited in amount to the approximate cost of services rendered."⁴ This definition is broad enough to be interpreted to include a fixed rate container fee such as that proposed in Washington; such a fee may fall within the language "in connection with, the importation of goods."

Under the COCC, "temporary admission" of a container is described as "temporary importation, subject to reexportation, free of import duties and taxes and free of import prohibitions and restrictions."⁵ Thus, the CCOC could be interpreted to conclude that a flat fee imposed on a container that is being temporarily admitted into the United States in a Washington port is inconsistent with the convention. However, I expect the proponents of the fee would argue that the container fee is a fee "limited in amount to the approximate cost of services rendered," an imposition excluded from the definition of "import duties and taxes" in the CCOC.

In summary, I have not found a clear basis for concluding that the proposed Washington container fee is inconsistent with GATT; Art. VII of GATT seems limited to addressing the customs valuation of imported goods. However, I do find that the CCOC could be interpreted to preclude such a fee when the fee is imposed on a container that is temporarily admitted into the United States.⁶

² See, e.g. Letter from Sandra L. Kennedy, President, Retail Industry Leaders Association, to Assemblywoman Judy Chu, Chair, Committee on Appropriations, California State Assembly (June 30, 2005) (opposing SB 760). The letter is published on the Internet at <http://www.retail-leaders.org/new/resources/CA%20SB%20760%20-%20RILA%20Oppose%20Letter%20-%20Asm%20Appr%2006-30-05.pdf> (accessed March 7, 2007). California Governor Schwarzenegger vetoed similar legislation — SB 927 — in September 2006.

³ Perhaps those in opposition to the container fee that cite Art. VII characterize the fee as a form of customs duty that, being a flat fee, is not based on the value of the merchandise in the container.

⁴ Customs Convention on Containers, 1972, ch. 1, art. 1(a).

⁵ Customs Convention, ch. 1, art. 1(b).

⁶ Governor Schwarzenegger not address possible conflicts with international agreements in his veto message when he vetoed the proposed California container fee. Other than

Representative Kyle Johansen
March 9, 2007
Page 3

If I may be of further assistance, please advise.

DMB:med
07-164.med

stating that there were other options that could be explored for the improvement of port infrastructure, he expressed concern that such a fee would harm California exporters. He wrote, "It is very important that any measure that increases fees that impact exporters not have the unintended consequences of negatively impacting the sale and delivery of goods grown and manufactured in California. SB 927, unfortunately could negatively impact these exports as well." Governor Schwarzenegger's veto message for SB 927 is published on the Internet at http://gov.ca.gov/pdf/press/sb_927_veto.pdf (accessed March 9, 2007).

LEGAL SERVICES

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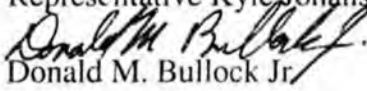
State Capitol
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Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

January 31, 2007

SUBJECT: Proposed fee on processing shipping containers by Washington State (Work Order No. 25-LS0432)

TO: Representative Kyle Johansen

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

You provided me with a copy of Senate Bill 5207 (SB 5207) that was introduced in the Washington State Legislature by Senators Haugen, Murray, and Spanel. You asked several questions about whether such a fee would be unconstitutional, would be preempted by federal law, or could be invalidated under some other legal theory.

The legality of the fee proposed in this bill is difficult to assess. The fee has not been enacted and the bill is unclear as to how the fee would be imposed. There is no precedence for this fee and therefore no conclusive or helpful legal authority to support a conclusion that the fee, if enacted, would be unconstitutional or invalid under the supremacy of federal law. As I mentioned to Randy Ruaro of your office, the California assembly passed a very similar fee in 2006, but the bill was vetoed by Governor Schwarzenegger.¹ Some of the issues you raise were discussed during the consideration of that legislation.

SB 5207 proposes a fee imposed on "the processing of shipping containers in the ports of Washington state."² The amount of the fee would be \$50 per twenty-foot equivalent unit

¹ The bill, SB 927, would have applied only to the ports of Los Angeles and Long Beach and proposed a tax of \$30 per twenty-foot equivalent container length. Most containers are 40 feet in length and would have been subject to a \$60 levy. Governor Schwarzenegger vetoed the bill on September 22, 2006. The governor's veto message is published on the Internet at http://www.leginfo.ca.gov/pub/05-06/bill/sen/sb_0901-0950/sb_927_vt_20060922.html (accessed 1/26/2007).

² Sec. 3(1), S.B. 5207, 60th Legislature, 2007 Reg. Sess. (Wash. 2007), hereafter referred to as "SB 5207."

and would be payable by the marine terminal operator processing the container.³ The amount of the fee is clear, however, the bill is vague on who is actually paying the fee and what activity is subject to the fee. These vagaries make it difficult to analyze the effect of the bill and to predict the outcome of a legal challenge, should the fee be enacted.

The Washington bill is not clear regarding who is actually paying the fee, although marine terminal operators are the persons responsible for collecting the fee. I base this conclusion on such phrases in the bill as "each marine terminal operator . . . may retain 10 percent of the fifty-dollar fee collected,"⁴ "fee collected by marine terminal operators,"⁵ "amount of revenue collected by the marine terminal operators,"⁶ and "the fee required by this chapter, to be collected by the marine terminal operator."⁷ Also, a marine terminal operator who "fails to collect the fee imposed . . . or, having collected the fee, fails to pay it to the department" is personally liable to the state for the amount of the fee.⁸ No language describes who should be paying the fee to the operator.

I can think of a number of possible persons that might be the target of the fee proposed in the bill, such as an owner of a container, the person shipping the container, the person receiving the container, the railroad continuing to ship the container from a port, the trucking company delivering or removing the container from the port, the owner of the contents of the container, or some other person. In the California legislation, the person who bore the burden of the fee was clearly defined -- SB 927 provided for the port authority to "assess a use fee on the *owner of container cargo* moving through the port not to exceed \$30 per [twenty-foot equivalent unit]."⁹ [Emphasis added.]

³ Sec. 3(2), SB 5207. Sec. 2(3) of the bill defines "twenty-foot equivalent unit" to mean "measure of containerized cargo capacity equal to one standard twenty foot (length) by eight foot (width) by eight foot and six inches (height) container."

⁴ Sec. 3(2), SB 5207.

⁵ Sec. 3(3), SB 5207.

⁶ Sec. 3(4), SB 5207.

⁷ Sec. 5(1), SB 5207.

⁸ Sec. 5(2), SB 5207.

⁹ Sec. 2, 1746(c), S.B. 927, 2006 - 2006 Session (CA 2006), hereafter referred to as "SB 927." Sec. 2, 1746 was applicable to the Port of Los Angeles and a similar provision, Sec. 2, 1747 was applicable to the Port of Long Beach. No other ports were included in the bill.

The activity subject to the fee is not clear. The fee is imposed on "the processing of shipping containers," but the bill does not define "processing" or "process." I could not find a definition of "processing" applicable to shipping containers in the Revised Code of Washington nor in the United States Code. Perhaps future committees that consider the bill will define the activity that triggers the fee.

Depending on how the bill evolves, the proposed fee may be subject to challenges under the United States Constitution. The burden the levy puts on interstate and foreign commerce is a factor when considering whether the fee violates the commerce clause¹⁰ or the dormant commerce clause.¹¹ The fee may also be subject to the constitutional prohibition against imposts and duties on imports and exports¹² and the tonnage clause.¹³ If the fee is found to be levied upon or collected from a ship hauling the container being "processed," the reasonableness of the fee, the subject of levy, and the use of the proceeds may also have to comply with the restrictions in federal law, including in 33 U.S.C. 5(b). That subsection reads as follows:

(b) No taxes, tolls, operating charges, fees, or any other impositions whatever shall be levied upon or collected from any vessel or

¹⁰ "Congress shall have Power to . . . regulate Commerce with foreign Nations, and among the several States, and with the Indian tribes[.]" Art. I, sec. 8, Constitution of the United States.

¹¹ *Willson v. Black Bird Creek Marsh Co.*, 27 U.S. 245, 252 (U.S. 1829). Note that in dissenting opinions, Justice Scalia has questioned the validity of the "negative" Foreign Commerce Clause that has been interpreted to prohibit state regulation of commerce. See, e.g., *Intl Containers Int'l Corp. v. Huddleston*, 507 U.S. 60, 78-80 (U.S. 1993) (Scalia, J., concurring in part and concurring in the judgment). Justice Scalia has expressed the view that the Commerce Clause does not have a self-operative prohibition upon the State's regulation of commerce. Should the Supreme Court adopt Justice Scalia's interpretation, States would have a greater ability to regulate commerce in areas in which Congress has taken no action. Under the present interpretation, a state may not take action that Congress, should it choose to act, could over ride under its authority to regulate commerce under Art. I, sec. 8.

¹² "No state shall, without the Consent of the Congress, lay any Imposts or Duties on Imports or Exports, except what may be absolutely necessary for executing its inspection Laws; and the net Produce of all Duties and Imposts, laid by any State on Imports or Exports, shall be for the Use of the Treasury of the United States; and all such Laws shall be subject to the Revision and Control of the Congress." Art. I, sec. 10, Constitution of the United States.

¹³ "No State shall, without the Consent of Congress, lay any Duty of Tonnage" Art. I, sec. 10, Constitution of the United States.

other water craft, or from its passengers or crew, by any non-Federal interest, if the vessel or water craft is operating on any navigable waters subject to the authority of the United States, or under the right to freedom of navigation on those waters, except for--

(1) fees charged under section 208 of the Water Resources Development Act of 1986 (33 U.S.C. 2236);

(2) reasonable fees charged on a fair and equitable basis that--

(A) are used solely to pay the cost of a service to the vessel or water craft;

(B) enhance the safety and efficiency of interstate and foreign commerce; and

(C) do not impose more than a small burden on interstate or foreign commerce; or

(3) property taxes on vessels or watercraft, other than vessels or watercraft that are primarily engaged in foreign commerce if those taxes are permissible under the United States Constitution.

I think the bill's approach of targeting "processing" for the imposition of the fee is an attempt to distance the fee from interstate and international commerce concerns. The attempt may be an effort to characterize the fee as a type of fee that Washington may properly impose on most intrastate activities, such as a fee on a business or occupation. However, if "processing" includes the loading and unloading of a water craft transporting a container, the fee is more likely to be a burden on interstate and foreign commerce.

The United States Supreme Court adopted a test for determining whether a state tax violates the Domestic Commerce Clause in *Complete Auto Transit Corp. v. Brady*.¹⁴ In *Intl Containers Int'l Corp. v. Huddleston*,¹⁵ the court summarized the *Complete Auto Transit* test as follows:

A state tax satisfies the *Complete Auto* Domestic Commerce Clause test "when the tax is applied to an activity with a substantial nexus with the taxing State, is fairly apportioned, does not discriminate against interstate commerce, and is fairly related to the services provided by the State."

The foreign commerce clause raises two additional considerations beyond those in the commerce clause:

(1) the enhanced risk of multiple taxation; and

¹⁴ 430 U.S. 274, 51 L. Ed 2d 326, 97 S. Ct. 1076 (1977).

¹⁵ 507 U.S. 60, 73 (U.S. 1993).

(2) the possibility that a state tax will "impair federal uniformity in an area where federal uniformity is essential."¹⁶

If the fee is applied to a "process" that is not subject to taxation in a foreign jurisdiction, the proposed fee may avoid the risk of multiple taxation. However, whether the fee might impair federal uniformity of tax treatment of foreign flagged commercial passenger vessels in violation of the foreign commerce clause cannot be ascertained from the current version of the bill.

The tonnage clause prohibits "all taxes and duties regardless of their name or form, and even though not measured by the tonnage of the vessel, which operate to impose a charge for the privilege of entering, trading in, or lying in a port,"¹⁷ and "reliance on tonnage duties to raise general revenues, to regulate trade, or to charge for the privilege of entering, lying in, or trading in a port."¹⁸ The clause permits states to charge for services rendered to a vessel, such as pilotage, wharfage use of locks on a navigable river, or policing of a harbor,¹⁹ or for ensuring the availability of a service, such as fire fighting, even though not every vessel will actually need the service.²⁰ Under a tonnage clause analysis, both the way in which the fee is imposed and the use of the fees collected would be subject to scrutiny.

Without knowing more about how the proposed fee in SB 5207 would be applied, even assuming it is limited to an activity within Washington State, I cannot say whether "it is fairly apportioned, does not discriminate against interstate commerce, and is fairly related to the services provided by the State." A more clear description of the fee and how it will be imposed is also necessary before examining whether the fee may violate the constitutional prohibitions relating to foreign commerce and the import export clause or the tonnage clause. It is just too soon to tell.

Judging from those opposing SB 5207 at its first hearing, I anticipate that a number of groups are standing ready to challenge the fee if the bill is enacted. Those that favor the enactment of the bill look at the bill as a user fee that can be used to provide freight-related congestion relief through the improvement of freight rail infrastructure and state

¹⁶ *Container Corporation of America v. Franchise Tax Board*, 463 U.S. 159, 185 - 86 (1983).

¹⁷ *Clyde Mallory Lines v. Alabama ex rel State Docks*, 296 U.S. 261, 265 (1935).

¹⁸ *New Orleans S.S. v. Plaquemines Port, Harbor and Terminal District*, 874 F.2d 1018, 1023 (5th Cir. 1989).

¹⁹ *Clyde Mallory Lines*, 296 U.S. at 265.

²⁰ *Plaquemines*, 874 F.2d at 1023.

highways that function as freight corridors.²¹ Opponents of the proposed fee are concerned that the fee would divert container freight movement away from Washington ports and result in lost jobs. Opponents also assert that the fee is instead a tax and may be unconstitutional and violative of international treaties.²²

For your information, the following testified for and against the legislation at a public hearing before the Senate Transportation Committee on January 24, 2007:²³

PRO: Larry Pursley, Washington Trucking Association; Doug Levy, Cities of Everett, Kent, Federal Way, Renton and Puyallup.

CON: Mark Johnson, Washington Retail Association; Rich Berkowitz, Transportation Institute; Randy Ray, Pacific Seafood Processors; Jim Wilcox, Wilcox Farms/Washington Food Industry; Pat Jones, Washington Public Ports Association; Tim Farrell, Port of Tacoma; Terry Finn, Port of Seattle; Gordon Baxter, Masters, Mates and Pilots and Inland Boatmen's Union; Larry McKillip, United Transportation Union; Mike Elliot, Brotherhood of Locomotive Engineers; Karol Kingery, Marine Engineers Beneficial Association; Bill Stauffacher, Burlington Northern Santa Fe Railroad; Tom Parker, Union Pacific Railroad; Scott Hazelgrove, Pacific Merchant Shipping Association; Rick Wickman, Columbia River Steamship Operators.

The industry groups opposing the enactment of SB 5207 are similar and made arguments similar to those opposing the enactment of the California container fee that was vetoed by Governor Schwarzenegger. Again, the arguments against the fee include: job losses through loss of container business, the fee is unconstitutional, the fee violates federal limitations on the state taxation of freight carried on navigable waters, the fee conflicts with international treaties, and negative economic impacts on manufacturers, consumers,

²¹ Senate Bill Report, SB 5207 (Jan. 25, 2007). The report was prepared by "non-partisan legislative staff for the use of legislative members in their deliberations." The report is available on the Internet at <http://www.leg.wa.gov/pub/billinfo/2007-08/Pdf/Bill%20Reports/Senate/5207.SBR.pdf> (accessed 1/29/2007).

²² *Id.* I listened to the Senate Transportation Committee Hearing that was streamed on the Internet on January 24, 2007. Opponents were concerned that freight would be diverted to Canadian and Mexican Ports, as well as other ports in Western states that did not have a similar fee. Prince Rupert was mentioned as one possible alternative port that has rail service and could be the transfer point for containers bound for the central part of the United States. The committee hearing may be downloaded from the Internet as an mp3 file at <http://198.239.32.186/Deliberations/2007010156.mp3> (accessed 1/29/2007).

²³ *Id.*

Representative Kyle Johansen

January 31, 2007

Page 7

and farmers. SB 5207 is sponsored by Senators Haugen, Murray, and Spanel; Senator Haugen is the chair of the transportation committee, and Senator Murray is the vice-chair.

Should SB 5207 progress through the Washington Legislature and the details of how the new fee would be imposed be made clear, we may gain greater insight into the specific strengths and weaknesses of the fee when facing a legal challenge.

If I may be of further assistance, please advise.

DMB:med

07-049.med

SENATE BILL REPORT

SB 5207

As of January 25, 2007

Title: An act relating to creating the freight congestion relief account to improve freight corridors with funding from the imposition of a fee on the processing of shipping containers.

Brief Description: Creating and funding the freight congestion relief account for the purpose of improving freight rail systems and state highways used as freight corridors through imposing a fee on the processing of shipping containers.

Sponsors: Senators Haugen, Murray and Spanel.

Brief History:

Committee Activity: Transportation: 1/24/07.

SENATE COMMITTEE ON TRANSPORTATION

Staff: David Ward (786-7341)

Background: The state has identified various and significant transportation projects that support enhanced freight mobility and capacity. Although the state has provided some funding for these projects, the level of funding is insufficient to provide the level of investment necessary to alleviate congestion levels that impact freight mobility and capacity.

Summary of Bill: A fee is imposed on the processing of shipping containers in the ports of Washington State. The fee must be imposed at the rate of \$50 per twenty-foot equivalent unit (TEU) and is payable by the marine terminal operator processing the container. Marine terminal operators may retain 10 percent of the fee to offset costs associated with the proper reporting of the number of TEUs processed. The remainder of the fee must be remitted to the Department of Revenue (DOR).

The Freight Congestion Relief Account is created in the State Treasury. All receipts received by DOR from the imposition of TEU processing fees must be deposited in the account. The account is subject to appropriation, retains 100 percent of the interest income generated by the account, and may only be used to provide freight-related congestion relief through the improvement of freight rail infrastructure and state highways that function as freight corridors.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: There should be a user fee to fund these critical investments and the return on investment should offset the costs. The system that comprises our state's freight infrastructure needs additional investment and, if possible, should include a component that would allow funding for projects adjacent to the state system that can demonstrably show significant ways to improve, link to, or offload pressure on state freight corridors.

CON: Seventy percent of containerized freight moving through Washington's ports is discretionary. Imposition of a fee on the processing of shipping containers will therefore divert container freight movement away from the state's marine ports. Critical family wage jobs will also be lost and a negative ripple effect will be felt throughout the state economy. Such a fee would also impair state export trade and Washington is a highly trade-dependent state. There are additional concerns that the fee is instead a tax and may well be unconstitutional in that it impedes interstate commerce, import/export activity and the movement of containerized cargo as governed by federal law and international treaty.

Persons Testifying: PRO: Larry Pursley, Washington Trucking Association; Doug Levy, Cities of Everett, Kent, Federal Way, Renton and Puyallup.

CON: Mark Johnson, Washington Retail Association; Rich Berkowitz, Transportation Institute; Randy Ray, Pacific Seafood Processors; Jim Wilcox, Wilcox Farms/Washington Food Industry; Pat Jones, Washington Public Ports Association; Tim Farrell, Port of Tacoma; Terry Finn, Port of Seattle; Gordon Baxter, Masters, Mates and Pilots and Inland Boatmen's Union; Larry McKillip, United Transportation Union; Mike Elliot, Brotherhood of Locomotive Engineers; Karol Kingery, Marine Engineers Beneficial Association; Bill Stauffacher, Burlington Northern Sante Fe Railroad; Tom Parker, Union Pacific Railroad; Scott Hazelgrove, Pacific Merchant Shipping Association; Rick Wickman, Columbia River Steamship Operators.

WORK ORDER REQUEST FORM

W.O. 25-LS0432

KEYWORDS: COMMERCE
TAXES
VESSELS

ASSIGNED: Bullock

REQUEST FOR: Research Opinion

TAKEN BY: Weed

SUBJECT: Washington Shipping Container Tax

REQUESTED FOR: REP JOHANSEN

BY: Rep. Johansen

PHONE: 465-3424

DELIVER TO: Rep. Johansen; Cap. 13

INSTRUCTIONS:

Please review the attached Washington state proposed legislation regarding a shipping container tax. Please discuss:

- 1) whether the tax is illegal under any body of federal laws, including the "dormant commerce clause doctrine;"
- 2) whether the state law would be preempted by federal law;
- 3) whether specific products may be preempted by federal laws;
- 4) whether there are other legal theories that would invalidate the tax.

OBTAIN	SPECIAL DRAFTING INSTRUCTIONS ATTACHED [] AUTHORIZED TO CONFER WITH _____ _____
	RETURN _____ _____ TO REQUESTOR
APPROVED <input checked="" type="checkbox"/> DIRECTOR, LEGAL SERVICES	

REVIEWED _____ IN <u>01/23/07</u> DUE _____ TYPED: DRAFT _____ DATE _____ FINAL _____ DATE _____ PROOFED _____ DELIVERED _____	SPECIAL INSTRUCTIONS to TYPING/PROOFING Request for FINAL
--	--

File

MEMO

Dated: January 24, 2007

To: Tamara Cook
Director, Legislative Legal and Research Services

From: Representative Kyle Johansen

Re: Proposed Washington State Shipping Container Tax

Dear Ms. Cook:

In addition to the legal issues discussed in my last memo regarding the proposed shipping container tax in Washington State, please consider the additional legal issues:

- The Port of Seattle being a designated Foreign Trade Zone and whether the imposition of a container tax / fee is allowed
- Whether an Alaska shipper sending goods into the Port of Seattle before further export out of Washington State would have to be exempt from the imposition of a container tax / fee under the Commerce Clause and Equal Protection Clause of the United States Constitution, See, Vinmar Inc., v. Harris County Appraisal District, 947 S.W.2d 554 (Tex. 1997)
- Whether the proposed container / tax fee would violate the import-export clause of the U.S. Constitution, See, Virginia Indonesia Company v. Harris County Appraisal District, 910 S.W. 2d 905 (Tex. 1995)

Cc: Karl Amylon

David Scott

From: Rep. Kyle Johansen
Sent: Wednesday, April 25, 2007 8:51 AM
To: David Scott
Subject: FW: WA Container Tax

From: Shari Gross [mailto:sharigross@sharigross.com]
Sent: Monday, April 23, 2007 9:34 AM
To: Rep. Kyle Johansen
Subject: WA Container Tax

Thanks for meeting with me last week. By way of follow up I thought you'd be interested to note that the Washington State Legislature passed SB 5207 before adjourning for the year. The measure changed significantly from its original form when it was introduced in January.

Let's stay in touch. Please get in touch with me anytime necessary, and also know that Alaska's interests are duly noted by the Port of Tacoma; we will continue our efforts to ensure that Alaska's special stake in the outcome is understood.

Shari Gross Teeple

SB 5207

SB 5207 creates the freight congestion relief account. Dollars from the account may only be used to provide congestion relief through the improvement of freight rail systems and state highways that function as freight corridors. The bill does not define freight corridors and does not fund the account.

SB 5207 requires the Joint Transportation Committee to conduct a study of possible funding mechanisms for this new freight congestion relief account. At a minimum, the study must:

- evaluate federal, state, incentive, and other project specific fees;
- analyze current taxes and fees paid by the freight industry and the projects the taxes and fees fund;
- assess other nonfreight-related fees and taxes that could be used to pay for freight congestion relief investments;
- assess how other states and countries pay for freight congestion relief investments;
- discuss the various approaches and their impacts on Washington competitiveness in freight movement;
- assess the imposition of a shipping container-based fee, port-related user fees, or other funding mechanisms on the demand elasticity of the movement of freight goods through Washington's container ports at various rates as well as forecast diversion of marine cargo at various price points;

- measure the return on investment in freight rail and highway-based infrastructure supported by the user fee and its impact on forecast growth in shipping container traffic and the movement of freight goods; and
- recommend the structure of a future project recommendation body including its membership, process, and selection criteria.

Finally, SB 5207 would create a stakeholder group of representatives of the freight sector to work with the JTC to identify critical freight congestion relief investments; identify alternatives for a dedicated funding source for freight congestion relief investments or user fees to fund specific freight congestion relief investments; and reviewing the final JTC study. Stakeholder group members will include:

- two representatives of container ports;
- one representative of trucking;
- one representative from railroads;
- one representative from international shipping;
- one representative from national shipping;
- two representatives of organized labor;
- two representatives of the import/export community;
- one representative from WSDOT; and
- one representative from FMSIB.

Transportation Budget

The Legislature adopted a transportation budget that provides the full funding promised for projects identified in the Nickel and Transportation Partnership Act (a.k.a. 9 cent gas tax).

The budget also holds forth the promise of new funding three projects during the second half of the biennium, paid for by the freight congestion relief account, provided the Legislature in 2008 adopts the funding recommendations put forward by the JTC.

“New” money in the transportation budget includes:

PROJECT	2008 Funding	Total Funding
SR-167 Extension	\$40 million	\$188.2 million
SR-509 Extension		\$93.9 million
Stampede Pass	\$25 million	\$25 million

No virus found in this outgoing message.

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SUBSTITUTE SENATE BILL 5207

State of Washington**60th Legislature****2007 Regular Session****By** Senate Committee on Transportation (originally sponsored by Senators Haugen, Murray and Spanel)

READ FIRST TIME 03/05/07.

1 AN ACT Relating to a study to evaluate the imposition of a fee on
2 the processing of shipping containers, port-related user fees, and
3 other funding mechanisms to improve freight corridors; creating the
4 freight congestion relief account; reenacting and amending RCW
5 43.84.092; adding a new section to chapter 46.68 RCW; creating new
6 sections; and providing an expiration date.

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

8 NEW SECTION. **Sec. 1.** The legislature finds and declares there is
9 a need to mitigate the enormous burden imposed on the state
10 transportation system by the overland movement of cargo shipped to and
11 from Washington state ports. Accordingly, it is the intent of the
12 legislature to alleviate this burden by studying the imposition of a
13 fee on the processing of shipping containers through those ports. The
14 study shall also examine other similar mechanisms for imposing and
15 collecting port-related user fees, as well as other funding mechanisms.
16 Enactment by the legislature of any funding mechanism identified by the
17 study must require the use of the funds derived therefrom to provide
18 congestion relief through the improvement of freight rail systems and
19 state highways that function as freight corridors.

1 NEW SECTION. **Sec. 2.** Subject to availability of amounts
2 appropriated for this specific purpose, the joint transportation
3 committee shall administer a consultant study to evaluate the
4 imposition of a fee on the processing of shipping containers, port-
5 related user fees, and other funding mechanisms to improve freight
6 corridors for deposit in the freight congestion relief account created
7 under chapter 46.68 RCW.

8 (1) At a minimum, the study must: (a) Assess the imposition of a
9 shipping container based fee, port-related user fees, and other funding
10 mechanisms on the demand elasticity of the movement of freight goods
11 through Washington's container ports at various rates as well as
12 forecast diversion of marine cargo at various price points; (b) measure
13 the return on investment in freight rail and highway-based
14 infrastructure supported by the user fee and its impact on forecast
15 growth in shipping container traffic and the movement of freight goods;
16 (c) recommend the structure of a future project recommendation body
17 including its membership, process, and selection criteria; (d) examine
18 existing data on the health and environmental cost impacts of maritime
19 shipping and the movement of freight goods on air quality near
20 Washington's container ports. The scope of work for the study may be
21 expanded to include analysis of other issues relevant to the imposition
22 of container port-related user fees.

23 (2) The findings and recommendations of the report must be
24 submitted to the transportation committees of the legislature by
25 December 1, 2007.

26 (3) This section expires January 1, 2008.

27 NEW SECTION. **Sec. 3.** A new section is added to chapter 46.68 RCW
28 to read as follows:

29 The freight congestion relief account is created in the state
30 treasury. Moneys in the account may be spent only after appropriation.
31 Expenditures from the account may only be used to provide congestion
32 relief through the improvement of freight rail systems and state
33 highways that function as freight corridors. Expenditures from the
34 account must, at a minimum, include funding for the following projects:
35 State route 519 and associated access to port of Seattle; state route
36 509 connection to I-5 bypassing SeaTac airport; state route 167 port of
37 Tacoma access to I-5 and state route 167 new alignment in Pierce

1 county; I-90 Snoqualmie Pass; grade separations in the East Spokane
2 Valley; increased capacity of Stampede Pass rail corridor; rail
3 bottlenecks and choke points along mainline routes, including but not
4 limited to the Vancouver by-pass project; Kelso-Martin's bluff;
5 Vancouver rail loop; Blakeslee junction and other mainline
6 constrictions; and rail spur lines that support container freight
7 traffic and facilities for container transloading.

8 **Sec. 4.** RCW 43.84.092 and 2006 c 337 s 11, 2006 c 311 s 23, 2006
9 c 171 s 10, 2006 c 56 s 10, and 2006 c 6 s 8 are each reenacted and
10 amended to read as follows:

11 (1) All earnings of investments of surplus balances in the state
12 treasury shall be deposited to the treasury income account, which
13 account is hereby established in the state treasury.

14 (2) The treasury income account shall be utilized to pay or receive
15 funds associated with federal programs as required by the federal cash
16 management improvement act of 1990. The treasury income account is
17 subject in all respects to chapter 43.88 RCW, but no appropriation is
18 required for refunds or allocations of interest earnings required by
19 the cash management improvement act. Refunds of interest to the
20 federal treasury required under the cash management improvement act
21 fall under RCW 43.88.180 and shall not require appropriation. The
22 office of financial management shall determine the amounts due to or
23 from the federal government pursuant to the cash management improvement
24 act. The office of financial management may direct transfers of funds
25 between accounts as deemed necessary to implement the provisions of the
26 cash management improvement act, and this subsection. Refunds or
27 allocations shall occur prior to the distributions of earnings set
28 forth in subsection (4) of this section.

29 (3) Except for the provisions of RCW 43.84.160, the treasury income
30 account may be utilized for the payment of purchased banking services
31 on behalf of treasury funds including, but not limited to, depository,
32 safekeeping, and disbursement functions for the state treasury and
33 affected state agencies. The treasury income account is subject in all
34 respects to chapter 43.88 RCW, but no appropriation is required for
35 payments to financial institutions. Payments shall occur prior to
36 distribution of earnings set forth in subsection (4) of this section.

1 (4) Monthly, the state treasurer shall distribute the earnings
2 credited to the treasury income account. The state treasurer shall
3 credit the general fund with all the earnings credited to the treasury
4 income account except:

5 (a) The following accounts and funds shall receive their
6 proportionate share of earnings based upon each account's and fund's
7 average daily balance for the period: The capitol building
8 construction account, the Cedar River channel construction and
9 operation account, the Central Washington University capital projects
10 account, the charitable, educational, penal and reformatory
11 institutions account, the Columbia river basin water supply development
12 account, the common school construction fund, the county criminal
13 justice assistance account, the county sales and use tax equalization
14 account, the data processing building construction account, the
15 deferred compensation administrative account, the deferred compensation
16 principal account, the department of retirement systems expense
17 account, the developmental disabilities community trust account, the
18 drinking water assistance account, the drinking water assistance
19 administrative account, the drinking water assistance repayment
20 account, the Eastern Washington University capital projects account,
21 the education construction fund, the education legacy trust account,
22 the election account, the emergency reserve fund, the energy freedom
23 account, The Evergreen State College capital projects account, the
24 federal forest revolving account, the freight congestion relief
25 account, the freight mobility investment account, the freight mobility
26 multimodal account, the health services account, the public health
27 services account, the health system capacity account, the personal
28 health services account, the state higher education construction
29 account, the higher education construction account, the highway
30 infrastructure account, the high-occupancy toll lanes operations
31 account, the industrial insurance premium refund account, the judges'
32 retirement account, the judicial retirement administrative account, the
33 judicial retirement principal account, the local leasehold excise tax
34 account, the local real estate excise tax account, the local sales and
35 use tax account, the medical aid account, the mobile home park
36 relocation fund, the multimodal transportation account, the municipal
37 criminal justice assistance account, the municipal sales and use tax
38 equalization account, the natural resources deposit account, the oyster

1 reserve land account, the pension funding stabilization account, the
2 perpetual surveillance and maintenance account, the public employees'
3 retirement system plan 1 account, the public employees' retirement
4 system combined plan 2 and plan 3 account, the public facilities
5 construction loan revolving account beginning July 1, 2004, the public
6 health supplemental account, the public works assistance account, the
7 Puyallup tribal settlement account, the real estate appraiser
8 commission account, the regional mobility grant program account, the
9 resource management cost account, the rural Washington loan fund, the
10 site closure account, the small city pavement and sidewalk account, the
11 special wildlife account, the state employees' insurance account, the
12 state employees' insurance reserve account, the state investment board
13 expense account, the state investment board commingled trust fund
14 accounts, the supplemental pension account, the Tacoma Narrows toll
15 bridge account, the teachers' retirement system plan 1 account, the
16 teachers' retirement system combined plan 2 and plan 3 account, the
17 tobacco prevention and control account, the tobacco settlement account,
18 the transportation infrastructure account, the transportation
19 partnership account, the tuition recovery trust fund, the University of
20 Washington bond retirement fund, the University of Washington building
21 account, the volunteer fire fighters' and reserve officers' relief and
22 pension principal fund, the volunteer fire fighters' and reserve
23 officers' administrative fund, the Washington fruit express account,
24 the Washington judicial retirement system account, the Washington law
25 enforcement officers' and fire fighters' system plan 1 retirement
26 account, the Washington law enforcement officers' and fire fighters'
27 system plan 2 retirement account, the Washington public safety
28 employees' plan 2 retirement account, the Washington school employees'
29 retirement system combined plan 2 and 3 account, the Washington state
30 health insurance pool account, the Washington state patrol retirement
31 account, the Washington State University building account, the
32 Washington State University bond retirement fund, the water pollution
33 control revolving fund, and the Western Washington University capital
34 projects account. Earnings derived from investing balances of the
35 agricultural permanent fund, the normal school permanent fund, the
36 permanent common school fund, the scientific permanent fund, and the
37 state university permanent fund shall be allocated to their respective

1 beneficiary accounts. All earnings to be distributed under this
2 subsection (4) (a) shall first be reduced by the allocation to the state
3 treasurer's service fund pursuant to RCW 43.08.190.

4 (b) The following accounts and funds shall receive eighty percent
5 of their proportionate share of earnings based upon each account's or
6 fund's average daily balance for the period: The aeronautics account,
7 the aircraft search and rescue account, the county arterial
8 preservation account, the department of licensing services account, the
9 essential rail assistance account, the ferry bond retirement fund, the
10 grade crossing protective fund, the high capacity transportation
11 account, the highway bond retirement fund, the highway safety account,
12 the motor vehicle fund, the motorcycle safety education account, the
13 pilotage account, the public transportation systems account, the Puget
14 Sound capital construction account, the Puget Sound ferry operations
15 account, the recreational vehicle account, the rural arterial trust
16 account, the safety and education account, the special category C
17 account, the state patrol highway account, the transportation 2003
18 account (nickel account), the transportation equipment fund, the
19 transportation fund, the transportation improvement account, the
20 transportation improvement board bond retirement account, and the urban
21 arterial trust account.

22 (5) In conformance with Article II, section 37 of the state
23 Constitution, no treasury accounts or funds shall be allocated earnings
24 without the specific affirmative directive of this section.

--- END ---

impossible for the average worker or small business owner to decipher. The result is that claims stay open longer, on average, than almost any other jurisdiction. Claims managers need to spend more time talking with doctors, workers, and employers, and less time shuffling paper. The employer community will submit legislation to simplify the disability wage process, and we believe that a hearing will be conducted on this bill.

4. Workers are not empowered. Nearly every other state allows workers who are receiving disability benefits to voluntarily close the claims in exchange for a lump-sum payment and indefinite free medical treatment for the injury or occupational disease, but the powerful labor union and trial lawyer lobbies here will not allow such an option. Worker-choice bills will not receive a hearing this session. Instead, legislators will consider an expanded vocational rehabilitation program that would allow workers an opt out provision.

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Container Tax Meets Stiff Resistance from Business, Labor

"It's less than a box of apples or a couple bales of hay," Sen. Mary Margaret Haugen (D-Camano Island) said of her proposed \$50 per twenty-foot equivalent unit (TEU) container tax during Wednesday's public hearing on SB 5207.

While that may not sound like much to the Senator, it adds up to substantial losses for Washington farmers.

A small hay operation we contacted exports about 80 forty-foot containers per month. The proposed fee would cost that farmer \$96,000 per year. The cost to a mid-sized agricultural commodity trader we spoke with that ships some 7,200 forty-foot containers and 7,000 twenty-footers annually would face more than \$1 million in added fees if Sen. Haugen's bill is enacted.

Dozens of witnesses signed in to testify against the bill. So many, in fact, that the Committee only allowed a few panels to be heard. The ports, retailers, Teamsters, Longshoremen and other maritime union representatives expressed their opposition to the bill. The only group to testify in support was the trucking industry.

Haugen, the Senate Transportation Chair, asked the audience if a \$20 rate would be more acceptable. Farm Bureau will continue to oppose SB 5207 even at \$20 per TEU because it threatens the viability of Washington's agricultural industry, which depends heavily on exporting its products to global markets.

Back to the top

House Examines Commercial Trucking Regulations

On Wednesday, Jan. 24, the House Transportation Committee heard HB 1304, sponsored by Rep. Ruth Kagi (D-Lake Forest Park). The measure is the result of a study group that met during the past year to determine how to improve the safety of commercial vehicles. Unfortunately, in drafting the bill, an existing agricultural vehicle exemption was deleted. The unique use of farm vehicles needs to be considered as the final version of the bill is crafted. We have been assured this was an oversight, so we are hoping to work with the bill sponsors and all interested parties to ensure that the agricultural exemption is reinstated.

ALASKA STATE CHAMBER OF COMMERCE

Resolution 2007-001

A resolution of the Alaska State Chamber of Commerce opposing a bill to impose a fee on the processing of shipping containers in the State of Washington

WHEREAS, Washington State has been the primary gateway to Alaska before the first gold rush, more than 100 years ago; and

WHEREAS, Alaskans today depend on ships and barges leaving Washington State to move most necessities of daily life, and

WHEREAS many isolated Alaskan coastal communities without road access depend entirely on marine cargo shipped from Washington State for life sustenance; and

WHEREAS 97 percent by weight and 60 percent of the value of all goods shipped to Alaska are shipped via water from Washington State; and

WHEREAS most seafood harvested in Alaska and bound for market is shipped from Alaska to and through ports in Washington State, and

WHEREAS, the most recent data available from 2003, reports that the economic trade connection with Alaska and Puget Sound created at least 103,500 jobs and over \$4,000,000,000 in labor earnings. Aside from the aerospace industry, Alaska was Puget Sound's fifth largest trading partner; and

WHEREAS, Senate Bill 5207, a bill pending before the Washington State Legislature, imposes a fee of \$50 for each twenty-foot equivalent unit (TEU) on every cargo container traveling between Washington State and Alaska; and

WHEREAS, most cargo containers are at least two twenty-foot equivalent units and would be subject to a fee of \$100 each time the container leaves Washington State and each time the container returns to that state, regardless of whether the container is empty, partially loaded, or full; and

WHEREAS Senate Bill 5207 would be detrimental to the trading relationship between Alaska and Washington State; and

WHEREAS, because of Alaska's unique dependence on ports in Washington State, enactment of Senate Bill 5207 would damage Alaska's economy and cripple many isolated communities in Alaska by raising the cost of living significantly; so

NOW, THEREFORE, BE IT RESOLVED that the Alaska State Chamber of Commerce respectfully requests that the Washington State Legislature recognize the significant negative impact Senate Bill 5207 would have on the State of Alaska and the trading relationship between Washington State and Alaska; and

BE IT FURTHER RESOLVED that the Alaska State Chamber of Commerce opposes Senate Bill 5207, strongly urges the Washington State Legislature to consider alternative revenue sources for resolving Washington's freight mobility issues.

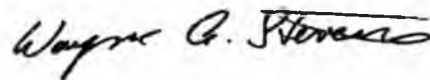
Signed this 13th day of February 2007

ALASKA STATE CHAMBER OF COMMERCE



Joe Marushack
Chair

ATTEST:



Wayne A. Stevens
President/CEO

COPIES of this resolution sent to:

Senator Mary Haugen, Chair, Senate Transportation Committee
The Honorable Chris Gregoire, Governor of Washington State
The Honorable Brad Owen, Lieutenant Governor of Washington State
Senator Rosa Franklin - President Pro Tempore
The Honorable Frank Chopp, Speaker of the Washington House of Representatives
Don Brunell, President/CEO, Association of Washington Business
The Honorable Sarah Palin, Governor of Alaska
The Honorable Ted Stevens, U.S. Senator
The Honorable Lisa Murkowski, U.S. Senator,
The Honorable Don Young, U.S. Representative

OCEANBEAUTY

SEAFOODS.INC

Representative Kyle Johansen
Alaska State House of Representatives
Chairman, House Transportation Committee
State Capitol
Juneau, Alaska 99801

Dear Representative Johansen and Members of the House Transportation Committee:

Ocean Beauty Seafoods supports HJR8, the resolution opposing the proposed container fee bill in the Washington State legislature.

Alaskans need to do everything in their power to make sure the Washington lawmakers are fully aware of the impact their "Tax on Alaska" would have on Alaskans and the Alaska economy. HJR8 is a big step in that direction.

Ocean Beauty moved more than 2111 TEU's between Seattle and Southeast Alaska in 2006. That equates to a fee of \$105,550 that our company alone would have had to pay. We simply cannot be competitive against farmed and foreign fish with that much increase in our transportation costs.

We urge you to pass HJR8 and send a loud message to the Washington state legislature that their bill, SB 5207 would have a major affect on the Alaskan economy, Alaska businesses, and Alaskan consumers.

Sincerely,

Mark Palmer

Mark Palmer

cc. Representative William Thomas

DEWITT & DEWITT LLC

PO Box 34761
Juneau, AK 99803-4761

February 10, 2007

The Honorable Bill Thomas
Alaska State Legislature
State Capitol Building
Juneau, Alaska 99801-1182

RE: HJR 8

Dear Representative Thomas.

On behalf of the Alaska Chapter of the National Federation of Independent Business (NFIB), I wish to express our support for House Joint Resolution 8. The Alaska Chapter of the National Federation of Independent Business has 2,500 members, making it the largest small-business advocacy group in the state.

HJR 8 correctly requests the Washington State Legislature not adopt an added fee on all cargo containers shipped to and from Washington ports as proposed by Senate Bill 5207. Such a fee would significantly increase the transportation costs of most good coming to Alaska. The added cost of exports from Alaska going through Washington ports would competitively disadvantage our products in the marketplace.

We have additional concerns that the fee is instead a tax and may well be unconstitutional in that it impedes interstate commerce, import/export activity and the movement of containerized cargo as governed by federal law and international treaty.

NFIB appreciates your willingness to call this issue to the attention of Alaska's State Legislature and our Congressional Delegation. The negative effects of such an increase in transportation costs would have a significantly negative impact on both businesses and consumers in Alaska.

Sincerely Yours,



Dennis L. DeWitt
State Director
National Federation of Independent Business

cc: House Transportation Committee
House Labor & Commerce Committee

TIES THAT BIND



The Enduring Economic Impact of Alaska on the Puget Sound Region

Commissioned by:

Tacoma-Pierce County Chamber of Commerce

Greater Seattle Chamber of Commerce

Author:

Robert A. Chase

Huckell/Weinman Associates, Inc.

September 2004

Acknowledgements

Project Co-Chairs:

Renata Benett, Manager of Market Research, Totem Ocean Trailer Express, Inc.
Shari Gross Teeple, President, Gross & Associates

Technical Oversight Committee Chair:

Doug Ljungren, Business Planning Manager, Port of Tacoma,

Technical Oversight Committee Members:

Renata Benett, Manager of Market Research, Totem Ocean Trailer Express, Inc.
Richard Berkowitz, Director, Pacific Coast Operations, Transportation Institute
Gary Brackett, Manager, Business and Trade Development, Tacoma-Pierce County Chamber of Commerce
Suzanne Lagoni, Partner, Nexus Northwest
Jim Odom, President, Odom Corporation
Scott Pattison, Senior Business Development Manager, Port of Seattle
Jim Pedersen, Vice President, Lynden Logistics
Edward Richardson, Economist, At-Sea Processors Association
Shari Gross Teeple, President, Gross & Associates

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Bruce Sherman and Joel Christman

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Alaska Crab Coalition	Kenworth Northwest, Inc.
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At-Sea Processors Association	Nexus Northwest, LLC
Alaska Airlines, Inc.	Northland Services
American Shipping Group	Odom Corporation
Arctic Slope Regional Corp.	Pacific Seafood Processors Association
Blue Cross Blue Shield of Alaska	Port of Seattle
Bowhead Transportation	Port of Tacoma
Canadian Consulate General	Samson Tug & Barge
Capital Office Systems	Sherman Communications
Carlisle Transportation	Transportation Institute
ConocoPhillips	Totem Ocean Trailer Express, Inc.
Graham & Dunn pc	University of Alaska Fairbanks
Gross & Associates	VECO
Horizon Lines	Western Pioneer
Icicle Seafoods	Wells Fargo - Alaska

On the cover:

Photo illustration shows Alaska's Mount McKinley, above,
and Washington's Mount Rainier, as a reflection below.
Credit: Kevin McGowan, Strode McGowan Photography

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Executive Summary: Highlights of Major Findings

Alaska's economic relationship with the Puget Sound region is expanding, evolving, and enduring.

In this era of multi-national trade agreements, trade among states is seldom considered. Most companies' products and services are bought and sold within the local area or state or perhaps a nearby state and are not destined for foreign markets. The domestic market is the critical measure for many companies.



The TOTE ship Midnight Sun's maiden voyage. Photo by Davelle Riker, TOTE.

The Alaska trade is different, as Puget Sound and Alaska represent key markets for their respective resident companies. This economic interdependency now goes well beyond a century to when Puget Sound acted as provisioner for miners hoping to strike it rich in the Klondike.

Puget Sound is the primary gateway for Alaska. Proximity to one another helps, but over the decades, the connection has evolved, matured and grown, benefiting residents, workers, and companies within Alaska and Puget Sound.

This study — now in its third edition since 1985 — underscores what is increasingly clear: the economic ties between Puget Sound and Alaska are bound tightly. The economic relationship between the regions is growing stronger and deeper.

Some highlights from the latest study assessing the 2003 economic relationship include:

- The economies of Alaska and Puget Sound have been counter-cyclical, making the trading partnership a welcome economic asset for Puget Sound, especially as a stimulus that helps offset regional downturns.
- The most important direct impact of Alaska on the Puget Sound economy is the market it provides for regionally-produced exports. As a destination for all merchandise goods exports except aerospace, Alaska ranks fifth among all of its trading partners. In 2003, exports to Alaska from Puget Sound were valued at \$3.77 billion, an increase of over 53 percent from the previous study findings in 1994.
- The value of exports tell the story of the maturing relationship between Alaska and Puget Sound. Of the total, a small increase in Puget Sound manufacturing exports is due in part to Alaska's growing population base. That base supports more "home-grown" products than in the past. A large increase in exports of services, however, reflects Alaska's transformation into a service-based economy that wants and needs specialized banking, accounting, legal, engineering, management, educational, and medical services available in the Puget Sound area.
- Puget Sound exports of goods and services to Alaska directly impact the regional economy. In addition, Puget Sound-based fishing, seafood processing and petroleum refining industries make use of Alaska natural resources. Now, over 46,000 jobs in Puget Sound companies are directly dependent upon the export trade with Alaska.
- The growth in jobs from the Alaska-Puget Sound trade relationship between 1994 and 2003 is substantial—equal to attracting a 1,000-employee company to the region each year.

- The comprehensive economic connection between Alaska and Puget Sound is immense. Indirect impacts arise in two ways. The first source is industries that do not export to Alaska, but provide other firms or industries with inputs needed to produce exports. Thus they benefit from the Alaska trade, even though they are not a direct partner. The second source of indirect impact arises from the spending of income earned by employees in export industries and export-serving industries. Such consumer spending produces an important ripple effect. Because of this, the Alaska connection affects every part of the Puget Sound economy. Today, over 103,000 jobs in Puget Sound are directly or indirectly tied to Alaska.
- The Puget Sound has always been the primary gateway to Alaska. This connection continues to grow and is a good barometer of the Alaska-Puget Sound economic relationship. By dollar value, about three-fifths of the goods reach Alaska by water and two-fifths by air or truck via the Alcan Highway. By weight, 97 percent of the goods go by water.
- The Alaska cruise industry has enjoyed phenomenal growth in recent years. And while most of the ships still depart from Vancouver, B.C., a significant and growing number now sail from Seattle. This is particularly important because Puget Sound benefits from provisioning ships and spending by cruise ship guests when they visit Seattle. The number of cruise line passengers departing from Puget Sound for Alaska has risen from 14,000 in 1994 to 550,000 in 2004.
- Petroleum remains a hub of the Alaska-Puget Sound economic relationship, though the volume has declined in recent years. In 2003, \$2.8 billion of Alaska crude oil came to Puget Sound refineries. Direct impact of this trade includes 1,990 jobs and 144.5 million in labor earnings.
- The Bering Sea and Gulf of Alaska provide more than half the total U.S. fishing harvest. While the value of the fishing harvest has declined from previous highs, fishing remains a vital link in Alaska-Puget Sound trade.
- As Alaska's economy diversifies and matures, its need for business services ranging from advertising to architecture rises. Computer software represents the most rapidly growing Puget Sound-based service sector.
- Traditionally, Alaskans have benefited from a windfall of federal spending, an economic sector that is on the rise again after a brief decline. The federal government spends more per capita on Alaska than on any other state, and accounts for 38 percent of Alaskans' personal income. Puget Sound benefits substantially from this windfall. In 2003, Puget Sound's exports to Alaska related to federal spending amounted to \$86 million and created 1,295 jobs.

Puget Sound and Alaska are more than just healthy trading partners. Together they help one another excel in the good times and weather the bad times. Each fills significant economic needs of the other.

Introduction

Context and Background of Study

Trade between regions is a great generator of economic stability that spurs commerce and creates jobs.



The Fairbanks Provider rail barge with container racks, providing weekly scheduled service to Whittier, Alaska, sails out of Elliott Bay. Photo courtesy of Lynden Inc.

This report updates a periodic analysis of trade between Alaska, by far the nation's largest state, and the Puget Sound region, with its densely populated urban corridor from Bellingham to Tacoma.

First completed with data from 1985 and subsequently updated with 1994 data, these studies illustrate the economic importance of Alaska within the trade equation on Puget Sound. The initial report quantified for the first time the magnitude of the Alaska-Puget Sound link. In 1985, this Alaska impact generated some 57,000 jobs in Puget Sound, based on \$1.6 billion worth of export activity from Puget Sound businesses (Table 1). In 1994, over 90,000 jobs with \$2.4 billion in Puget Sound exports were directly tied to trade with Alaska. For 2003, the Alaska-Puget Sound economic connection has grown to some 103,500 jobs, with \$3.8 billion of Puget Sound-based exports.

Table 1. Summary Economic Impacts of Alaska on Puget Sound, 1985, 1994, and 2003

Measure	1985	1994	2003
Exports (Millions of Current \$)	\$1,629.1	\$2,388.9	\$3,768.5
Direct Jobs	30,978	36,531	46,138
Direct Labor Earnings (Millions of Current \$)	\$671.9	\$1,334.7	\$2,151.8
Total (Direct and Indirect) Jobs	56,973	90,098	103,518
TOTAL (Direct and Indirect) Labor Earnings (Millions of Current \$)	NA	\$2,923.2	\$4,316.0

Note: Direct earnings for 1985 are estimated; Total earnings for 1985 were unreported.

Puget Sound has often been described as more dependent on foreign trade than any region in the nation. This updated analysis is intended to show the continued importance of domestic trade between Alaska and Puget Sound. It also provides another point of reference, or updated benchmark, to compare data and trends over nearly two decades. As in previous studies, this 2003 study was commissioned by the Alaska Committees of the Chambers of Commerce of Tacoma and Seattle, together with the Ports of Seattle and Tacoma and private business firms with operations in Puget Sound and Alaska.

The link to Alaska has long been a significant asset of the Puget Sound economy and is one of the oldest and most enduring Pacific Rim relationships in the U.S. Alaska's economic history has often been described in terms of dramatic eras.

The first was the Klondike gold rush era that began in 1898, with Puget Sound serving as the supply center and staging area, a role it continued to play for the fur trade and other resource-based industries after the gold ran out.

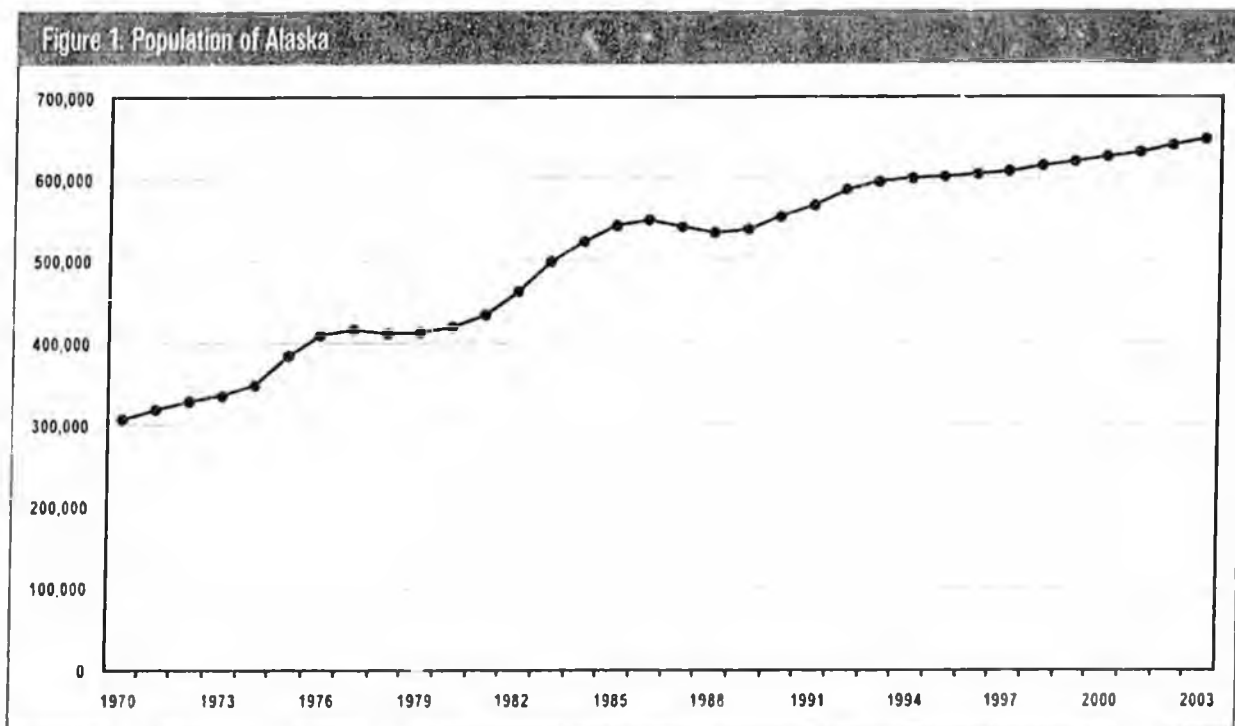
Next came the military era that began with the World War II build-up and continued throughout the Cold War. Because of their unique and linked geographic position, Alaska and Puget Sound were the sites for a network of military bases and a high level of per capita defense spending in this era.

The third "energy" era began with the discovery in 1967 of the Prudhoe Bay oil field, which became the largest producing field in North America. The petroleum era hit full stride with completion of the Trans-Alaska Pipeline System (TAPS) in 1977 at a cost of \$8 billion. The stimulus of the pipeline project and the flow of oil from Prudhoe Bay to Valdez, and then to refineries via tanker, had significant economic impacts on Puget Sound.

Alaska is now in a fourth era — one based on a more diversified, service-based economy. Alaska's economy, in part, mirrors the national transformation from a goods-producing, manufacture-based economy to one that increasingly provides services. Tourism, health care, professional services, and retail trade are now the dominant sectors in the Alaskan economy. In 2003, 80 of Alaska's top 100 employers were in service-providing sectors (Fried, 2004).

In its economic evolution, Alaska still retains elements of bygone eras — natural resources of fishing, forestry, and mining; military and government; and energy production. Traditional resource-based industries, particularly fishing and forestry, have been in decline but remain critical economic lifelines in Southeast Alaska and other coastal communities. Alaska continues to be highly dependent upon federal government spending, which supports one-third of all jobs in the state. Alaska's economic base — activities that generate domestic and foreign exports outside the state — still remains dominated by oil.

It is tempting and in some ways valid to use these eras to portray the Puget Sound-Alaska partnership. Yet, amidst the dramas of gold, war, oil and government, the regions have forged a less-spectacular tie involving the broad range of economic linkages that now exist between them. This has led over the decades not only to economic growth for both regions, but also to population growth rates in excess of the national average (Figure 1). Jobs, added by the successful businesses and industries that are based in Alaska and Puget Sound, have given those who want to pursue their dreams a practical basis for doing so.



Source: U.S. Census Bureau

Alaska—A Unique State

Alaska is an exceptional state, with a wealth of natural resources that is especially notable when measured against its relatively small population. Much of the state's economic history has focused on resource-related opportunities, from the Klondike Gold Rush of the 1890s to the discovery of oil on the North Slope in 1967. At the same time, the 49th state is by far the nation's largest with great expanses of rugged wilderness and more than 6,000 miles of coastline. Vast distances lie between Alaska and much of the United States.

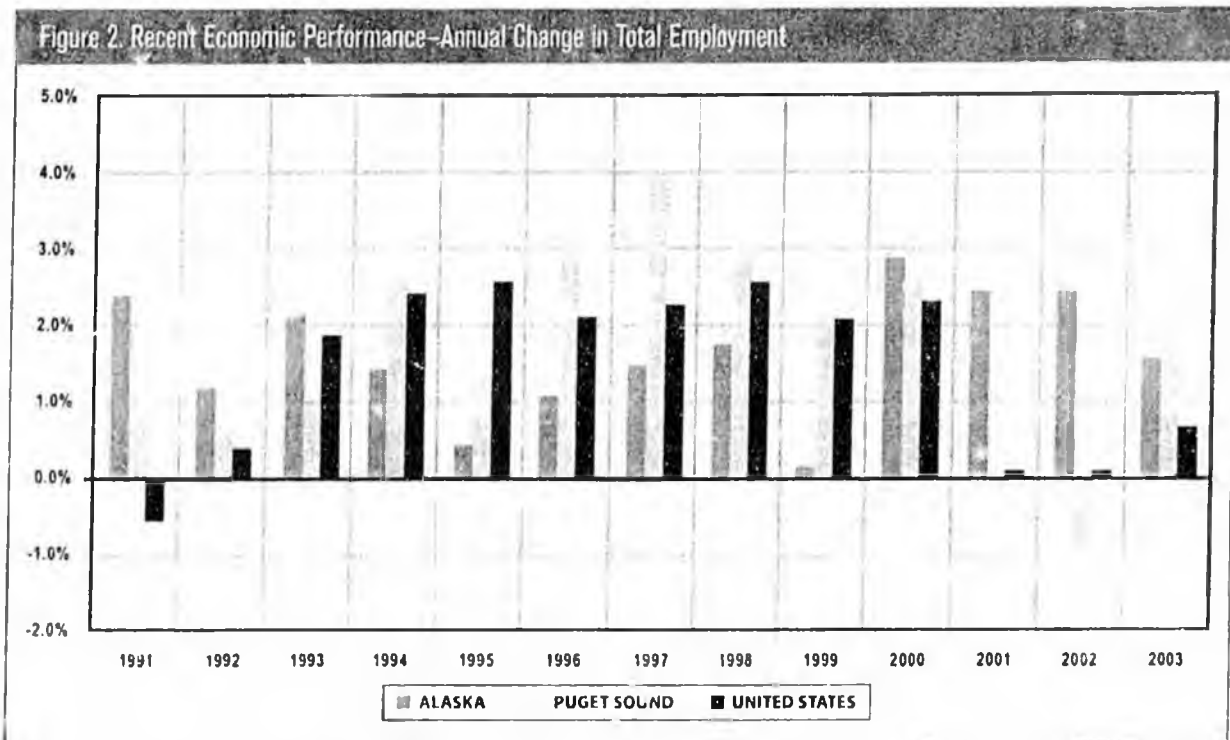
Alaska's land mass of nearly 572,000 square miles is by far the largest among all states; one out of every six square miles in the United States is in Alaska. Over 95 percent of Alaska land is owned by federal and state government—more than any other state.¹ Two-thirds of Alaska is owned by federal government agencies such as the Bureau of Land Management, Forest Service, and National Park Service. Federal government ownership and influence is felt throughout Alaska.

¹In comparison, only 42 percent of Washington state's land mass is under federal and state government ownership. In Puget Sound, federal and state ownership is approximately 52 percent.

Alaska is a state of migrants. Only 38 percent of Alaskans were born in the state — the smallest percentage in the country. The military, with its regular rotation of troops and families, is a major stimulus to migration to and from Alaska. Migration patterns are mostly explained by the presence or lack of economic prosperity. The most common origins and destinations for Alaska migrants are other western states. The Puget Sound counties of King, Pierce, and Snohomish are among the leading counties providing the largest number of people moving to Alaska as well as the leading destinations for people leaving the state (Williams, 2004).

A compilation of data from 1985, 1994, and 2003 shows the evolution and growth of this special connection. While there is evidence that Alaska is producing some goods and services that were previously imported, demand for Puget Sound products has continued to increase. That demand has increased most rapidly in sophisticated product and service lines that are detailed below.

Figure 2 compares the recent performance of Alaska, Puget Sound and the U.S. in creating jobs. Each of the components has experienced the business cycle in distinct ways since 1990. In the early 1990s, Alaska boomed while Puget Sound and the nation were mired in either low growth or recession. The mid-to-late 1990s were less robust for the Alaska economy, compared to booming Puget Sound and national economies. Since 2000, as both the national and Puget Sound economies were in recession, Alaska recovered to the point of outperforming the nation. This counter-cyclical pattern makes the Alaska partnership a welcome economic asset for Puget Sound, especially as a stimulus that helps offset regional downturns.



Sources: U.S. Bureau of Economic Analysis; Alaska Department of Labor and Workforce Development, Research and Analysis Section; Washington Department of Employment Security, Labor Market and Economic Analysis Branch.

Table 2 shows the portion of total employment coming from each major sector in Alaska and the United States. Alaska diverges sharply from national norms in four sectors: government, mining, fishing, and manufacturing.

Table 2. Alaska and United States, Percent Share of Employment

Sector	1985		1994		2003	
	Alaska	U.S.	Alaska	U.S.	Alaska	U.S.
Services	20.4%	25.1%	24.7%	29.5%	27.1%	35.3%
Government	29.1%	15.5%	27.1%	14.9%	24.5%	14.0%
Federal, Civilian	5.4%	2.4%	5.0%	2.1%	4.3%	1.8%
Federal, Military	8.5%	2.2%	7.6%	1.7%	5.7%	1.3%
State and Local	15.2%	10.8%	14.6%	11.2%	14.5%	10.9%
Retail Trade	13.6%	16.3%	15.4%	16.7%	15.3%	14.3%
Finance, Insurance and Real Estate	7.3%	7.6%	4.8%	7.4%	5.8%	8.6%
Transportation and Utilities	6.5%	4.7%	7.6%	4.8%	8.0%	3.6%
Construction	8.0%	5.2%	5.0%	5.1%	5.3%	5.9%
Manufacturing	4.1%	15.9%	5.2%	13.1%	4.2%	11.1%
Fishing, Farming and Forestry	4.6%	3.7%	4.2%	3.3%	4.4%	2.4%
Mining	3.5%	1.1%	3.3%	0.6%	2.9%	0.5%
Wholesale Trade	2.9%	4.9%	2.6%	4.6%	2.5%	3.7%
TOTAL Employment (M & MM)	318.1	124.5	365.7	145.2	420.4	168.1

Notes: Total employment includes full and part-time wage and salaried workers, self-employed and unpaid family workers; in Alaska, total employment is in thousands (M); in U.S., total employment is in millions (MM). Sectors are ranked based on 2003 percent share of employment for Alaska. 2003 percents are estimates. Source: U.S. Bureau of Economic Analysis

Historically, government has had an expansive role in the Alaska economy. About one out of every four workers is employed at some level of government in Alaska. Local government — including local public education and native government — is Alaska's largest employer. Alaska far and away leads all other states in per capita federal and state government support. Taxes on oil account for 85 percent of the state's general fund revenues, and all of the contributions to the Alaska Permanent Fund Corporation's assets (\$26 billion); a portion of the Fund's earnings are distributed annually in the form of a dividend to all Alaska residents.

Mining and fishing have historically been an important source for employment and expenditures in Alaska. These natural resource-based sectors — largely dependent upon volatile economic swings — still account for a sizable portion of the Alaskan economy.

By contrast, Alaska's manufacturing employment share is less than 40 percent of the national average. This is despite the state's economic emphasis on construction and resource extraction, industries that require a significant level of manufacturing inputs for production.

In sectors where Alaska employment shares are low relative to the national average, Puget Sound often makes up the shortfall in required goods and services because of its proximity and economies of scale. This is clearly the case in manufacturing. The number of people in Puget Sound producing manufactured goods for Alaska is one-third as large as the number of such jobs in Alaska itself. The Puget Sound share of those jobs is down sharply from 1985 when the ratio was four Puget Sound jobs for every five Alaska jobs in manufacturing. Despite the overall decline, Puget Sound manufacturers have experienced gains vis-à-vis Alaska, particularly in the natural resource-related industries of seafood processing, lumber and wood products, pulp and paper; and petroleum refining.

Alaska-Puget Sound—A Unique Relationship

Alaska and Puget Sound remain strong, consistent trading partners and continue to enjoy one of the oldest Pacific Rim trading relationships. Puget Sound has long served as a preferred source of supply for basic products and as a distribution point for national and world marketing of Alaska goods. The basic logic to this link is that Puget Sound combines geographic proximity with economies of scale in producing a wide range of goods and services required by Alaskans.

The basis for trade has always been one of comparative advantage, the notion that any region enjoys the highest economic return when it concentrates on the output it can produce at greatest relative advantage and imports what can be produced at greatest relative advantage elsewhere. While self-sufficiency has sometimes been pursued by nations as a political goal, it is rarely the wisest course of economic action. Specialization and the related division of economic activities create mutual benefit among trading regions, leading to a higher standard of living and, in the case of Alaska and Puget Sound, a healthy degree of interdependence.

Puget Sound is often cited as the most foreign-trade dependent region in the United States. While foreign exports and imports capture the most attention in Puget Sound's leading gateway port facilities, the Alaska link continues to advance with increased jobs and the labor income connected with it.

The beneficial economic relationship Alaska and Puget Sound enjoy endures, expands, and evolves. Both Alaska and Puget Sound have transformed from goods-producing to services-providing economies. Increased diversification and changing dependencies in both economies continue to affect trade between Alaska and Puget Sound.

Principal Findings

On a per capita basis, Puget Sound is the nation's leading region in foreign export sales (U.S. Census Bureau, 1998). Domestic trade with Alaska also plays a crucial role in the region's economy

The most important direct impact of Alaska on the Puget Sound economy is the market it provides for regionally-produced exports. As a destination for all merchandise goods² exports except aerospace, Alaska ranks fifth among all of its trading partners. The value of these exports — a key measure of the partnership from a Puget Sound perspective — is shown in Table 3. "Value of export" means the sale price at the point of production in Puget Sound. Any added charges for shipping are included separately as a transportation export.

Table 3. Puget Sound Exports to Alaska: 1985, 1994 and 2003

Sector	Value of Exports (Millions of Current \$)			1994-2003 Percent Change
	1985	1994	2003	
Manufacturing	\$735.4	\$816.8	\$971.0	18.9%
Services	\$111.6	\$307.1	\$675.3	119.9%
Transportation	\$576.3	\$894.3	\$1,503.2	62.1%
Trade	\$166.2	\$296.2	\$429.4	45.0%
Finance, Insurance, Real Estate	\$35.2	\$59.7	\$82.0	37.4%
Agriculture, Forestry, Mining	\$4.4	\$9.8	\$13.4	37.0%
Other	NA	\$5.0	\$94.1	NA
TOTAL	\$1,629.1	\$2,388.9	\$3,768.5	54.1%

Notes: Due to incomplete data within the "Other" category for 1994, the total percent change does not include the "Other" sector. "Other" includes construction and communications. "Services" includes business and professional services, personal services; education, social and health services, legal services, and others.

Percentage changes in the value of exports tell the story of the maturing relationship. The small increase in Puget Sound manufacturing exports is due in part to Alaska's growing population base. That base supports more "home-grown" products than in the past, including printing and publishing, fabricated metals, cement and concrete, food processing, chemicals, and refined petroleum products. The large increase in services reflects Alaska's transformation into a service-based economy that wants and needs specialized banking, accounting, legal, engineering, management, educational, and medical services. Top end services tend to be concentrated in a few regional centers to a greater degree than manufacturing, and Seattle has long served as a key service supplier not only to Alaska but for much of the quadrant of the Lower 48 west of Minneapolis and north of San Francisco.

Adjusted for inflation, the real annual growth rate of the total value of Puget Sound exports to Alaska between 1994 and 2003 was 6.3 percent. The stagnant growth in the value of manufacturing exports is offset by robust growth in services. Inflation-adjusted growth of exports for transportation, trade, and finance-insurance-real estate was in the 4 to 7 percent range annually over the nine-year period. These sectors provide one of the best indicators of the evolving and expanding relationship between Alaska and Puget Sound. As both partners increase in population and economic power, their broad-based "quiet connection" continues to grow across the economy, though its importance is often obscured by dramatic policy issues and cyclical swings related to resource development.

²Merchandise goods refers to those products, supplies, raw materials, wares, and commodities that are movable. See appendix for glossary of terms.

Puget Sound exports of goods and services to Alaska directly impact the regional economy. Table 4 shows the direct impacts of jobs and labor earnings in Puget Sound from these regional exported goods and services to Alaska. In addition, Puget Sound-based fishing, seafood processing and petroleum refining industries make use of Alaska natural resources.

Table 4. Direct Alaska Job and Labor Earnings Impacts on Puget Sound, 1985, 1994 and 2003

Sector	Labor Earnings (Millions of Current \$)			Jobs			Percent Change in Jobs 94-03
	1985	1994	2003	1985	1994	2003	
Export-related	\$465.7	\$765.6	\$1,427.9	20,826	23,192	32,349	33.9%
Goods and Services, Total	\$320.5	\$487.5	\$965.7	15,952	16,478	23,772	36.4%
Manufacturing	\$172.0	\$167.9	\$233.5	6,110	4,717	4,926	4.4%
Trade	\$62.7	\$117.4	\$194.7	4,155	4,490	5,607	24.9%
Services	\$62.9	\$179.1	\$446.3	4,092	6,632	11,108	67.5%
Finance, Insurance and Real Estate	\$20.9	\$18.4	\$36.6	1,447	479	651	35.9%
Agriculture, Forestry and Mining	\$1.2	\$3.3	\$5.0	139	134	146	9.0%
Construction	NA	NA	\$47.1	NA	NA	1,295	NA
Utilities and Communication	\$0.8	\$1.4	\$2.5	9	26	38	46.2%
Transportation	\$145.2	\$278.1	\$462.2	4,874	6,714	8,578	27.8%
Resource-related	\$206.6	\$569.1	\$885.6	10,151	13,341	13,171	-1.3%
Fisheries, Total	\$155.0	\$464.5	\$670.9	8,574	11,536	10,094	-12.5%
Fishing Fleet	\$125.0	\$386.6	\$492.5	6,000	8,726	5,950	-31.8%
Seafood Processing	\$30.0	\$77.9	\$186.3	2,574	2,810	4,144	47.5%
Petroleum Refining, Total	\$51.6	\$104.6	\$140.8	1,577	1,805	1,990	10.2%
Passenger Cruise	NA	NA	\$74.0	NA	NA	1,087	NA
TOTAL	\$672.3	\$1,334.7	\$2,313.65	30,977	36,533	45,520	18.1%

Notes: Earnings for fishing fleet and seafood processing are estimated for 1985; cruise-related impacts not available for 1985 and 1994. Due to incomplete data in 1994 for construction and passenger cruise industry, total percent change does not include these categories.

The growth in jobs from the Alaska-Puget Sound trade relationship between 1994 and 2003 was substantial — equal to attracting a 1,000-employee company to the region each year.

Table 5 shows the total direct and indirect economic impact of Alaska on Puget Sound. This is the most comprehensive measure of the Alaska connection to the Puget Sound economy. Indirect impacts arise in two ways. The first source is industries that do not export to Alaska, but provide other firms or industries with inputs needed to produce exports. Thus they benefit from the Alaska trade, even though they are not a direct partner.

Table 5. Total (Direct + Indirect) Alaska Job and Labor Earnings Impacts on Puget Sound: 1985, 1994 and 2003

Sector	Earnings (Millions of Current \$)			Jobs			Percent Change in Jobs 94-03
	1985	1994	2003	1985	1994	2003	
Export-related	\$771.5	\$1,589.6	\$2,582.5	38,852	53,436	63,619	16.2%
Goods and Services, Total	\$599.7	\$1,250.5	\$2,057.5	32,907	44,889	53,671	16.1%
Manufacturing	\$216.7	\$235.9	\$326.8	7,871	6,696	6,973	4.1%
Trade	\$130.8	\$298.6	\$475.0	8,675	13,697	16,276	18.8%
Services	\$178.0	\$503.3	\$899.5	11,220	19,199	23,343	21.6%
Fin., Insur. and Real Estate	\$53.3	\$137.3	\$197.6	3,710	3,562	3,513	-1.4%
Ag., Forestry and Mining	\$7.6	\$14.5	\$17.7	637	425	427	0.4%
Construction	\$6.0	\$11.0	\$71.6	240	366	1,969	NA
Utilities and Communication	\$7.3	\$49.9	\$69.3	554	944	1,170	24.0%
Transportation	\$171.8	\$339.1	\$525.0	5,945	8,547	9,948	16.4%
Resource-related	NA	NA	\$1,733.6	18,121	36,661	39,899	-0.4%
Fisheries, Total	NA	\$1,082.6	\$1,154.1	12,262	29,788	26,929	-9.6%
Fishing Fleet	NA	\$756.8	\$529.8	9,245	22,094	12,071	-45.4%
Seafood Processing	NA	\$325.8	\$624.3	3,017	7,694	14,858	93.1%
Petroleum Refining, Total	NA	\$251.0	\$419.7	5,859	6,873	9,569	39.2%
Cruise-related, Total	NA	NA	\$159.8	NA	NA	3,401	NA
TOTAL	NA	\$2,923.2	\$4,316.0	56,973	90,097	103,518	9.4%

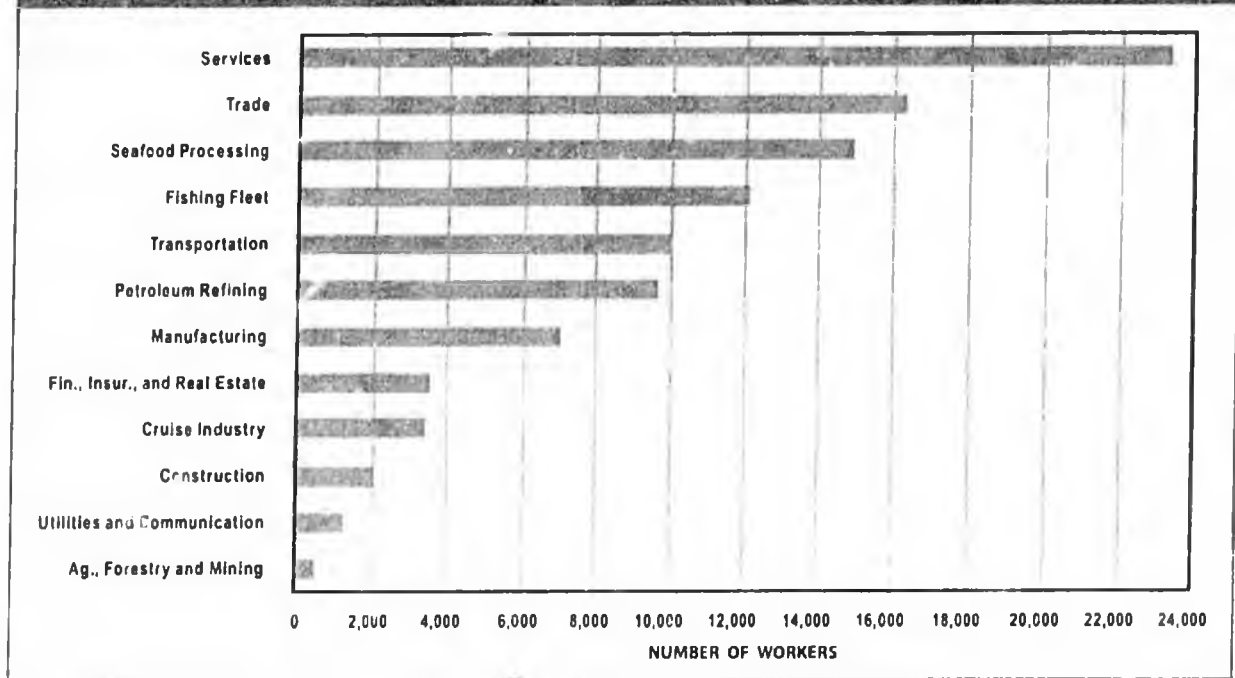
Notes: Total earnings in 1985 were not reported for resource-related sectors. Only indirect earnings and jobs for construction were reported in 1985 and 1993. Due to incomplete data for construction and cruise industry in 1994, the total percent change does not include these sectors.

The second source of indirect impact arises from the spending of income earned by employees in export industries and export-serving industries. Such consumer spending produces an important ripple effect. Because of this, the Alaska connection affects every one of the 62 economic sectors covered by the Puget Sound Input-Output model. An export may be defined simply as any sale to a buyer outside the region. Export industries create powerful leverage by drawing fresh infusions of wealth into the region. This leverage is the most powerful example of the "multiplier effect," the ability of one form of economic activity to ripple through the economy as income and purchasing power are circulated.

There are other Alaska-related impacts that do not fit neatly into Table 5, including the more than \$500 million spent each year by Alaskans when they visit Puget Sound. For example, the Puget Sound region (notably Seattle) is headquarters for the federal government's Region X (Alaska, Oregon, Washington, and Idaho). Regional headquarters of various federal agencies generate some 350 Alaska-related jobs, with estimated earnings of \$15 million.

The portion of direct to indirect jobs varies widely by sector. For example, 38 percent of Puget Sound service industry jobs linked to Alaska are in firms exporting services directly. The remaining 62 percent are indirect: jobs in firms that support service exporters, and jobs supported by consumer spending of workers employed by both exporters and support firms.

Figure 3. Total Jobs in Puget Sound Dependent on Trade with Alaska, 2003

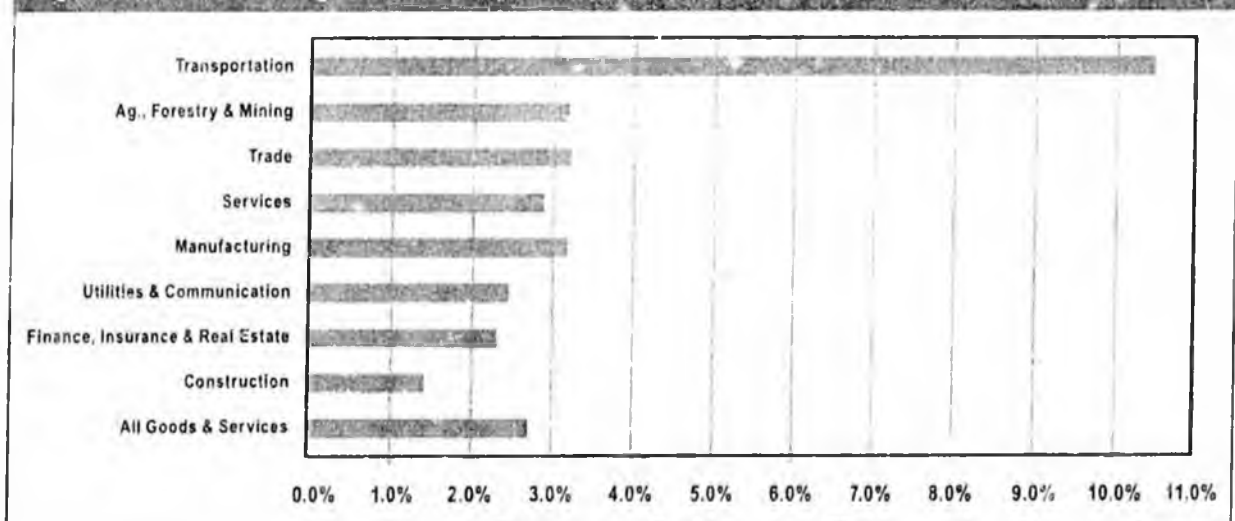


The data presented in Tables 3-5 and Figure 3 measure the impact of Alaska in absolute terms, showing the Alaska-linked portion of the Puget Sound economy as if it were a stand-alone, separate entity. Figure 4 provides perspective on the relative importance of Alaska by showing the share of total economic activity it provides in the Puget Sound region. Across all sectors producing goods and services in Puget Sound, 103,518 jobs, almost 3 percent of the region's jobs, depend on the Alaska export market. A prominent sector is transportation, where nearly 10 percent of all jobs are Alaska-linked. Other major sectors exceeding the 3 percent mark are trade, manufacturing, and natural resources.

The share of Puget Sound jobs that are created by exports to Alaska are an important element in a diversified regional economy. It also generates a crucial margin of jobs, equal in size to the entire labor force that resides in the combined cities of Bellevue and Kirkland.

Two Puget Sound industries, petroleum and fishing, rely on Alaska-based resources. In these sectors, Puget Sound relies on Alaska as a source of raw material – 87 percent in petroleum refining and 85 percent in fishing and seafood processing. In the case of petroleum industries, Alaska provides a resource that is replaceable by other suppliers. By contrast, the Alaska fisheries are unique and irreplaceable, at least for Puget Sound-based fishing fleets and seafood processors.

Figure 4. Percent of Total Puget Sound Jobs Dependent on Alaska Export Trade, 2003



Sectoral Analyses

TRANSPORTATION

Of the 95,003 transportation sector jobs in Puget Sound, 10.5 percent are related to trade with Alaska. In 2003, transportation sector exports to Alaska from Puget Sound totaled more than \$1.5 billion, generating 9,948 total jobs and over \$525 million in labor earnings. The detail for this sector is shown in Table 6.

Table 6. Alaska-Related Puget Sound Transportation Impacts, 1994 and 2003

Mode/Function	1994			2003		
	Exports (\$ Millions)	Jobs	Labor Earnings (\$ Millions)	Exports (\$ Millions)	Jobs	Labor Earnings (\$ Millions)
Railroad Transport	\$0.0	1	\$1.8	\$0.0	29	\$2.3
Local Transport	\$0.0	202	\$5.5	\$0.0	254	\$8.3
Trucking	\$47.4	1,152	\$30.4	\$63.2	1,012	\$40.2
US Postal Service	\$8.8	327	\$13.7	\$12.5	377	\$19.5
Water Transport	\$453.6	3,304	\$145.7	\$819.2	3,108	\$211.6
Air Transport	\$358.9	2,550	\$115.8	\$570.6	4,390	\$201.1
Pipeline	\$0.0	1	\$0.1	\$0.0	2	\$0.1
Transport Services	\$25.7	955	\$26.1	\$37.7	777	\$41.9
TOTAL	\$894.4	8,517	\$339.1	\$1,503.2	9,948	\$525.0

Notes: Transport services includes freight consolidators, freight forwarders, shipping agents, and transport brokers.



A Horizon Lines ship at the Port of Tacoma.
Photo by Kathleen Tomandi, Port of Tacoma.

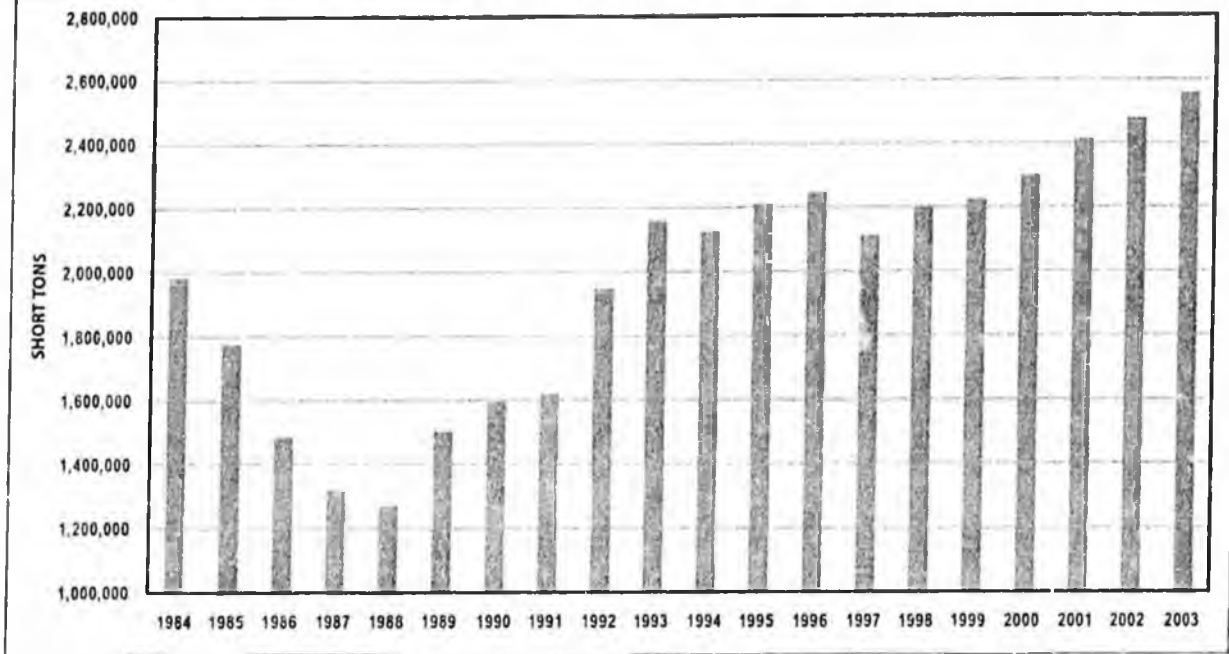
Waterborne Transportation

Waterborne transporters generated more than three fifths of the \$1.5 billion transportation-related export trade to Alaska. By weight, 97 percent of all freight shipments between Puget Sound and Alaska are waterborne. The remaining 3 percent is divided between air freight and cargo transported by truck on the Alcan Highway and the Alaska Marine Highway ferry system.

Figure 5 shows the waterborne freight shipments (northbound) from Puget Sound to Alaska for the 1984-2003 period. The time period begins with high levels of waterborne freight shipments related to the Prudhoe Bay module and trans-Alaska pipeline construction in the early- to mid-1980s. The low levels of activity between 1986 and 1988 coincided with a severe recession and net job declines in Alaska. From that low point in 1988, shipments rebounded 67 percent by 1994, an average growth of 11 percent per year.

Waterborne shipments provide a good barometer for economic conditions in Alaska. For instance, while Puget Sound and national economic growth was robust during the mid- to late 1990s, economic gains in Alaska were only modest. This is illustrated in the container shipments from Puget Sound to Alaska shown in the chart. 1999 marks the beginning of another period of robust growth in waterborne container shipments. In 2003, northbound container shipments from the Ports of Tacoma and Seattle surpassed 2.5 million tons, representing the fourth consecutive year of record tonnage to Alaska. In general, the growth trend in northbound waterborne container shipments reflects the overall economic growth enjoyed by Alaska since 1988.

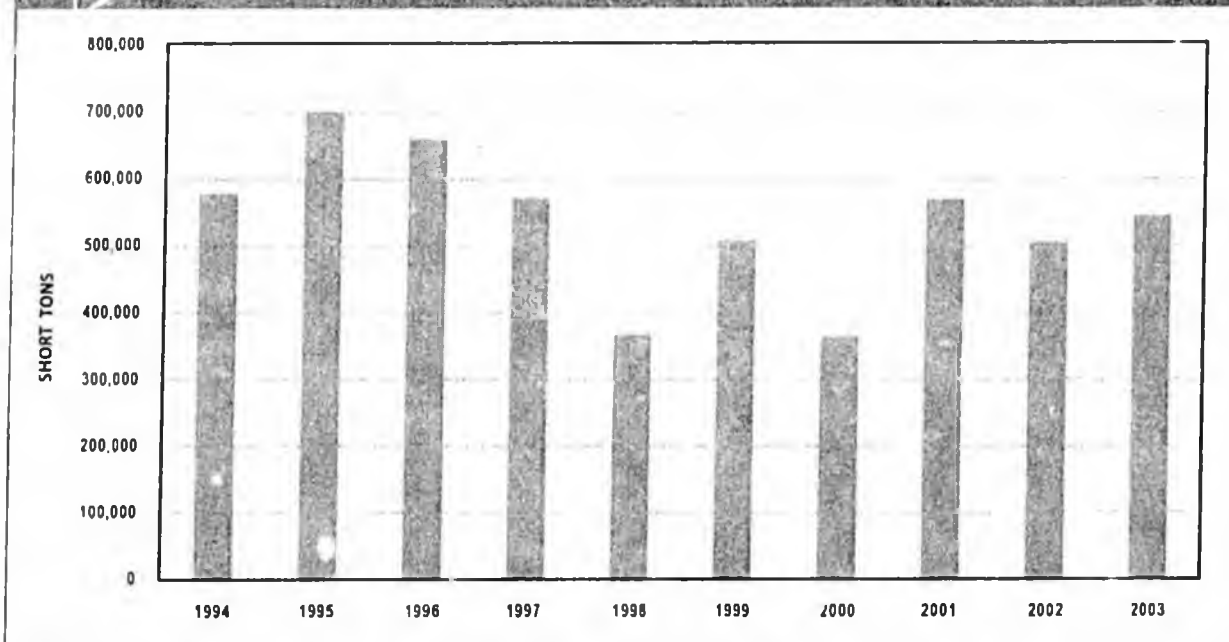
Figure 5. Puget Sound Waterborne Container Shipments to Alaska, 1984-2003



Sources: Port of Tacoma; Port of Seattle; individual vessel and barge lines; Army Corps of Engineers.

Puget Sound-based waterborne shippers also transport bulk commodities to Alaska—from refined petroleum products and chemicals to stone, sand, gravel and metal scrap. Given their volatility, trends in bulk commodity shipments are more difficult to interpret. Over the last ten years, bulk commodity shipments have averaged about 500,000 tons annually, with the lion's share in petroleum products from Puget Sound refineries (Figure 6).

Figure 6. Puget Sound Waterborne Bulk Cargo Shipments to Alaska, 1994-2003



Sources: Port of Tacoma; Port of Seattle; individual vessel and barge lines; Army Corps of Engineers.

In 2003, combined northbound waterborne container and bulk commodity shipments eclipsed the 3 million ton mark for the first time.

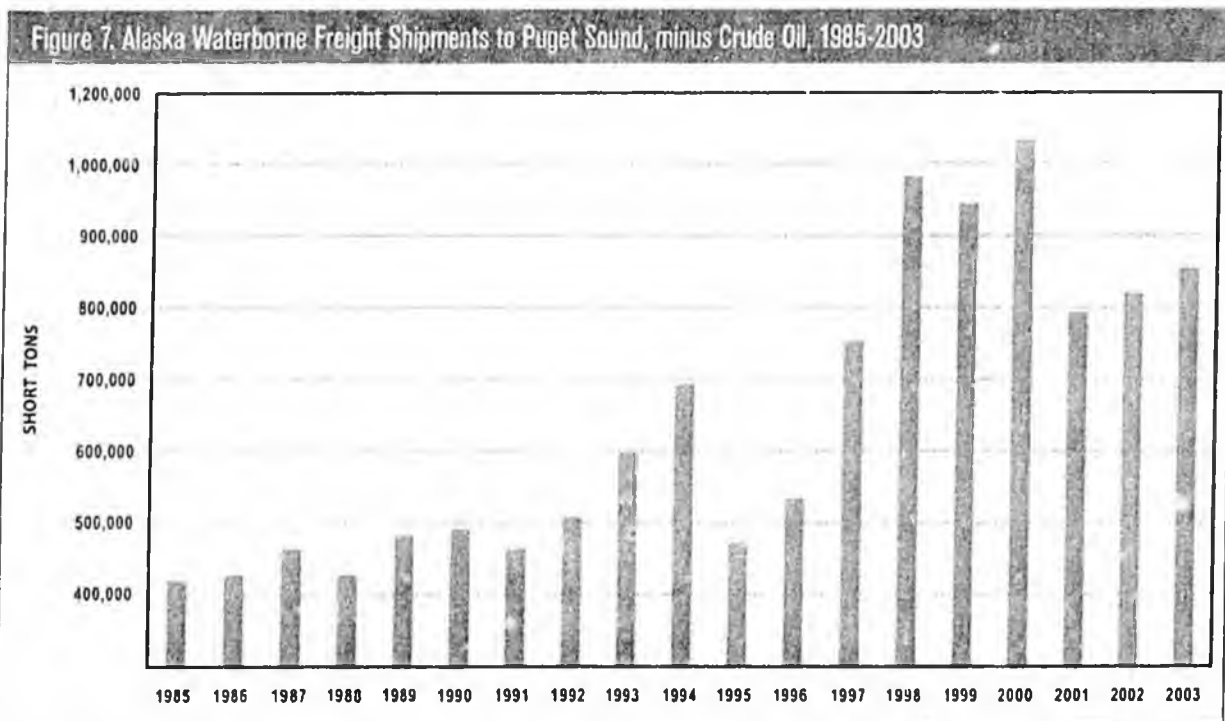
Because of its geographic location, Alaska must import food and food products to an unusual degree. Puget Sound suppliers are a major source of these imports. Other manufactured goods produced in Puget Sound are also included in waterborne cargo shipments, such as department store merchandise, building materials, and vehicles. Although a major supplier of crude oil, Alaska must import some of its refined petroleum products, and Puget Sound is its leading supplier. Puget Sound also serves as the warehousing and distribution center for Alaska. Goods from across the Lower 48 states are consolidated in the Puget Sound region for shipment north (Table 7).

Table 7 Puget Sound Waterborne Cargo to Alaska, 2003

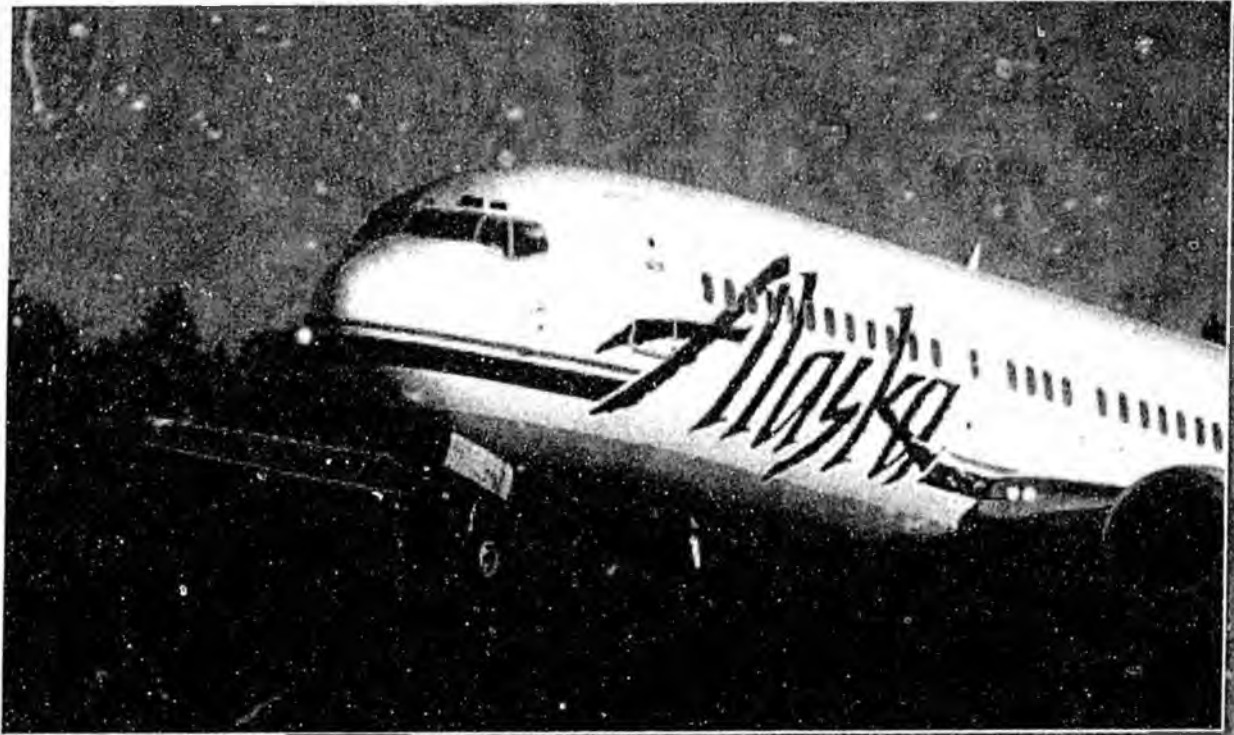
Category	Weight (Short Tons)	Percent of Total
Food Products	818,531	26.4%
General Goods (Including Dept. Store Merchandise)	582,097	18.8%
Petroleum Products	460,050	14.8%
Building Materials	430,175	13.9%
Household Goods	120,969	3.9%
Vehicles	118,068	3.8%
Chemicals	83,521	2.7%
Primary and Fabricated Metals	75,684	2.4%
Military Cargo	37,220	1.2%
Paper and Paperboard Products	26,153	0.8%
U.S. Mail	11,755	0.4%
Other	335,299	10.8%
TOTAL	3,099,521	100.0%

Source: Individual shippers.

Southbound shipments to Puget Sound from Alaska are shown in Figure 7. Although non-crude shipments vary annually, the trend has generally been upward, with an average of close to 1 million tons annually. The bulk of the southbound shipments is seafood products.



Sources: Army Corps of Engineers; individual vessel and barge lines



An Alaska Airlines jet takes off at Seattle-Tacoma International Airport. Photo by Don Wilson, Port of Seattle.

Air Cargo Transport

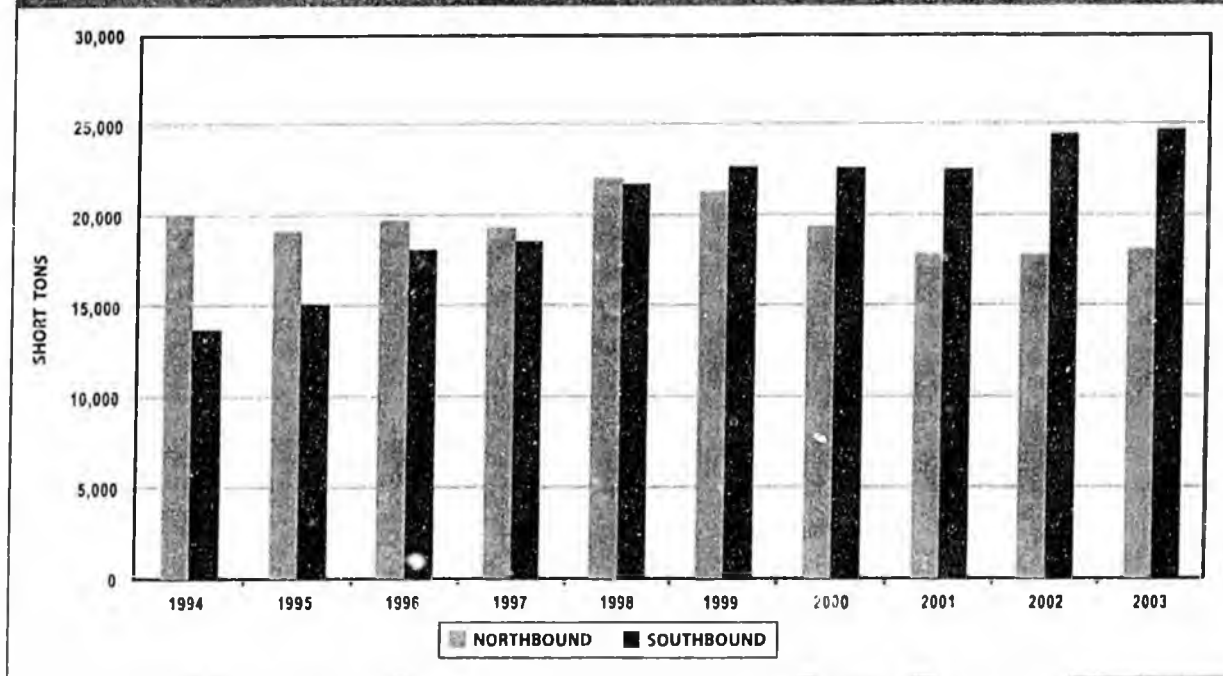
Air transport generated 38 percent of the total transportation export-related revenues of \$1.5 billion in 2003. An estimated \$79.3 million was from air freight and \$491.3 million from passenger travel. Seattle-Tacoma and King County international airports are important staging areas for air cargo destined for Alaska, and air cargo represents a vital link in the transportation chain that supplies Alaska.

Air freight to Alaska includes more than small, high-value-per-pound items. Puget Sound air cargo destined for Alaska also includes fishing nets, diesel engines, construction materials, perishable food products, mail, and medical supplies. For many Alaska communities, air freight is the only shipping service available during several months of the year. For all communities, it is the only source of same-day service and just-in-time inventory.

For firms such as Federal Express, United Parcel Service (UPS), and Airborne Express, the Puget Sound-Alaska air cargo corridor is part of the great circle route to East Asia. This generates a volume of business not enjoyed by less-advantageously located areas of the U.S.

Southbound, a sizable share of air cargo is fresh fish, helping to make Puget Sound the warehousing/distribution hub for Alaska seafood. Figure 8 shows air cargo movement in both directions from a Puget Sound perspective.

Figure 8: Air Cargo Shipments between Puget Sound and Alaska, 1994-2003

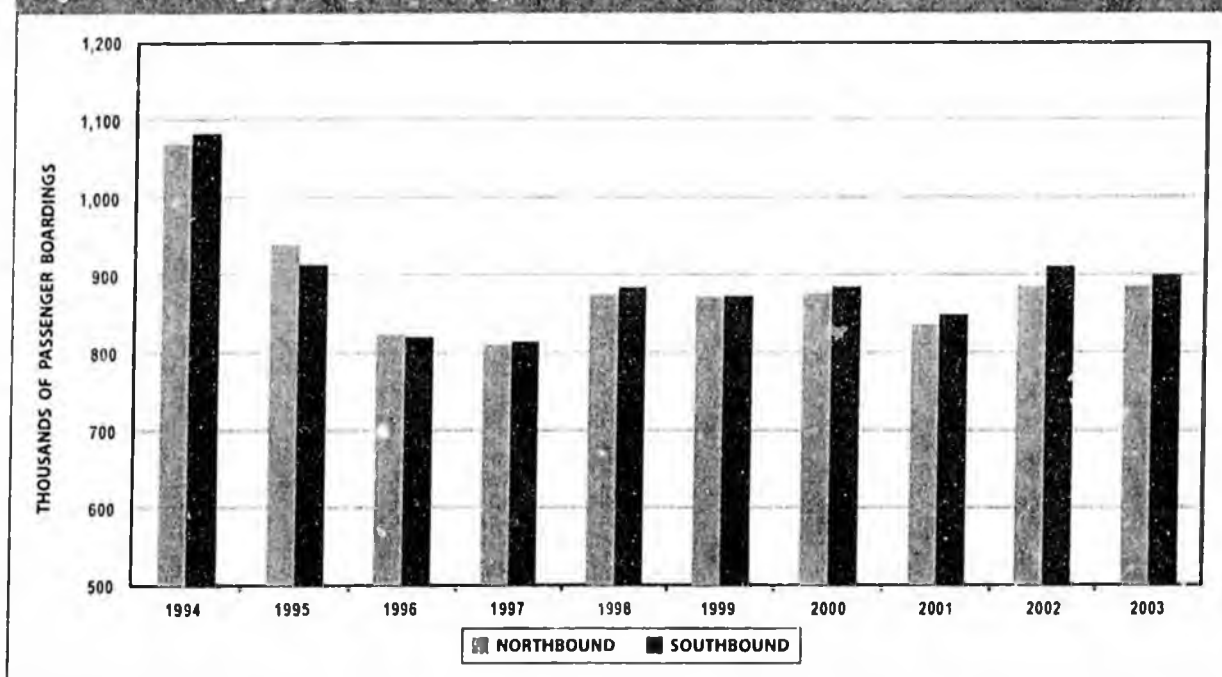


Source: Port of Seattle, Seattle-Tacoma International Airport

Air Passenger Transport

Historically, an outstanding performer in the Alaska-Puget Sound partnership is air travel. Eighty-six percent of the air transport export revenues are due to passenger travel, generating an estimated \$491.3 million in 2003. Seattle-Tacoma International Airport passenger boardings to and from Alaska grew substantially between 1987 and 1994, more than doubling to over 2 million. Since the peak year of 1994, however, total boardings between Puget Sound and Alaska have declined by about 17 percent. Reasons for the decline include restricted business budgets and enhanced communications. Also, improved telecommunications technology and the internet have reduced the need for business travel. Alaska residents accounted for an estimated 300,000 total boardings in 2003 (Figure 9).

Figure 9: Air Passenger Boardings between Puget Sound and Alaska, 1994-2003



Source: Port of Seattle, Seattle-Tacoma International Airport

The Alaska Cruise Industry

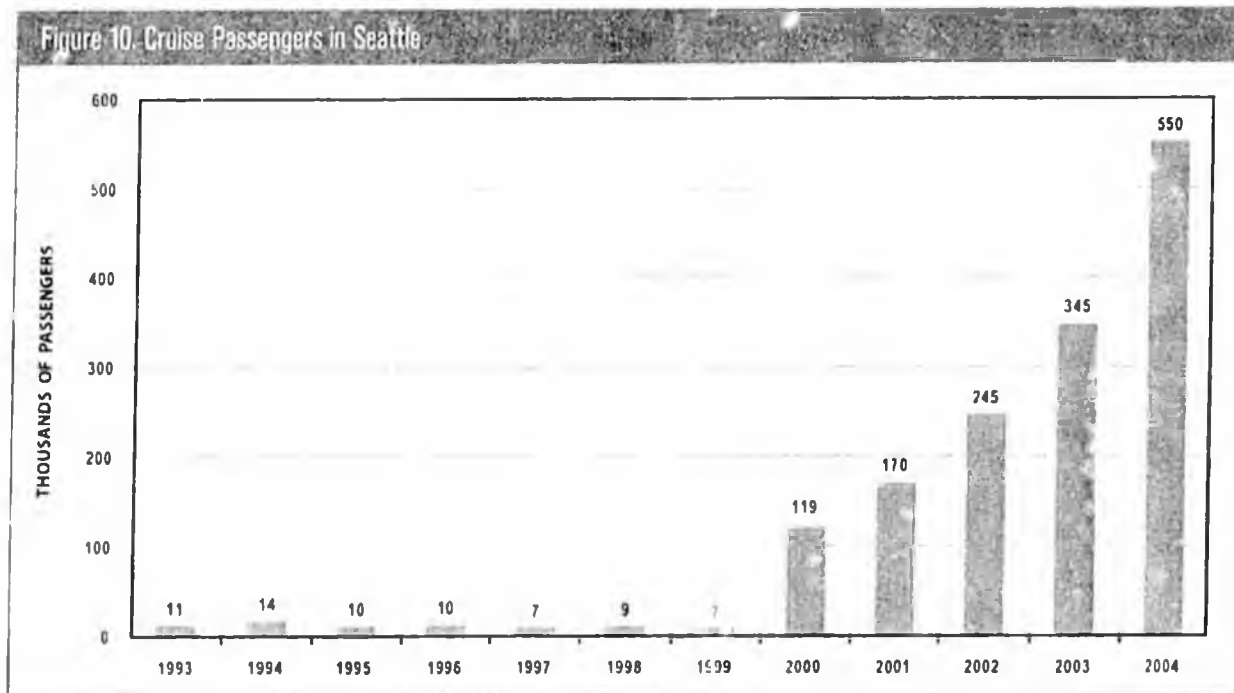
Another important transportation-related link between Puget Sound and Alaska is the Alaska cruise industry. Alaska is now the fourth most popular destination for the burgeoning U.S. cruise industry.

Over the last ten years, the Alaska cruise market enjoyed phenomenal growth, reaching 1.6 million passengers in 2003. A similar pace of growth is projected over the next ten years. One inhibiting factor is that Glacier Bay, the most favored cruise location, has reached the maximum volume of calls under the existing federal permit system. Continued growth in the industry will require a focus on other attractive destinations in Southeast and South Central Alaska.

Although 90 percent of Alaska cruise passengers are U.S. citizens, few large cruise ships are U.S. flagged. Most vessels in this class depart from Vancouver, B.C., where approximately 20 ships provide 250-300 homeport calls annually. In recent years, Seattle has captured a significant portion of this lucrative Alaska cruise industry. The Port of Seattle estimates that in 2004 Alaska cruise vessels will total 150 visits (home port or port of call) with 550,000 passengers (Figure 10).



Cruise Ships at the Port of Seattle's Terminal 30.
Photo by Don Wilson, Port of Seattle.



Note: 2004 is forecast year
Source: Port of Seattle

Even before Seattle's emergence as a port-of-call for cruise ships, Seattle-Tacoma International Airport was the regional gateway for 55 percent of all Alaska cruise passengers arriving into the area. Regional economic benefits of the Alaska cruise industry in those days were meager -- perhaps occasional overnight lodging and related expenditures in Seattle before being bused to Vancouver, B.C., for embarkation.

Seattle is now a significant participant in the Alaska cruise trade. The city receives a growing number of Alaska cruise calls -- 99 calls carrying 345,000 passengers in 2003, compared to only 12 calls with 14,000 passengers in 1994. The vast majority of these port visits are "homeport calls" -- passengers embark and disembark for their cruise and the vessel often takes on supplies and provisions. Seven large luxury liners now call the Port of Seattle home.

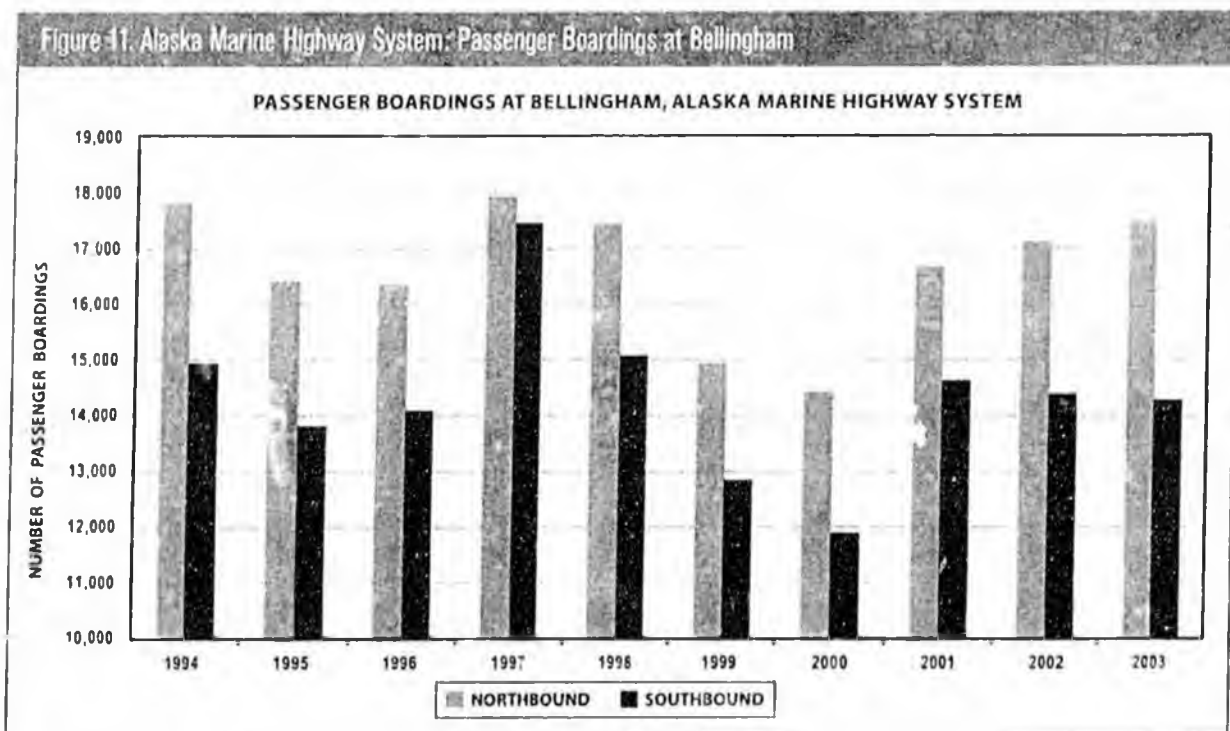
Seattle is home for the administrative offices of both the largest cruise lines, Holland America Line and Princess Cruises, and four U.S.-flag operators with smaller ships, Cruise West, Glacier Bay, American Safari Cruises, and America West Steamboat. These administrative headquarters have a significant share of their administrative employee base linked to the Alaska cruise market and a majority of the crews of the U.S. flag operators are hired locally.

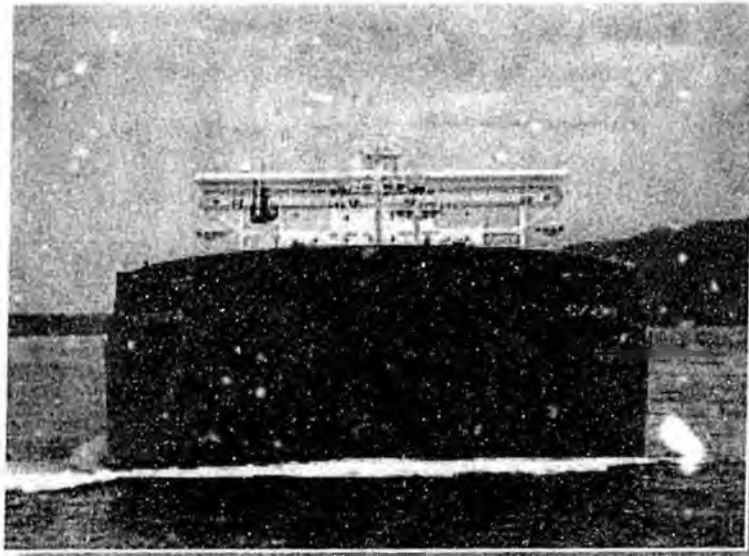
Earlier this year, the Port of Seattle released a comprehensive economic impact study of the Alaska cruise ship industry (John C. Martin Associates, 2004). In that study, it was estimated that Alaska cruise operations create 530 direct jobs with \$13.7 million in wages and salaries. Vessel expenditures in 2003 were estimated at \$55.7 million, and expenditures of Seattle boarding passengers were estimated at \$51 million.

Cruise operators headquartered in Seattle, however, believe these economic impacts are seriously understated in the study. Not included, they say, are the substantial economic benefits derived from locating their headquarters there.

This Chambers of Commerce-sponsored analysis included a portion of the administrative function in the direct impact, which for 2003 amounted to 1,087 employees with \$74 million in wages and salaries. The total economic impact of the Alaska cruise industry adds up to 3,401 jobs with \$159 million in labor earnings.

Another portion of passenger waterborne transport is the Alaska Marine Highway System. With its southern terminus at Bellingham, the Alaska State ferry has about two sailings per week. Figure 11 shows the trend of activity at the Alaska ferry's Bellingham terminal during the 1990s.





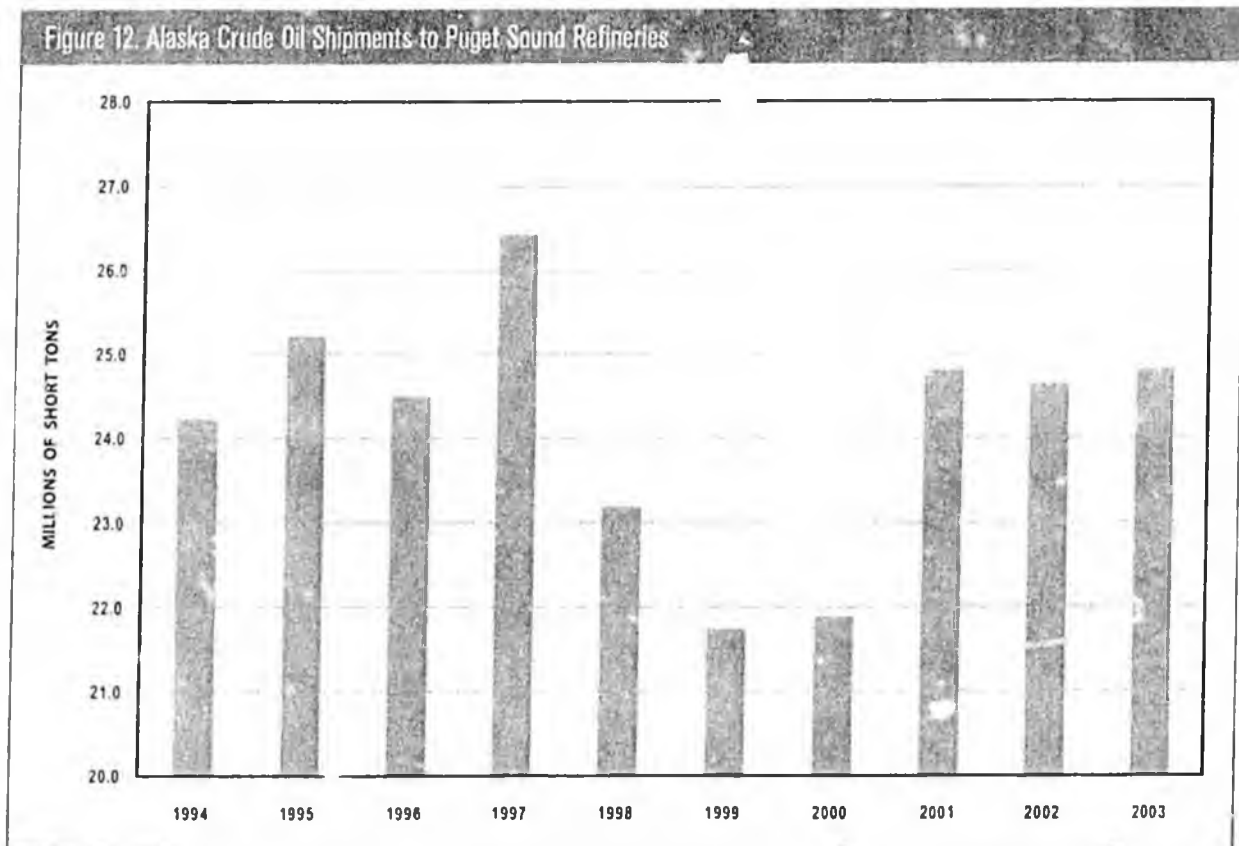
The tanker Polar Endeavour approaches Anacortes, Washington. Polar Tankers Inc. is a wholly owned subsidiary of ConocoPhillips, which operates five ships in the Alaska trade. Photo by Bill Sutton.

Petroleum

Petroleum refining is a major industry in Puget Sound that purchases almost its entire crude oil stocks from Alaska. Direct impacts from the refining of Alaska crude oil within the Puget Sound region include 1,990 jobs and \$144.5 million in labor earnings. In 2003, oil refineries in Puget Sound imported \$2.8 billion worth of crude oil from Alaska. Although no new refineries have been built, refining capacity in the Puget Sound region continues to expand; between 1994 and 2003, capacity increased from 555,000 to 607,950 barrels per day.

With completion of the Trans-Alaska Pipeline (TAPS) in 1977, crude oil shipment volumes to Puget Sound grew steadily, reaching a peak of 26.8 million short tons in 1992. The 24.8 million

tons shipped in 2003 met more than 90 percent of the needs of regional refineries, with the remainder coming from foreign producers via tanker or from Alberta via the Transmountain Pipeline system (Figure 12).

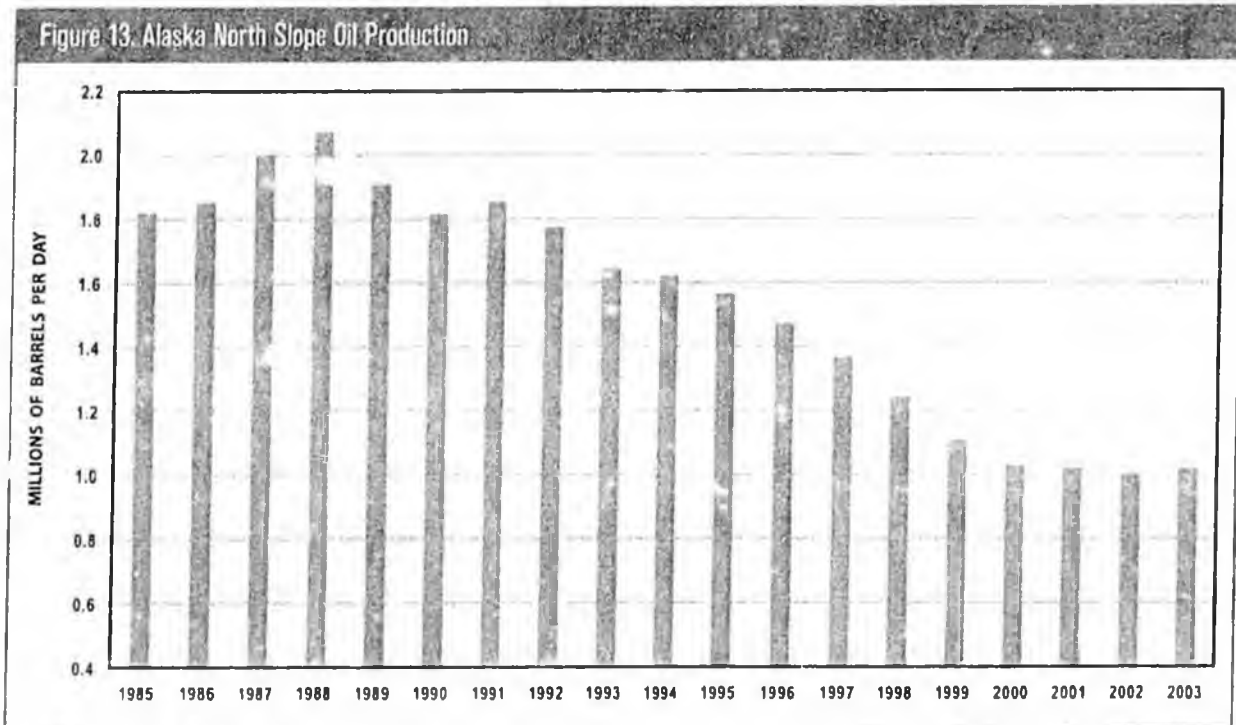


Source: Army Corps of Engineers

As additional North Slope oil fields were brought into operation and their output was added to that of the giant Prudhoe Bay field, crude oil production increased in Alaska until 1988 when it reached 2 million barrels per day. Since then, even as new fields were brought on line, aggregate production has steadily fallen to slightly below one million barrels per day in 2003 (Figure 13).

Enhanced recovery methods and development of marginal fields have slowed the decline of oil production from Prudhoe Bay. Total oil produced from the North Slope is currently at 992,000 barrels per day and is expected to moderate around this level for the next ten years (Alaska Department of Revenue, 2004).

In addition, at \$23.35 per barrel in 2003, the wellhead price of oil was at its highest level since 2001 (Figure 14). A period of high crude oil prices generally provide a stimulus for exploration, development and production on the North Slope and tends to cause companies to increase their capital outlays. In 2004, although the price per barrel is at record highs petroleum companies have not increased capital outlays in Alaska due to other competing worldwide opportunities. However, the extended period of higher prices has provided some stability within the Alaska-based oil and gas industry

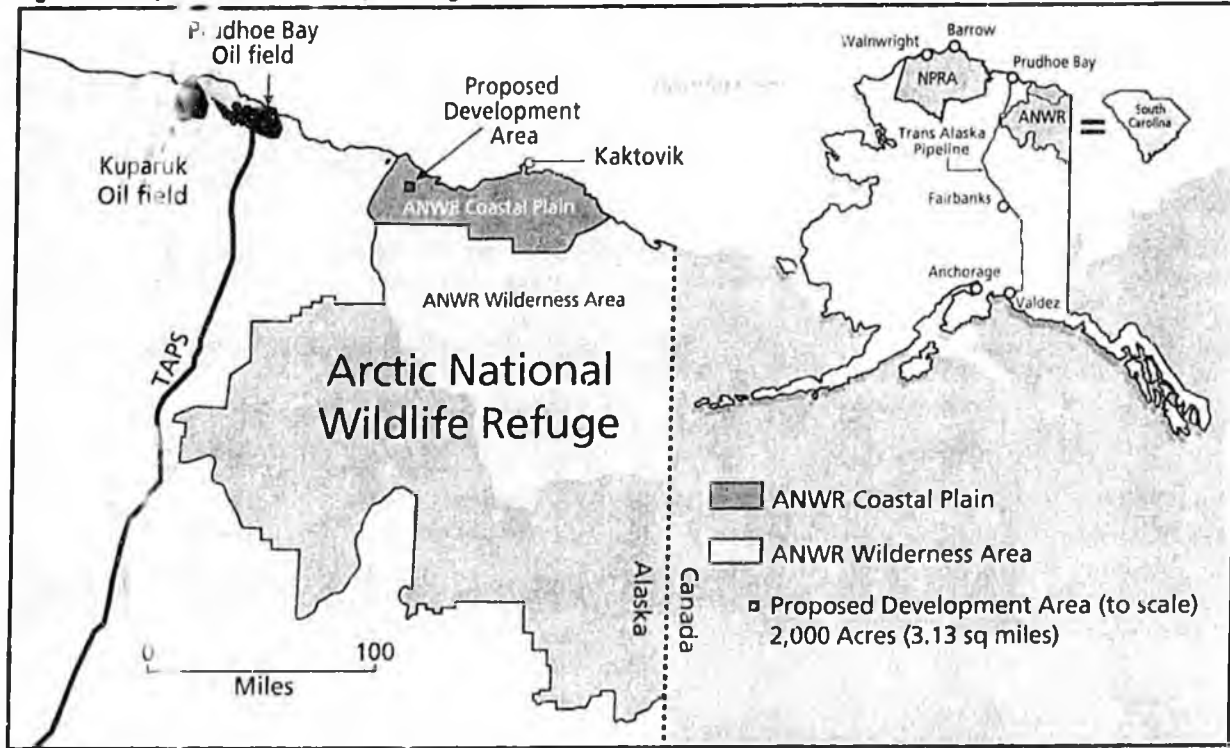


Source: Alaska Oil and Gas Conservation Commission

Future Scenarios for Oil Production in Alaska

Alaska petroleum output is important to Puget Sound in several ways. Most obviously, Alaska crude is a raw material for Puget Sound refineries. In addition, Puget Sound ports have served as staging areas for oil-related construction projects on Alaska's North Slope, particularly during periods of vigorous exploration and development. Perhaps most significantly, oil-boostered state spending stimulates Alaska's economy, increases the purchasing power of its residents, and increases demand for Puget Sound goods and services. Since the 1970s, oil revenue has comprised nearly 85 percent of the state general fund; therefore, the decline in oil production at Prudhoe Bay leaves state government in an insecure position.

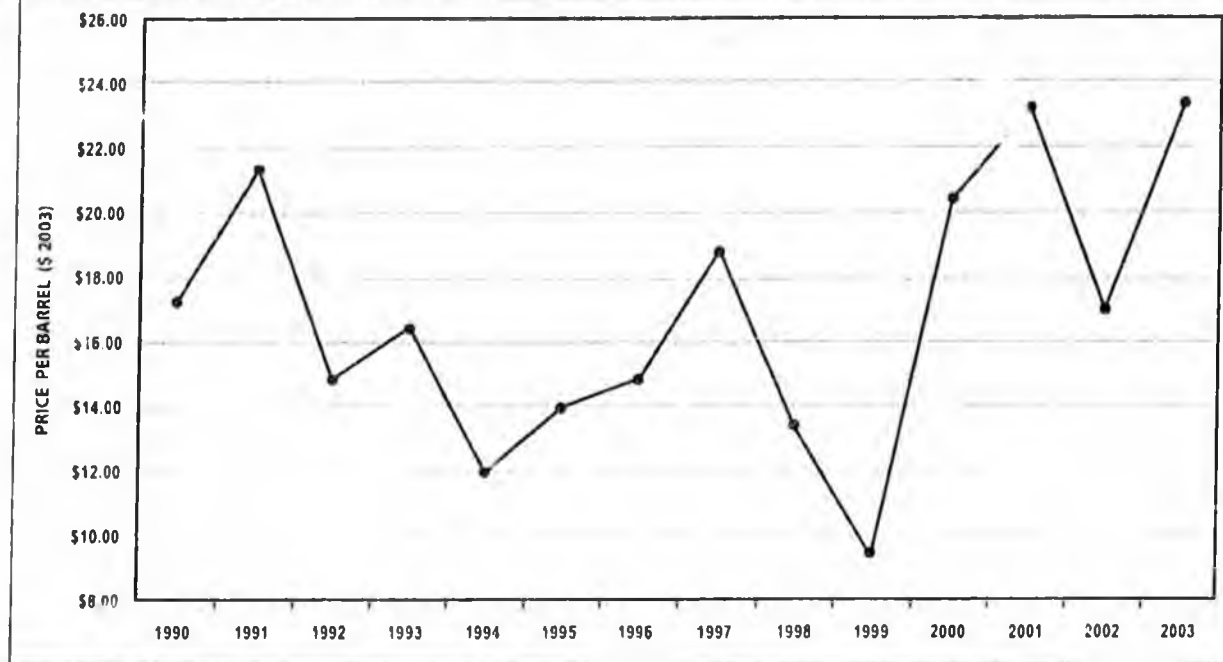
Figure 14. Map of Northern Alaska, showing ANWR Coastal Plain and proposed development area.



Source: Alaska Department of Natural Resources

Future oil production from the North Slope is expected to decline only modestly and remain in the 1 million barrel-per-day range for the next ten years. While the Prudhoe Bay field is declining, small, independent companies are using new technology to develop smaller marginal fields in the area, and production from existing fields such as West Sak and Alpine is increasing. ConocoPhillips and BP recently announced plans to boost Alaska's heavy oil development program. The project will more than double the amount of heavy oil collected from West Sak and other North Slope oil fields. National Petroleum Reserve Alaska (NPR-A) reserves are expected to come on-line by 2010, as are Point Thomson and other new fields to further off-set the steep Prudhoe Bay decline.

Figure 15. Crude Oil Prices, Alaska North Slope Wellhead



Source: Alaska Oil and Gas Conservation Commission

A majority of Alaska residents and Alaska natives support responsible exploration and development of the Coastal Plain (Section 1002 area) of the Arctic National Wildlife Refuge (ANWR). However, Congress has declined to pass enabling legislation in the face of pressure from environmental activists.

A 1998 US Geological Survey study concludes that ANWR contains .7 billion to 16 billion barrels of recoverable crude oil, with a mean of 10.4 billion barrels. This estimate approaches the recovered amount of oil from Prudhoe Bay, the largest discovery ever in our nation.

Nonetheless, due to the political battle over ANWR, the industry is more optimistic about the possibilities of developing the huge reserves west of Prudhoe Bay in the National Petroleum Reserve Alaska (NPR-A). Proven reserves in the National Petroleum Reserve are estimated at 1.3 billion to 5.6 billion barrels. There are no estimates of economic gains in Puget Sound resulting from NPR-A development.

The Alaska Gas Pipeline

The proven reserves of North Slope natural gas are enormous: 35 trillion cubic feet (tcf). But according to the US Geological Survey's estimates, the reserves may hold as much as 211 tcf (Cashman, 2004). The challenge has been bringing the gas to market at a competitive price. Plans and proposals have been floated for years, only to flounder because of high costs, weak prices, politics and worldwide supplies that enjoy competitive advantage. Over the years, two principal plans have focused on construction of a natural gas pipeline. One is along on the right-of-way of the existing Trans-Alaska oil pipeline to a gas liquefaction plant in Valdez, and the other would be a 3,500-mile pipeline through Canada to the Midwest. Well over \$1 billion has been spent over the years on marketing, engineering studies, and permitting.

No one denies that conventional sources of natural gas in North America are being depleted and that growing demand for cleaner burning fuels will put pressure on remaining reserves. But Alaska is not the only potential source for major new gas supplies for the nation. Alaska must compete with gas fields in Australia, New Guinea, Indonesia, Oman, Qatar, Yemen, and the Russian Far East (Sakhalin Island).

The current estimates for building a gas pipeline across Canada are \$20 billion to \$25 billion. Construction of the pipeline by the trans-Canada route would bring jobs to Alaska and Puget Sound, but few after construction. ConocoPhillips Alaska — one of the major owners of natural gas reserves on the North Slope — estimates that 17,000 workers in the United States and 12,000 workers in Canada would be needed to build the pipeline to the Midwest. Only 200 operations jobs are likely once production begins (Benett, 2004). Also, compared to oil production, the project is likely to deliver less long-term gain through tax and royalty revenue for Alaskans and would not bring tanker traffic to Puget Sound. Currently tankers carrying crude from Valdez arrive almost daily at refineries in Anacortes and north of Bellingham.

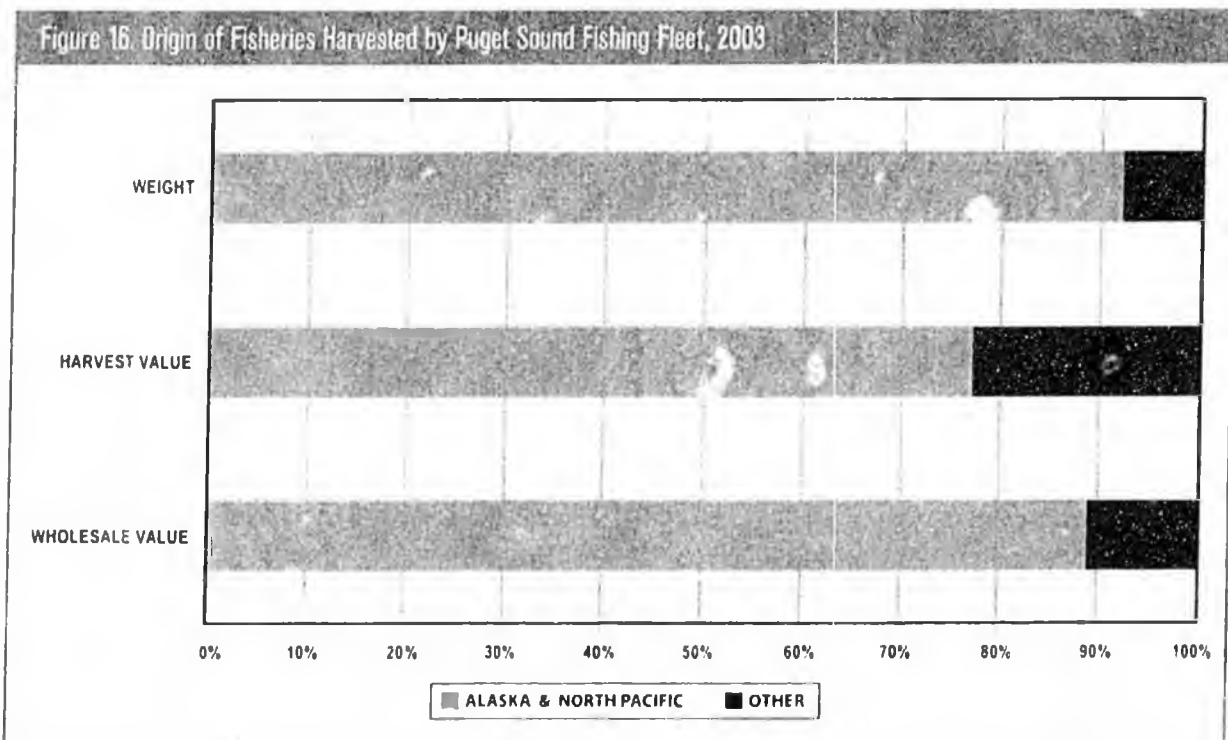


Fillet inspectors at work on a pollock catcher-processor in Alaskan waters. Photo courtesy of American Seafoods.

FISHERIES

Commercial fishing off the coast of Alaska by Puget Sound-based vessels dates back to the days when Washington was a territory. In the late 1800s, fishermen launched their wooden schooners and sailed north to harvest cod, salmon, halibut, and herring in Alaska waters.

Today, Puget Sound's distant-water fleet and seafood processing companies remain heavily reliant upon this rich North Pacific resource. Though only a fraction of the regional economy is based on the fishing industry, several cities, including Bellingham and Anacortes, plus the Ballard neighborhood of Seattle, remain highly dependent on them. Puget Sound ports are now also home to the groundfish trawlers and at-sea processors that have joined the historic and traditional high-line halibut boats, seiners, crabbers and tenders in the fleet. Traditionally, a significant share of the fish harvested in Alaska waters has been processed in Puget Sound; the groundfish industry has followed precedent as is evident by the increase of secondary processing plants throughout the region in recent years.



Notes: "Origin" refers to where fish are harvested. Harvest or ex-vessel values do not include the value added by at-sea processors and hence reflect the value of the catch prior to processing.

Sources: Alaska Department of Fish and Game; North Pacific Fishery Management Council; National Marine Fisheries Service.

State and federal fisheries have been managed well in Alaska over the years. The stocks are healthy and fishery managers anticipate future stability within the confines of their generally normal cycles. Halibut and sablefish (black cod) are now managed under individual fishing quota systems (IFQs) that have increased the values of the fisheries and brought fresh product to the consumer almost year-round.

Total employment in fishing and seafood processing has been relatively stable. Most growth since 1992 is due to the tremendous increase in the number of groundfish trawlers that operate in the Bering Sea and Gulf of Alaska, plus the at-sea and shore-based processors in Alaska and Puget Sound that serve the trawlers.

Prior to the 200-mile limit on domestic waters in 1976, the fleet was entirely foreign. After Congress passed the Magnuson-Stevens Act³, there was a period of transition to joint ventures, with U.S. vessels delivering their catch to foreign factory ships. Now, the Alaska fishery is completely "Americanized," meaning 100 percent of the quotas are harvested and processed by Americans.

Although combined employment in these industries declined slightly between 1994 and 2003, processing of fresh and frozen packaged seafoods has enjoyed dramatic growth, which is reflected in the increased employment in seafood processing. Puget Sound seafood processors added workers between 1994 and 2003, in part due to re-classifying at-sea processors (formerly classified as factory trawlers) as seafood processors. Fishing fleet employment, which totaled 8,726 workers in 1994, has declined to 5,950 due to harvest level quotas and reclassification.⁴

In 2003, the Alaska-related portion of Puget Sound regional fishing jobs was 5,950 with \$482.5 million in earnings. Comparable figures for Puget Sound seafood processing were 4,144 jobs, with a payroll of \$188.3 million.

These direct impacts are substantially exceeded by the indirect impacts that arise from the purchase of goods and services by the fishing fleet and the spending of worker earnings in the region. All 62 sectors of the regional economy are affected to some degree by Puget Sound fishermen harvesting fish within Alaskan and North Pacific waters (Table 8).

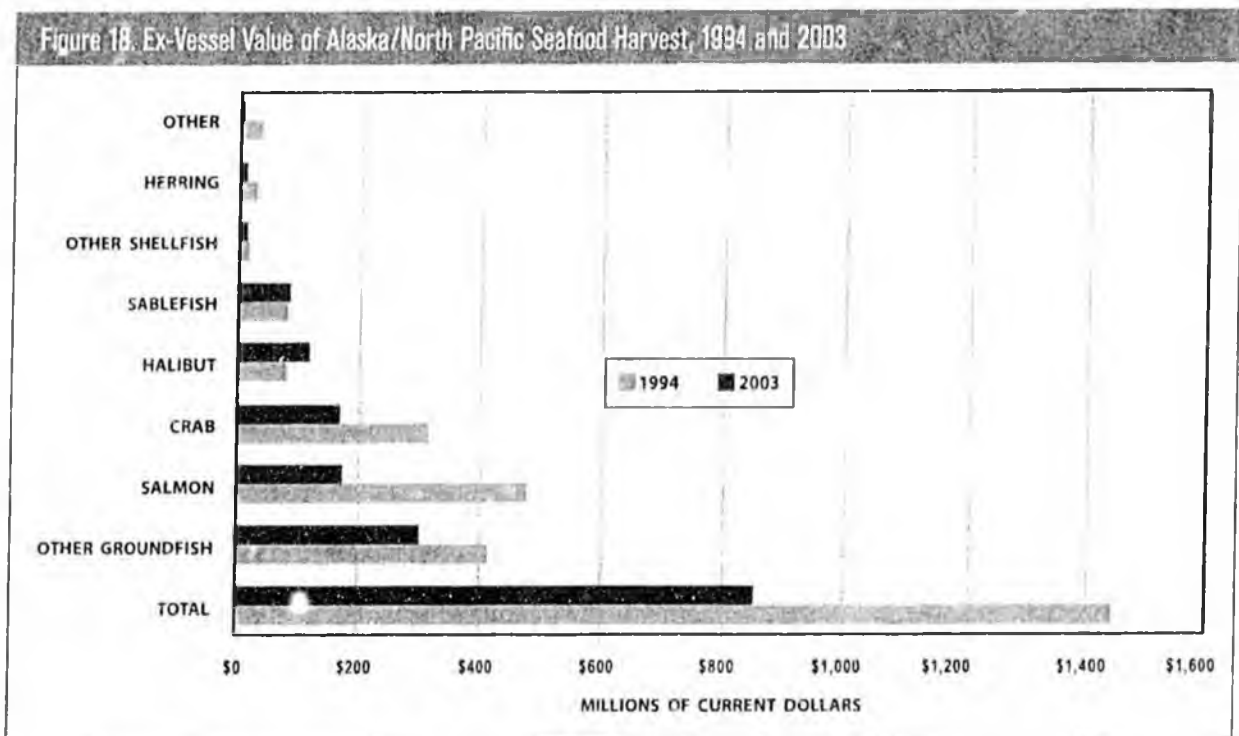
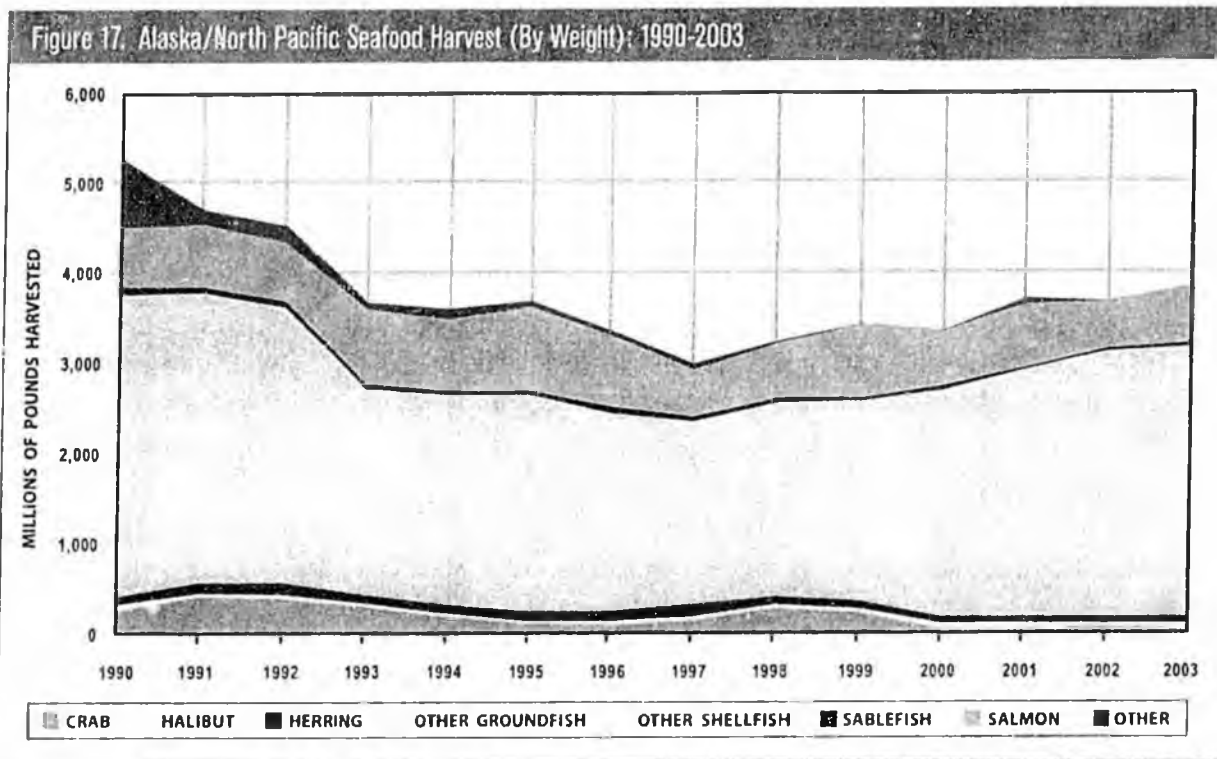
Table 8. Economic Impact of the Puget Sound Fishing Fleet, 2003

	<i>Output (\$ Millions)</i>	<i>Jobs</i>	<i>Labor Earnings (\$ Millions)</i>
Direct Impact			
Fishing Fleet	\$659.5	5,950	\$297.0
Indirect Impact			
Natural Resources	\$7.0	53	\$0.9
Manufacturing	\$172.0	918	\$42.5
Construction	\$6.1	90	\$3.3
Transportation	\$28.9	246	\$10.9
Utilities and Communications	\$40.2	157	\$9.2
Trade	\$121.4	1,909	\$52.6
Finance, Insurance and Real Estate	\$109.6	602	\$33.9
Services	\$134.5	2,147	\$79.5
Total, Indirect Impact	\$619.7	6,122	\$232.8
TOTAL IMPACT	\$1,279.2	12,072	\$529.8

³ See glossary entry on Magnuson-Stevens Act.

⁴ According to the U.S. Bureau of Labor Statistics and the Washington Department of Employment Security, employment on fishing trawlers is classified as fishing fleet; employment on at-sea processors is classified as seafood processing. Much of the decline in the fishing fleet is due to this change in classification to seafood processing.

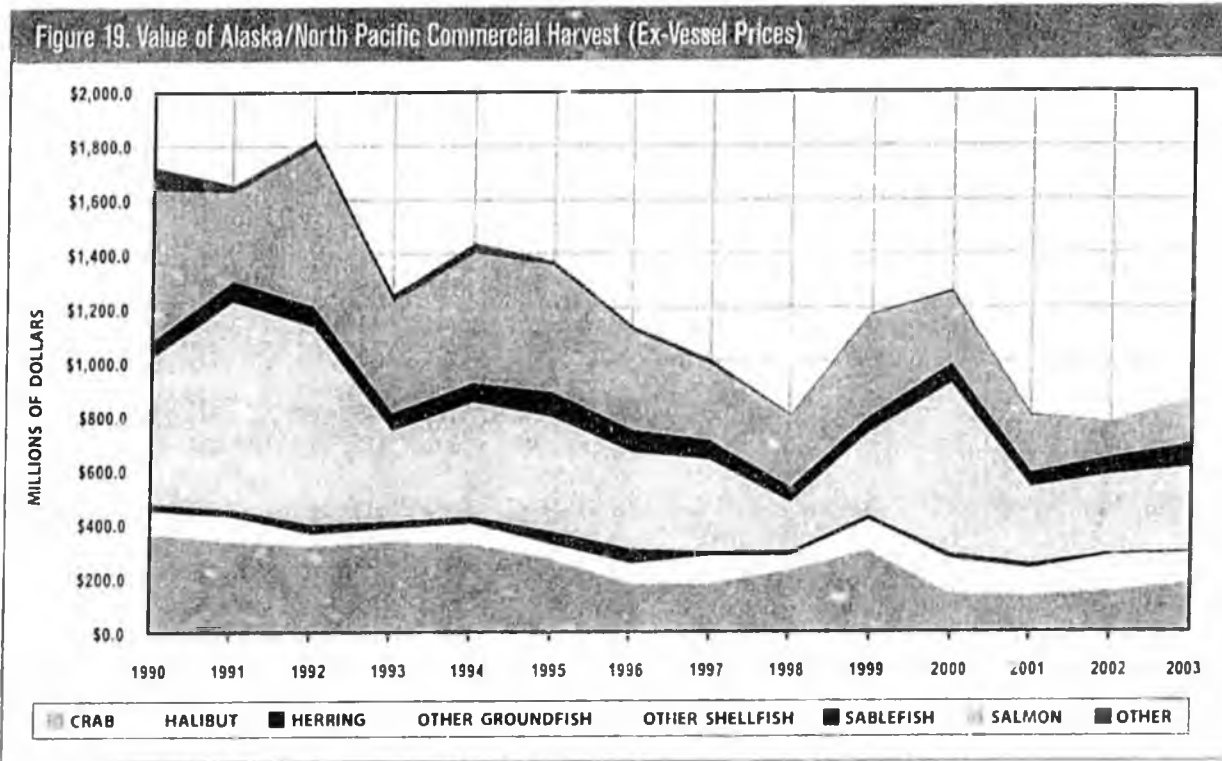
Only nine nations exceed the total seafood production volume harvested from Alaska and the North Pacific, about 3.8 billion pounds annually, more than half the U.S. total (Figure 17). In 2003, the ex-vessel value of Alaska seafood harvest (the amount paid to boats) was \$739 million, slightly more than half of its 1994 level of \$1.4 billion (Figure 18).



Source: Alaska Commercial Fisheries Entry Commission

Salmon remains vital to Alaskans because of the jobs it provides there and the lifestyle that goes with being a fisherman. The most rapid growth in the last few decades has been groundfish, including cod, pollock, sablefish, flounder, and other "bottomfish" used for products such as fish sticks, fish and chips, and surimi. In terms of volume, groundfish species now account for over three-fourths of the total (Figure 17).

While the ex-vessel value of the salmon catch has generally declined since the early 1990s, the Alaskan fishery "portfolio" has become more diversified in recent years.



Source: Alaska Commercial Fisheries Entry Commission

SERVICES

Alaska is an important market for Puget Sound suppliers providing business, professional and personal services. Many of these services are exported for final use or consumption in Alaska. Others, notably education and health services, are "consumed" by Alaska purchasers while in the Puget Sound region. The export values shown below were derived by surveying the largest firms in each service industry sector regarding their share of total business receipts from Alaska clients. The responses were then weighted by the size of each firm within its sector. Impressive as these numbers are, they do not include the Alaska-based activity of Puget Sound firms' regional offices in Alaska, since such on-site sales do not meet the definition of an "export" from Puget Sound.

Table 9. Puget Sound Services Exports, Jobs and Labor Earnings Related to Trade with Alaska, 1994 and 2003

Sector	Value of Export (\$ Millions)		Jobs		Labor Earnings (\$ Millions)	
	1994	2003	1994	2003	1994	2003
Business Services	\$172.6	\$322.3	6,836	4,932	\$209.3	\$358.3
Health Services	\$51.9	\$120.9	3,924	5,686	\$138.8	\$229.3
Educational Services	\$10.5	\$23.5	295	617	\$5.4	\$21.3
Other Services	\$72.1	\$208.5	8,144	12,108	\$149.7	\$290.6
TOTAL	\$307.1	\$675.3	19,199	23,343	\$503.2	\$899.5

Note: Value of exports and labor earnings are in millions of current dollars. Other services include personal services and legal services.

Business Services

The Puget Sound region is one of the nation's leading providers of business services. This sector includes advertising, engineering, architectural and surveying firms; testing laboratories; and accounting, financial and managerial consulting. The most rapidly growing Puget Sound-based service sector industry is software; worldwide export sales of software were estimated at \$8 billion in 2003. As a developed economy, Alaska's demands are proportional to its size for the full range of these business services.

Education

For Alaskan youth and young adults, Washington is one of the "magnet" states for pursuing post-secondary education opportunities. A significant share of Alaskans traditionally attend higher education institutions outside of their state. However, 2003 signaled a turning point, when for the first time in Alaska's history, more than half of the state's college-bound students stayed home to study. Historically, Alaska has one of the highest out-migration rates in the nation, particularly among older youth and young adult age groups. A high percentage of those who leave to study at out-of-state post-secondary schools do not return to Alaska. (Hadland, 2004).

Given its population size, there is neither a law school nor a medical school in Alaska. For those Alaskans who seek to enter these professions, Seattle-based institutions are a leading source of educational opportunities. For instance, the University of Washington reserves up to 30 openings a year for medical students from Alaska. The Seattle University School of Law has a special

scholarship program for deserving Alaskans.

Schools in the Puget Sound region where Alaska students spend \$500,000 or more per year on tuition, fees and education related costs include:

- The Art Institute of Seattle
- Pacific Lutheran University
- Seattle Pacific University
- Seattle University
- University of Puget Sound
- University of Washington
- University of Washington Medical School
- Western Washington University

In 2003, an estimated \$23.5 million was spent by 1,066 Alaska students on Puget Sound based post-secondary education. These expenditures support 617 direct jobs in higher education institutions in Puget Sound.



The University of Washington Medical Center in Seattle. Photo by Mary Levin, University of Washington.

Health-Care Services

As patients in hospitals and clinics, many Alaskans "consume" world-class health-care services in Puget Sound. Harborview Medical Center is the Pacific Northwest's only Level 1 burn and trauma center. Children's Hospital and Regional Medical Center in Seattle provides telemedicine programs and specialty clinics for critically ill and injured children throughout the Pacific Northwest and Alaska. These health-care services qualify as "exports," for which the non-resident customer travels to the source of supply. The estimated value of medical services purchased in 2003 by Alaska residents in Puget Sound is based on hospital charges and physicians' fees calculated for in-hospital and out-of-hospital services. In 2003, over 2,100 Alaskans were discharged from Puget Sound area hospitals. The value of exports in health-care services more than doubled between 1994 and 2003, but a portion of the increase was due to the escalating costs of health care.

Table 10. Components of Puget Sound Health-Care Exports to Alaska, 1994 and 2003

<i>Health-Care Component</i>	<i>Value of Exports (\$ Millions)</i>	
	<i>1994</i>	<i>2003</i>
Hospital Charges	\$36.1	\$84.1
Doctors' Fees (In-hospital)	\$14.4	\$33.5
Doctors' Fees (Out-hospital)	\$1.4	\$3.3
TOTAL	\$51.9	\$120.9

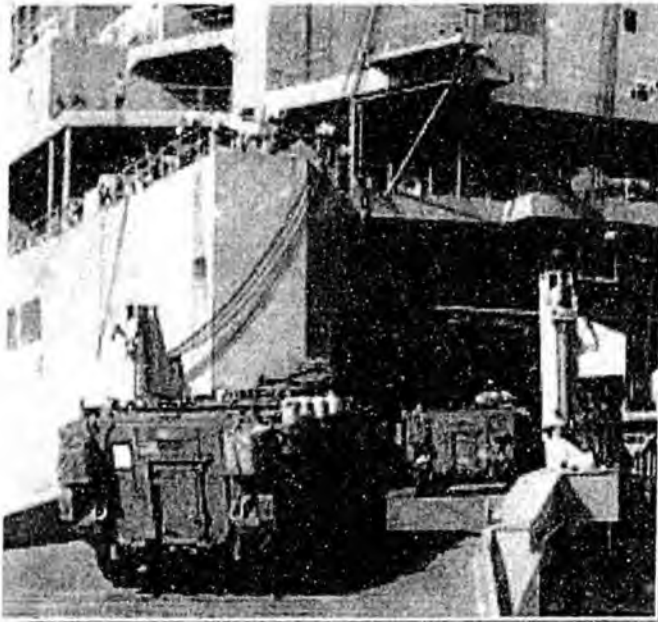
Alaskans' expenditures in Puget Sound hospitals and clinics directly support 2,086 health-care workers.

Other Services

This category covers social and personal services, including recreation and amusement, and services that may be either business or personal, notably legal services. In 2003, service exports from these categories were valued at an estimated \$208.5 million, creating 12,108 jobs and \$290.6 million in labor earnings.

Federal Government: Procurement in Alaska

Ever since the purchase of Alaska from Russia in 1867, the federal government has played an important role in the state economy. The U.S. government controls huge defense assets, owns almost two-thirds of the state's acreage, has a special relationship with Alaska's indigenous people and helps protect the state's vast 6,640-mile coastline.

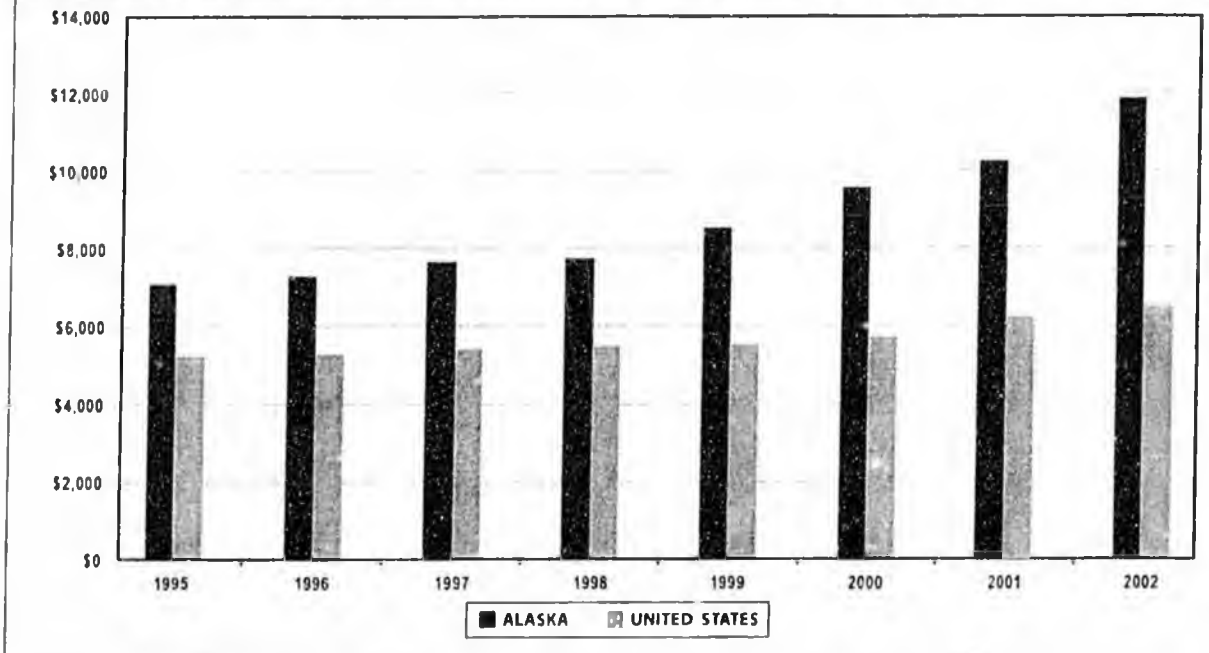


Army Stryker vehicles go on board ship at the Port of Tacoma.
Photo by Kathleen Tomandi, Port of Tacoma.

On a per capita basis, Alaska ranks first in the nation in federal government spending. Annual federal spending is now at \$11,750 for every Alaskan, eighty percent more than the national per capita average of \$6,630 (Figure 20). While federal government expenditures have declined as a percentage of the Alaskan economy, federal spending still accounts for 38 percent of personal income for Alaskans. A recent study (Goldsmith, 2003) estimated that federal spending directly creates 38,000 jobs in Alaska, with an additional 58,000 indirect jobs. All told, federal spending supports one-third of the current employment base in Alaska (Goldsmith, 2003).

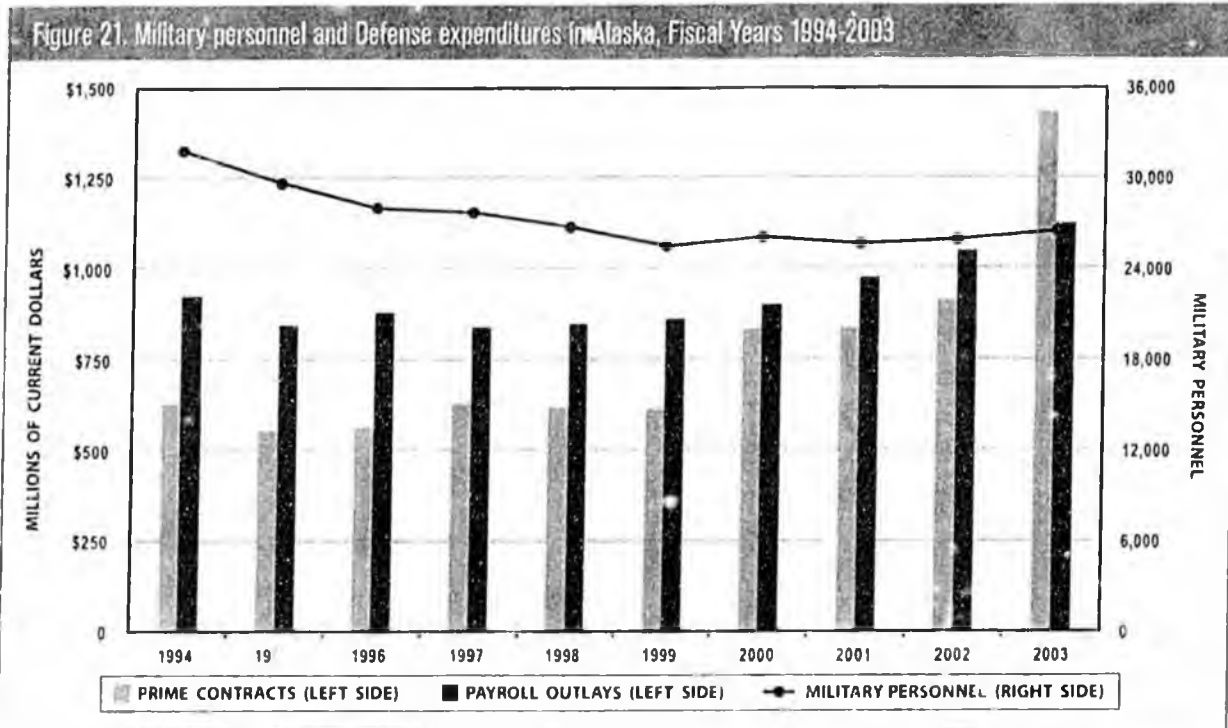
Trends during the 1990s indicated the federal government's role in the Alaska economy would likely diminish. Military bases were closed and downsized, and civilian agencies went through a period of retrenchment. Federal dollars spent in the state actually declined between 1993 and 1995. In current dollars, the decline was from \$4.632 billion in fiscal year 1993 to \$4.497 billion in 1994 to \$4.230 billion in 1995.

Figure 20. Federal Government Expenditures in Alaska and United States, Per Capita Basis, Fiscal Years 1995-2002



Source: U.S. Census Bureau, Consolidated Federal Funds Report, various Fiscal Years

But the trend has changed dramatically. Some economists view federal spending as the leading cause for Alaska's economic expansion. And this growth is not coming from the "traditional" conduits of spending. Neither military force levels nor civilian employee numbers have recovered, although they have stabilized and have seen some recent growth. Instead, federal money flowing to local and state governments has grown dramatically, particularly expenditures for procurement contracts from the U.S. Department of Defense (Figure 21).



Source: U.S. Department of Defense, Directorate for Information Operations and Reports. *Atlas and Data Abstract for the U.S. and Selected Areas*. Various Fiscal Years.

Increased federal government grants to local and state governments, tribes and businesses fund an incredible array of activities in Alaska. Grants provide money for building highways, airports, hospitals, and wastewater treatment facilities. They also help pay for health-care services, emergency relief services, legal services, tribal self governance, fisheries research and management, University of Alaska programs and the postal bypass subsidy. Further traditional benefits for Medicaid, welfare, food stamps and unemployment insurance also accrue to Alaskans.

Puget Sound suppliers and firms benefit from the increased federal spending. For many infrastructure projects, Puget Sound construction companies have been awarded procurement contracts — either directly or indirectly, as subcontractors. In 2003, the value of exports related to federal construction contracts in Alaska amounted to \$86 million, supporting 1,295 workers with \$47.1 million in wages and salaries in Puget Sound.

MANUFACTURING

Despite Alaska's steady growth in manufacturing, more than one-fourth of Puget Sound exports to Alaska continue to fall into this category -- \$970 million in 2003. The value of exports of Puget Sound-manufactured goods has grown in current dollars. However, in constant dollars (removing inflation), the gains were modest: only 1.5 percent over the nine-year period. The largest component of manufacturing exports may also prove the most lasting: food products. Economies of scale created by a large consumer market and relative proximity to major agricultural regions provide a firm basis for Puget Sound to maintain its position as a long-term supplier of food products to Alaska.

The remainder of manufacturing is remarkably well-balanced across a range of products.. Apart from food products, several categories exceeded \$50 million in 2003 exports: petroleum products, fabricated and structural metals, electrical and industrial machinery (including instruments), wood products and furniture, transportation equipment, and chemicals.

Table 11. Puget Sound Manufacturing Exports, Jobs and Earnings Related to Trade with Alaska, 1994 and 2003

Sector	Value of Exports (\$ Millions)		Jobs		Labor Earnings (\$ Millions)	
	1994	2003	1994	2003	1994	2003
Food Products	\$157.4	\$162.5	811	780	\$25.5	\$31.5
Petroleum Products	\$135.7	\$124.7	155	162	\$8.6	\$11.2
Fabricated and Structural Metals	\$89.2	\$111.1	798	1,023	\$24.4	\$39.8
Machinery, Instruments	\$82.9	\$117.5	797	963	\$33.2	\$48.5
Wood Products and Furniture	\$72.5	\$89.1	914	742	\$28.1	\$31.2
Transportation Equipment	\$66.0	\$114.8	1,046	1,254	\$40.3	\$70.5
Chemicals	\$60.2	\$70.8	195	202	\$12.0	\$13.3
Pulp, Paper and Paperboard	\$48.2	\$44.1	257	251	\$11.1	\$12.0
Cement, Stone and Glass	\$45.1	\$63.4	525	464	\$19.2	\$24.2
Primary Metals	\$33.7	\$44.4	182	220	\$7.2	\$9.9
Other	\$25.9	\$28.7	1,016	912	\$26.6	\$34.8
TOTAL	\$816.8	\$971.0	6,696	6,973	\$236.2	\$326.8



Kenworth trucks are among the manufactured goods shipped north from Puget Sound. Photo courtesy of Kenworth Truck Company.

What's Ahead for the Alaska-Puget Sound Partnership?

As always, the outlook for the Alaska-Puget Sound trade partnership depends on growth and change within the Alaska economy. As the Alaska market expands, with increased economic activity and population, trade between the two regions will likewise increase.

For the foreseeable future, Alaska's economy will continue to be dominated by the commodity-producing industries of petroleum, hard rock mining, and seafood, combined with tourism, federal spending, and international trade. Dependence on these industries means that the Alaska economy will be influenced by business cycles as commodity prices respond to world market conditions. Although the existence of such cycles is acknowledged, their timing is difficult to forecast.

In general, economic forecasters are cautiously upbeat about the economy in Alaska. Alaska has experienced 16 consecutive years of job growth and is expected to add two more years to that streak in 2004 and 2005.

The preferred Trans-Canada gas pipeline project would be substantially larger than was the Trans-Alaska oil pipeline. The overall economic benefits also would differ substantially, because many jobs and opportunities would be generated in Canada as well. Also, rail transport would probably be used more than in 1976 for moving materials – in part because the heavier steel can more easily be moved by rail and comply with load-limit issues. Also, while the Ports of Tacoma, Seattle and Anchorage would remain the key gateway ports, additional seaports would be selected that offer close proximity to Canada's rail system and direct shipments from Asia.

Federal government spending is difficult to forecast due to the conflicting demands of military security, the federal budget and politics. The recently announced global restructuring of U.S. military installations is expected to benefit Alaska and will likely result in expanded operations at Fort Richardson and Fort Wainwright. Additional forces will be coming to Alaska, adding billions of dollars to the economy. More soldiers will be stationed in Alaska, which after many years of decline is experiencing a rebound and currently has more than 26,000 military personnel.

Federal defense procurement, particularly for the missile defense program currently underway, will present enormous opportunities for contractors based in both Alaska and Puget Sound. A missile interceptor has been installed at Greely as part of the ground-based missile defense, and plans call for installing five others by the end of 2004 and 10 more by late 2005.

The U.S. Department of Defense has added the Port of Anchorage to a short list of strategic ports of departure. This will make it easier for Anchorage to obtain federal funding for a massive, \$300 million port expansion project that is currently underway. Tacoma is among other major ports that are designated as strategic, further strengthening the Puget Sound partnership and the potential for major shipments of military supplies.

In the near-term, Alaska will continue to be dependent on federal spending across multiple sources — project grant funding, formula grants, highway and transportation construction projects, benefits to individuals, and defense. Alaska's congressional delegation has been instrumental in procuring much of this funding because of the seniority it enjoys, but there remain legitimate concerns about the day of reckoning when the state will lose its political influence and the dollars that go with it.

Certainly, federal funding will continue to flow, regardless of who holds seats in the U.S. Congress. Yet, with more than two-thirds of the state's economic activity dependent on two major sectors -- petroleum and the federal government — and with many of the goods and services for those sectors coming from Puget Sound companies, the state and its trading partners are particularly vulnerable.

Conclusion

The Puget Sound-Alaska partnership has endured, expanded, and evolved over 100 years. One partner is a storehouse of resources, while the other provides goods and services. Beneath this highly visible activity, a "quiet connection" of basic economic ties has bound these partners. The value of goods and services that Puget Sound provides to meet the needs of Alaskans has increased steadily. At the same time, Alaska resources continue to play a vital role in the Puget Sound economy.

The geographic distances that separate Puget Sound and Alaska from the rest of the United States have sometimes been considered an economic disadvantage. Yet each of the partners continues to attract people from other parts of the country. In addition, each partner enjoys a unique geographic position on the Pacific Rim and access to China and other fast-growing Asian economies.

The fortunes of both partners have been strongly affected by a few major industries. Compared to the U.S. average, the economies of Puget Sound and Alaska are highly concentrated. But as each partner grows, there is a trend toward diversification and a broadening of the economic base. This process is affected by business cycles in the dominant industries and is not always smooth. Yet over time, both partners have shown remarkable resilience. Though oil production is currently on a declining path, Alaska is now in its sixteenth year of overall economic growth. And the Puget Sound region has begun once again to post net job gains after a protracted regional recession.

While the pace of growth and the timing of the cycles cannot be predicted precisely, the future strength of the partnership is certain. Its endurance is based on the vitality of both Alaska and Puget Sound, regions that have a remarkable range of comparative advantages based on resources, proximity, and economies of scale. These provide compelling logic that the two partners will continue to view each other as integral parts of their economic future.

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Appendix: Methods and Approach

The Puget Sound Input-Output Model

The principal economic analysis tool used to measure Alaska-related impacts on export industries is the Puget Sound Input-Output (PSIO) model, which takes into account the direct impacts and the complex inter-industry connections in 62 sectors of the regional economy. The PSIO model is adapted from the Washington State Input-Output model, a series of state-sponsored studies of the statewide economy dating back to 1963 and most recently updated to the year 2003.

For resource-related industries, a variety of survey and analytical methods were used to supplement the model. The basis for running the model was a combination of survey and non-survey data gathered for this study from each sector.

As in the previous update, the Puget Sound region is defined as the counties of King, Kitsap, Pierce, Skagit, Snohomish, and Whatcom. In the initial 1985 study, seven smaller counties were also included: Clallam, Grays Harbor, Island, Jefferson, Mason, San Juan, and Thurston. The narrowing of the study area means that data on the Alaska-Puget Sound partnership have a tendency to understate real growth during the nine year (1985-1994) period. However, this is a relatively minor factor. The excluded counties contain about one-tenth the population of the included six counties and, with economies heavily dependent on natural resource-related industries and state government, their share of exports to Alaska is even lower than their relative population.

A detailed discussion of the analytical approach utilized in this study is included in the Puget Sound Input-Output model. This discussion presents the background on estimating Puget Sound shares of economic activity, use of the derived economic multipliers, and a detailed table of economic impacts.

Sources of data and survey results used in estimating Puget Sound exports are then presented. A discussion ensues on the selection of the base year; treatment of the Puget Sound fishing and petroleum sectors, the transportation services sectors, and the Alaskan cruise industry.

One of the most important uses of the input-output model is that it serves as the basis for estimating the multiplier or "ripple" effects of changes in exports (or other types of expenditures not basically dependent on changes within the regional economy) for one sector of the economy upon other sectors. Because the model takes into consideration the complex inter-industry connections in the regional economy, calculated impacts will include not only those people directly involved in producing goods and services for export, but also the indirect impacts, such as the increase in work and jobs in industries supplying direct-export businesses. It also includes impacts induced by the spending of incomes earned in export-related jobs.

In this study, research was focused on estimating the demand in Alaska for goods and services produced by businesses in the Puget Sound region. These include the profusion of output from manufacturing concerns in the region – food products, wood and paper products, machinery and metals, chemicals and refined petroleum, and so on. Also included is the whole range of professional and business services, including software, accounting, advertising, engineering, legal, and management consulting services. Because of its sparse population, northern climate, and relatively undeveloped industrial base, Alaska must import a large proportion of its food, consumer goods, and inputs necessary for production. By far, the largest portion – about 95 percent – of these goods travel to Alaska by water. Due to its geographical proximity to Alaska, and its status as a highly developed center of domestic and international transportation, Puget Sound's seaports are the starting point for the bulk of goods flowing to Alaska.

Use of Economic Multipliers

The multipliers used in this study are known as Type II multipliers. Although Type II multipliers are only one of several types of multipliers available, they are most commonly used in regional economic impact analysis. Type II multipliers measure the direct effects on a variable (in this case jobs and earnings) plus the indirect impacts that arise as the result of inter-industry linkages, and the impact induced by households spending income paid to them. This concept assumes that there is an association between industry output and household income, and a further association between household spending and income. Other types of multipliers may exclude household spending (Type I), or they may include state and local government spending (Type III). Type IV multipliers also include investment spending, on the assumption that this is directly proportional to demand for output. Types III and IV are generally larger than Type II and are generally considered more speculative.

The reader should be aware that there are many common misconceptions about multipliers. For instance, there is no such thing as "the" multiplier for an industry. For any industry, there are any number of multipliers depending upon the form in which the multiplier is expressed, the variable under consideration and other factors. The choice of unit can make the same multiplier look larger or smaller. Multipliers in static models (such as those in the Puget Sound Input-Output Model) are timeless. Production adjustments may take place in anticipation of changes in market demand, or in contrast, reaction time may lag resulting in delayed multiplier responses.

Prior studies (Conway, 1977; Chase, 1994) have shown that multipliers do change over time. There are several reasons why multiplier values change. First, technological changes and inventions of new products/processes alter input purchasing patterns. Second, relative price changes across commodities induce substitution of the relatively cheaper inputs for the more costly ones. Finally, changes in interregional and/or international trade patterns (due in part to changes in transportation costs and exchange rates) could substantially alter patterns of trade, and hence multiplier values.

Estimating Puget Sound Shares of Washington State Economic Activity

In order to calculate the extent of impacts of Alaska trade on the Puget Sound region, it is necessary to construct and apply a "shares model." This model contains estimates of the Puget Sound region's shares of the 62 sectors of the Washington State Input-Output model. "Shares" here refers to what proportion of the state's economic activity is found in the six-county geographic region of Puget Sound covered in this study. These six counties are King, Kitsap, Pierce, Skagit, Snohomish, and Whatcom. For most sectors of the economy, it was assumed that the regional share of employment in a particular sector would be proportional to the regional share of output in that sector. Data from the Washington State Employment Security Department (*Employment and Payrolls in Washington State by County and Industry*; confidential unpublished files by establishment), supplemented by published data from U.S. Bureau of Economic Analysis, were utilized to derive estimates of the six-county Puget Sound share of employment, and by inference, of output and impacts.

Although data reliability on agricultural employment has improved in recent years it remains impaired by the high number of subcategories of agricultural production with widely differing relationships of employment and output. Data contained in the *Washington State Agricultural Statistics, 2003*, published by the Washington State Department of Agriculture in the form of county or district shares of production for various agricultural commodities, was used to estimate the Puget Sound share of output in input-output sectors 1-4. For employment in rail transportation (input-output sector 44), data were utilized from the U.S. Bureau of Economic Analysis, supplemented by information from various regional labor economists with the Washington State Employment Security Department. The estimate of the Puget Sound share of the U.S. Postal Service (USPS) was provided by the Washington State Employment Security Department, supplemented by information provided by the USPS Seattle Regional Office.

The following table provides the estimates of the Puget Sound regional share of each of the 62 sectors of the input-output model. These were used in constructing a Puget Sound regional input-output model for the year 2003, which in turn was used to calculate the Puget Sound share of indirect jobs, earnings, and output.

Table A-1. Puget Sound Shares of Washington State Economic Activity, 1994 and 2003

Input-Output		Industry Share (In Percents)	
No.	Sector Name	1994	2003
1	Field and Seed Crops	3.0%	3.2%
2	Vegetable and Fruits	4.8%	3.9%
3	Livestock and Products	37.7%	38.3%
4	Other Agriculture	56.8%	56.7%
5	Fisheries	78.0%	81.1%
6	Forestry	18.6%	18.2%
7	Mining	29.2%	30.0%
8	Meat Products	47.3%	39.4%
9	Dairy Products	64.2%	67.6%
10	Canning and Preserving	38.7%	38.1%
11	Grain Mill Products	72.2%	67.9%
12	Beverages	47.5%	45.1%
13	Other Foods	68.0%	70.4%
14	Textiles	38.5%	46.4%
15	Apparel	75.6%	82.3%
16	Logging	25.5%	26.3%
17	Sawmills	46.4%	45.3%
18	Plywood	11.3%	16.6%
19	Other Wood Products	54.8%	59.3%
20	Furniture and Fixtures	77.0%	84.8%
21	Pulp Mills	45.3%	44.0%
22	Paper Mills	24.1%	24.1%
23	Paperboard, Other Paper	45.2%	50.3%
24	Printing and Publishing	73.9%	73.8%
25	Industrial Chemicals	39.2%	27.5%
26	Other Chemicals	73.4%	77.0%
27	Petroleum	98.7%	93.6%
28	Glass Products	88.2%	87.3%
29	Cement, Stone and Clay	62.9%	60.0%
30	Aluminum	22.4%	34.3%
31	Other Primary Metals	40.0%	38.8%

Table A-1. Puget Sound Shares of Washington State Economic Activity, 1994 and 2003 (Continued)

Input-Output		Industry Share (In Percents)	
No.	Sector Name	1994	2003
32	Structural Metal Products	58.4%	63.2%
33	Other Fabricated Metals	70.4%	72.5%
34	Industrial Machinery	57.8%	62.4%
35	Computer and Office Equipment	32.4%	58.4%
36	Electrical Machinery	58.4%	56.5%
37	Aerospace	98.9%	98.5%
38	Ship and Boat Building	92.6%	89.8%
39	Motor Vehicles	59.5%	54.4%
40	Instruments	85.1%	84.2%
41	Other Manufacturing	72.8%	67.8%
42	Highway Construction	54.1%	58.0%
43	Other Construction	65.8%	69.1%
44	Railroad Transportation	48.7%	53.7%
45	Local and Suburban Transportation	74.4%	77.1%
46	Motor Freight and Warehousing	63.9%	59.3%
47	U.S. Postal Service	67.7%	67.7%
48	Water Transportation	86.4%	86.6%
49	Air Transportation	91.2%	87.3%
50	Pipelines	74.8%	82.6%
51	Transportation Services	84.9%	88.8%
52	Electric Companies	43.6%	39.4%
53	Gas Companies	55.0%	47.3%
54	Other Utilities	61.3%	36.1%
55	Communications	74.1%	80.1%
56	Wholesale Trade	69.6%	71.3%
57	Eating and Drinking Places	64.7%	66.7%
58	Other Retail Trade	65.1%	65.2%
59	Finance, Insurance, and Real Estate	74.4%	74.9%
60	Business Services	85.2%	81.3%
61	Health Services	63.1%	62.2%
62	Other Services	65.1%	63.7%

Detailed Table of Economic Impacts

Within the text of this report, the impacts in broad industrial categories have been presented. Table A-2 provides full detail of the output, jobs, and labor earnings impacts on the Puget Sound due to trade with Alaska for all 62 sectors of the economy. Column 2 in the table provides estimates of direct exports to Alaska from each of the 62 regional sectors. Columns 3 through 4 provide the direct impacts upon each sector in the Puget Sound economy of every sector involved in export trade with Alaska. Columns 5 through 7 give the total impacts: direct, indirect, and consumption-induced.

Table A-2. Puget Sound Exports to Alaska, 2003

<i>Puget Sound Input-Output Sector</i>	<i>Estimated Puget Sound Exports to Alaska (\$ Millions)</i>	<i>Puget Sound Direct Impact: Jobs</i>	<i>Puget Sound Direct Impact Earnings (\$ Millions)</i>	<i>Puget Sound Total (Dir. + Ind.) Impact: Output (\$ Millions)</i>	<i>Puget Sound Total (Dir. + Ind.) Impact: Jobs</i>	<i>Puget Sound Total (Dir. + Ind.) Impact Earnings (\$ Millions)</i>
1 Field and Seed Crops	\$0.6	5	\$0.2	\$1.2	9	\$0.3
2 Vegetables and Fruit	\$3.9	66	\$2.1	\$5.0	86	\$2.7
3 Livestock	\$6.6	31	\$1.4	\$37.7	154	\$7.0
4 Other Agriculture	\$2.3	44	\$1.3	\$5.3	97	\$3.0
5 Forestry	\$0.0	0	\$0.0	\$6.5	29	\$1.3
6 Fisheries	\$0.0	0	\$0.0	\$3.2	28	\$1.4
7 Mining	\$0.0	0	\$0.0	\$5.3	24	\$1.9
8 Meat Products	\$21.3	57	\$1.9	\$34.4	91	\$3.0
9 Dairy Products	\$35.0	61	\$3.1	\$57.3	82	\$4.1
10 Canning and Preserving	\$29.1	115	\$6.0	\$38.2	148	\$7.7
11 Grain Mill	\$11.1	19	\$0.8	\$22.4	39	\$1.7
12 Beverages	\$42.8	134	\$6.1	\$53.1	165	\$7.5
13 Other Foods	\$23.2	139	\$4.0	\$43.5	255	\$7.4
14 Textiles	\$5.8	46	\$1.7	\$6.2	4	\$1.8
15 Apparel	\$6.3	54	\$1.9	\$13.0	110	\$3.9
16 Logging	\$0.0	0	\$0.0	\$10.8	35	\$1.7
17 Sawmills	\$36.9	156	\$9.6	\$54.2	208	\$12.8
18 Plywood	\$2.7	17	\$0.6	\$3.1	19	\$0.7
19 Other Wood	\$33.0	249	\$8.5	\$36.7	270	\$9.2
20 Furniture	\$16.6	182	\$5.9	\$19.3	211	\$6.8
21 Pulp Mills	\$0.0	0	\$0.0	\$0.1	0	\$0.0
22 Paper Mills	\$11.4	33	\$2.0	\$18.1	34	\$2.4
23 Paperboard	\$32.7	61	\$4.4	\$54.2	217	\$2.5
24 Printing	\$4.4	40	\$1.6	\$48.5	434	\$17.3
25 Industrial Chemicals	\$55.5	33	\$2.2	\$67.2	39	\$2.5
26 Other Chemicals	\$15.3	103	\$6.8	\$24.8	163	\$10.8
27 Petroleum	\$124.7	52	\$3.6	\$398.9	162	\$11.2
28 Glass Products	\$4.6	32	\$1.5	\$13.1	89	\$4.3
29 Cement and Stone	\$58.7	331	\$17.5	\$69.5	375	\$19.9
30 Aluminum	\$0.2	1	\$0.0	\$3.0	12	\$0.7
31 Other Primary Metals	\$44.2	190	\$8.4	\$48.4	207	\$9.2
32 Structural Metals	\$81.2	666	\$26.5	\$84.8	686	\$27.3
33 Fabricated Metals	\$29.8	212	\$7.9	\$47.7	336	\$12.5
34 Industrial Machinery	\$48.6	335	\$14.2	\$61.9	417	\$17.7
35 Computer Equip	\$10.0	63	\$4.8	\$12.5	77	\$5.9
36 Electric Machinery	\$38.0	238	\$10.9	\$43.6	269	\$12.3
37 Aerospace	\$0.0	0	\$0.0	\$17.0	49	\$3.6
38 Motor Vehicles	\$4.4	13	\$0.8	\$9.0	26	\$1.7
39 Ship and Boat Building	\$110.4	1,056	\$58.4	\$123.6	1,180	\$65.3
40 Instruments	\$20.9	113	\$7.1	\$37.8	200	\$12.5

Table A-2. Puget Sound Exports to Alaska, 2003 (Continued)

<i>Puget Sound Input-Output Sector</i>	<i>Estimated Puget Sound Exports to Alaska (\$ Millions)</i>	<i>Puget Sound Direct Impact: Jobs</i>	<i>Puget Sound Direct Impact Earnings (\$ Millions)</i>	<i>Puget Sound Total (Dir. + Ind.) Impact: Output (\$ Millions)</i>	<i>Puget Sound Total (Dir. + Ind.) Impact: Jobs</i>	<i>Puget Sound Total (Dir. + Ind.) Impact Earnings (\$ Millions)</i>
41 Other Manufacture	\$12.1	129	\$4.7	\$30.5	319	\$11.7
42 Hwy. Construction	\$0.0	0	\$0.0	\$0.2	2	\$0.1
43 Other Construction	\$86.0	1,295	\$47.1	\$131.9	1,968	\$71.6
44 Railroad Transport	\$0.0	0	\$0.0	\$4.6	29	\$2.3
45 Local Transport	\$0.0	0	\$0.0	\$11.3	254	\$8.3
46 Trucking	\$63.2	637	\$25.3	\$109.3	1,012	\$40.2
47 US Postal Service	\$12.5	192	\$10.0	\$24.5	377	\$19.5
48 Water Transport	\$819.2	3,029	\$210.3	\$910.2	3,108	\$211.6
49 Air Transport	\$570.6	4,275	\$195.8	\$600.8	4,390	\$201.1
50 Pipeline	\$0.0	0	\$0.0	\$0.7	2	\$0.1
51 Transport Services	\$37.7	385	\$20.7	\$76.5	777	\$41.9
52 Electric Companies	\$0.0	0	\$0.0	\$105.0	188	\$13.0
53 Gas Companies	\$0.0	0	\$0.0	\$27.3	44	\$2.9
54 Other Utilities	\$0.0	0	\$0.0	\$25.1	273	\$10.5
55 Communications	\$8.1	38	\$2.5	\$146.4	665	\$42.9
56 Wholesale Trade	\$242.0	1,858	\$95.9	\$422.3	3,112	\$160.6
57 Eating and Drinking	\$3.6	84	\$1.4	\$167.6	3,728	\$63.7
58 Other Retail Trade	\$183.9	3,665	\$97.3	\$512.6	9,436	\$250.6
59 FIRE	\$82.0	651	\$30.6	\$639.6	3,513	\$197.6
60 Business Services	\$322.3	2,931	\$212.9	\$597.6	4,932	\$358.3
61 Health Services	\$120.9	2,086	\$84.1	\$361.9	5,655	\$229.3
62 Other Services	\$232.0	6,092	\$149.3	\$570.1	12,725	\$311.9
TOTAL	\$3,768.5	32,351	\$1,427.9	\$7,115.9	63,619	\$2,582.5

Certain sectors have very small or no exports to Alaska. One that deserves clarification is construction. The output of the construction industry is by its nature not exportable, at least not according to the conventions of input-output analysis. Work done by Puget Sound-based construction firms outside the state is not considered an export under these conventions. However, estimation of the value of construction contracts fulfilled in Alaska by Puget Sound firms was made separately. The impacts for construction in the table are all indirect impacts, which represent construction work carried out in the Puget Sound region in support of other sectors' Alaska export activity.

Choice of Base Year

Detailed economic information for the most current year -- 2003 -- was anticipated to be available while this study was in process. For some economic statistics, there is a considerable lag in receiving timely data. For instance, total tonnage of goods shipped to Alaska via Puget Sound ports was available for 2002 from the U.S. Army of Engineers, Waterborne Commerce Statistics Center. Although this was the most recent information available at the time the study began, it was determined that the industry had 2003 numbers, which were gathered by survey and used in this study. For Alaska, 2003 was the sixteenth consecutive year of economic expansion; while in the Puget Sound region, 2003 signals the beginnings of an economic recovery after a prolonged recession.

Sources of Data

A frequent problem in regional economic impact analyses is the lack of hard data. This study is not an exception, much of the analysis is based on estimates of the direct exports of goods and services for 62 sectors of the Puget Sound economy. The export estimates are based primarily on information gained through surveys -- via mail, facsimile, and telephone -- with establishments in the 62 sectors. The survey questionnaire asked firms to provide the following information for 2003: (1) total value of production or total revenues; (2) total employment; (3) total wages paid; and (4) portion of sales sold to Alaska. Table A-3 indicates the number of surveys sent and return rates for major categories.

Table A-3. Survey of Puget Sound Firms

Sector	Firms Surveyed	Surveys Returned	Rate of Return
Manufacturing	125	33	26.4%
Services	145	28	19.3%
Transportation	11	10	90.1%
TOTAL	281	72	25.6%

Survey information was supplemented by numerous sources from the federal government (e.g. *Census of Manufacturers; Census of Transportation, Communications, and Utilities; Census of Finance, Insurance, and Real Estate; U.S. Bureau of Economic Analysis Regional Economic Information System*); state government (Washington State Employment Security Department -- employment and wage by establishment confidential files); and the private sector (trade publications; trade associations; and conversations with industry experts).

Education

For some services, the demanded services are not physically exported to Alaska; rather Alaskan residents travel to the Puget Sound region to study. An extensive survey was done of two- and four-year educational institutions in the Puget Sound region to determine the average annual number of Alaska residents enrolled. Using data supplied by the institutions for tuition and fees, and for average non-educational expenditures, an estimate was made of the total amount spent in 2003 by Alaska residents studying in the Puget Sound region. In 2003, 1,066 Alaskan residents were enrolled in Puget Sound institutions of higher learning. The estimated educational expenditures were \$23.5 million in 2003.

Health Services

Another service not directly exported to Alaska is health-care services. A statewide data base was utilized to determine the total number of Alaska residents who sought hospital treatment in the six-county Puget Sound region during 2003 and how much they paid for these services. The Washington State Department of Health, Office of Hospital and Patient Data Systems, provided data on hospital charges as well as an average ratio for doctors' fees and hospital charges for patients treated in hospitals. From this was derived an estimate of the total amount spent for such fees by Alaskan residents. In addition, an estimate of the total value of physicians' services provided to Alaska patients not in hospitals. The sum of these three elements--hospital charges, physicians' fees in the hospital, and physicians' fees outside the hospital constituted the estimate of the value of medical services purchased in 2003 by Alaska residents in the Puget Sound.

The Transportation Services Sectors

Exports of transportation services to Alaska refers to revenues earned by Puget Sound transportation companies shipping goods to Alaska. These exports were estimated based on information combined from a number of sources. Revenues by transport mode were obtained from the U.S. Department of Commerce, Bureau of the Census (*1992 Census of Transportation, Communications and Utilities*). Ratios of average revenues per worker and average revenues by ton were estimated based on census data with confidential employment files from the Washington State Employment Department. These revenues were estimated by transport mode (water, air, and land). In addition to freight revenues, impacts of water and air passenger travel between Puget Sound and Alaska were estimated.

A variety of information sources were utilized, in addition to a separate survey sent to 11 vessel and barge lines involved in waterborne transportation between the Puget Sound and Alaska. The transport modes analyzed for this study are listed in Table A-4.

Table A-4. Transportation Services Sectors

Water Transport	
Freight (SIC 441, 442, 443, 444)	
Passenger (SIC 4481, 4489)	
Marine Cargo Handling (SIC 4491)	
Towing and Tugboat Service (SIC 4492)	
Water Transport Services, Nec (SIC 4499)	
Air Transport	
Freight (SIC 451, Part)	
Passenger (SIC 451, Part)	
Arrangement of Transport of Freight and Cargo	
Arrangers of Freight and Cargo (SIC 473) - Includes Brokers, Freight Forwarders, Consolidators, and Shipping Agents	
Motor Freight Transport and Warehousing	
Warehousing (SIC 42)	
Trucking, Except Local (SIC 4213)	
Public Warehousing and Storage (SIC 422)	

With regard to revenue, employment, and labor earnings by transport mode, the principal sources of information were the 1997 *Census of Transportation, Communications, and Utilities*; Washington State Employment Security Department, Employment and Wages (confidential files); and confidential memorandum from the Port of Tacoma and individual shippers. The latter two sources provided listings of other carriers (e.g., truckers), freight forwarders, consolidators, and warehousing operations engaged in the Alaska-Puget Sound trading relationship.

Revenue estimates per worker for each transport mode were first made from the Census, based on total employment for all companies engaged in the Alaska-Puget Sound trade. Since these estimates were first made for the year 1992 and updated for 1997, estimates were then made for 2003. Total revenues were subsequently adjusted based on services associated with only exports. Estimated revenues associated with transshipments and imports were not included as part of the trade with Alaska. Revenue estimates were cross-checked using additional information from the U.S. Department of Commerce -- comparison of value of exports at the port of export to the value of exports at the producing plant (f.o.b.). For waterborne trade, survey results supplemented the analysis.

Eleven vessel and barge lines that provide shipping services between Puget Sound and Alaska were surveyed regarding the total 2003 northbound and southbound tonnage (total and detailed by major commodity groupings) hauled between Puget Sound and Alaska. Of the 11 surveyed, 10 provided information (91 percent return rate with an estimated total coverage of 98 percent).

Detailed information on northbound tonnage hauled by major commodity was cross-checked with survey information obtained from manufacturers in the Puget Sound. The requirement here was to separate transshipments and goods produced elsewhere versus those goods manufactured in the Puget Sound.

Treatment of the Fishing and Petroleum Sectors

In the most recent statewide Input-Output study, the output of the Washington fisheries sector was measured by the value of the catch landed within state waters (including the 200 mile-extent along the coast). Consequently, the multipliers associated with that sector do not include the very considerable impacts of the Alaska fisheries. However, since more than 85 percent of the total harvest of the Puget Sound-based fleet comes from Alaska and the North Pacific, this study estimates the impacts on the Puget Sound economy of those distant waters fisheries. This was accomplished by using the Puget Sound Input-Output model to calculate the output, jobs, and earnings associated with the expenditures of the Puget Sound-based fleet fishing in the North Pacific for the output of Puget Sound industries.

A similar procedure was utilized for the petroleum refining sector in Puget Sound. Since 90 percent of the total crude oil inputs of the Puget Sound refining sector come from the North Slope, the impact analysis routine estimates the impacts on the Puget Sound economy related to that portion of Alaska crude oil inputs.

Alaska Cruise Industry in Seattle

Base information on the Alaska cruise industry was obtained from a Port of Seattle-sponsored report released while this study was in progress. Subsequent review of the report's coverage (John C. Martin Associates, 2004) resulted in supplemental information obtained from cruise operations, particularly their home administration offices based in Seattle.

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Glossary of Terms

Carrier. The firm that physically transports the cargo. Carriers include steamship lines, trucking firms, railroads, and air carriers.

Catcher/Processor. A combination fishing and processing vessel that uses trawl nets to harvest fish and processes the catch on-board. The ability to immediately process groundfish at sea, rather than delivering the catch to shore-based processing plants, allows catcher-processors to produce higher-grade seafood products.

c.i.f. Cost, insurance and freight. A pricing term indicating the cost of the goods, insurance, and freight are included in the quoted price.

Constant dollars (or "real" dollars). Output values converted to a base price level (e.g., 2000), calculated by dividing current or actual dollars by a deflator. Use of constant dollars eliminates the effects of price changes between the year of measurement and the base year and allows calculation of real changes in output.

Direct effects. The economic activity during the first round of spending. For tourism, this involves the impacts on the tourism industries (businesses selling directly to tourists) themselves.

Ex-vessel. Refers to activities that occur when a commercial fishing boat lands or unloads a catch. For example, the price received by a captain for the catch is an ex-vessel price, the dollar value that commercial fishermen receive for their product once it leaves the fishing vessel. (Also called the dockside value).

Freight forwarder. Freight forwarders arrange for the transportation of goods in domestic and international trade. Principal activities include advising customers on shipping conditions, selecting the route and carriers for the shipment, arranging for all necessary transportation, booking space, preparing the documentation required for shipping, arranging insurance coverage, and arranging the payment for the shipment. Freight forwarders are regulated and licensed by the Federal Maritime Commission.

Groundfish (also Bottomfish). Types of fish that reside on the ocean floor. In the North Pacific, about a dozen species comprise the groundfish complex. They include pollock, Pacific cod, rockfish, yellowfin sole, and rock sole, typically harvested by catcher-processors and longliners.

Impact analysis. The process of estimating the impact of dollars from outside the region ("new dollars") on the region's economy. Impact analysis typically includes only the spending of visitors from outside the region.

Individual fishing quotas (IFQs). A market-based alternative to the "race for fish." Currently, this fishery management tool is used in the Alaska halibut and sablefish fisheries. Under an IFQ system, fishing privileges are conveyed to individual participants (vessels or fisherman) in the fishery. A fisherman's quota share represents a percentage of the Total Allowable Catch in the fishery and can be leased, sold or otherwise transferred. The harvest privileges can also be rescinded if the participant does not comply with federal fishing standards.

Input-output (I-O) model. An input-output model is a representation of the flows of economic activity between sectors within a region. The model captures what each business or sector must purchase from every other sector in order to produce a dollar's worth of goods or services. Using such a model, flows of economic activity associated with any change in spending may be traced either forwards (e.g., spending generates employee wages, which induces further spending) or backwards (e.g., visitor purchases of meals leads restaurants to purchase additional inputs -- groceries, utilities, etc.). Multipliers for a region may be derived from an input-output model of the region's economy.

Longline: Fishing method using a horizontal mainline to which weights and baited hooks are attached at regular intervals. The horizontal mainline is connected to the surface by floats. The mainline can extend from several hundred yards to several miles and may contain several hundred to several thousand baited hooks.

Longliner: A vessel specifically designed to catch fish using the longline fishing method.

Magnuson-Stevens Act The Magnuson-Stevens Fishery Conservation and Management Act was passed by Congress in 1976 with bipartisan sponsorship from Washington Sen. Warren Magnuson, a Democrat, and Alaska Sen. Ted Stevens, a Republican. It created a 200-mile federal fisheries zone and eight regional councils to oversee the U.S. fisheries. The councils operate under the authority of the U.S. Department of Commerce.

Merchandise goods. Export and import of goods—products, supplies, raw materials, wares, and commodities that are movable.

Multipliers. Multipliers capture the size of the secondary effects in a given region, generally as a ratio of the total change in economic activity in the region relative to the direct change. Multipliers may be expressed as ratios of sales, income or employment, or as ratios of total income or employment changes relative to direct sales. Multipliers express the degree of interdependency between sectors in a region's economy and therefore vary considerably across regions and sectors.

Secondary effects are the changes in economic activity from subsequent rounds of responding of tourism dollars. There are two types of secondary effects:

- **Indirect effects** are the changes in sales, income, or employment within the region in backward-linked industries supplying goods and services to tourism businesses. For example, the increased sales in linen supply firms resulting from more motel sales is an indirect effect of visitor spending.
- **Induced effects** are the increased sales within the region from household spending of the income earned in tourism and supporting industries. Employees in tourism and supporting industries spend the income they earn from tourism on housing, utilities, groceries, and other consumer goods and services. This generates sales, income, and employment throughout the region's economy.

Service. In contrast to a good; not embodied in a physical good and typically effects some change in another product, person, or institution.

Shipper. Firm or individual from whom the shipment is sent (i.e., the originator of the shipment).

Stevedore. A firm or individual who contracts to load or discharge a vessel's cargo. In order to perform his responsibilities, the stevedore employs "longshoremen," who perform the physical work of loading and unloading ships.

TEU (Twenty-foot Equivalent Unit). Used as the standard measure for the container carrying capacity in terms of an 8x8x20-ft. size container.

Total effects. In impact analysis, the sum of direct, indirect, and induced effects.

DEWITT & DEWITT LLC

PO Box 34761
Juneau, AK 99803-4761

February 10, 2007

The Honorable Bill Thomas
Alaska State Legislature
State Capitol Building
Juneau, Alaska 99801-1182

RE: HJR 8

Dear Representative Thomas.

On behalf of the Alaska Chapter of the National Federation of Independent Business (NFIB), I wish to express our support for House Joint Resolution 8. The Alaska Chapter of the National Federation of Independent Business has 2,500 members, making it the largest small-business advocacy group in the state.

HJR 8 correctly requests the Washington State Legislature not adopt an added fee on all cargo containers shipped to and from Washington ports as proposed by Senate Bill 5207. Such a fee would significantly increase the transportation costs of most goods coming to Alaska. The added cost of exports from Alaska going through Washington ports would competitively disadvantage our products in the marketplace.

We have additional concerns that the fee is instead a tax and may well be unconstitutional in that it impedes interstate commerce, import/export activity and the movement of containerized cargo as governed by federal law and international treaty.

NFIB appreciates your willingness to call this issue to the attention of Alaska's State Legislature and our Congressional Delegation. The negative effects of such an increase in transportation costs would have a significantly negative impact on both businesses and consumers in Alaska.

Sincerely Yours,



Dennis L. DeWitt
State Director
National Federation of Independent Business

cc: House Transportation Committee
House Labor & Commerce Committee

To the Members of the California State Senate:

I am returning Senate Bill 927 without my signature.

Improving the quality of life for all Californians through congestion relief and environmental improvement has been one of my top priorities as evidenced by the introduction of my Strategic Growth Plan resulting in the enactment of Senate Bill 1266 (Chapter 25, 2006).

Senate Bill 1266 (Chapter 25, 2006) is the largest transportation and air quality bond in the history of the United States. It provides \$1 billion in new funding to improve air quality in California which will directly benefit the communities in and around the Los Angeles and Long Beach Ports. Senate Bill 1266 also provides \$1 billion to address port mitigation issues, \$2.1 billion for trade infrastructure and \$100 million in port security funding. This is in addition to the \$140 million annually for air quality mitigation contained in Assembly Bill 923 (Chapter 707, 2004) which I sponsored and signed.

Although the policy objectives of Senate Bill 927, to develop more secure ports, congestion relief and environmental mitigation, are laudable, this measure is flawed in its construction, application, lack of accountability and failure to coordinate with other public and private financing sources ignoring opportunities to leverage additional funding.

Senate Bill 927 provides no mechanism for the usage of the fees collected to favorably leverage the billions of dollars in available funding to develop public private partnerships. Although SB 927 does generate funds, if done in a more coordinated fashion with the public and private sector, funding for additional congestion relief and mitigation could be increased geometrically. Additionally, this measure is drafted to include only two ports and applies only to goods shipped in containers, ignoring all other forms of shipping and ports of entry.

Public safety is and has been my top priority which includes increasing the security at all California ports. My Office of Homeland Security and Emergency Services has aggressively worked with the U.S. Office of Homeland Security and all our local counties and cities to support them as they develop their local plans for port security and identify their needs. Over 127 million dollars has been awarded and allocated on a competitive basis to California ports for security. These grants are being used for port security training, communications equipment, cameras, lighting underwater surveillance and protective equipment for port first responders. We have an additional 100 million dollars included in the strategic growth plan specifically for port security. Additionally, we are working with the U.S. Department of Homeland Security on their just announced award investing over 1 billion dollars on radiological and nuclear detection capabilities.

As Governor, I have traveled to both China and Japan working to improve our trading relationships with these nations – trade that includes both imports and exports. It is very important that any measure that increases fees that impact exporters not have the

unintended consequence of negatively impacting the sale and delivery of goods grown and manufactured in California. SB 927, unfortunately could negatively impact these exports as well.

Finally, my goods movement task force is developing a comprehensive report that will provide more thorough and strategic direction and insight on what the best options are to address goods movement and port related challenges. This report will be available by the end of this year.

Sincerely,
Arnold Schwarzenegger



September 6, 2006

The Honorable Arnold Schwarzenegger
Governor
State Capitol Building
Sacramento, CA 95814

Dear Governor Schwarzenegger:

I am writing on behalf of the member companies of the American Apparel & Footwear Association (AAFA)--the national association representing apparel, footwear and other sewn products companies, and their suppliers, which compete in the global market--to express our concerns about SB. 927, a bill that would impose fees on cargo interests to pay for a variety of port security, pollution mitigation and highway infrastructure programs in the state of California. We believe this bill is seriously flawed, and we would hope that you recognize, in particular, the potential violations of the U.S. constitution posed by this legislation. This bill passed both the Assembly and the Senate last week. We urge you to veto SB 927.

Port Infrastructure Has Traditionally Been Privately Financed: SB 927 is designed, in part, to provide funding for port security infrastructure within California's ports. However, California's international gateway ports operate as landlords for terminal operations that pay rent and fees commensurate with port facility infrastructure. Ports raise their tariffs to pay for normal business operating expenses such as infrastructure, pollution mitigation and security programs. Terminal operators themselves make investments to meet these mandates as well, and pass the costs on to the carriers that call at the ports. In the end, shippers, including AAFA member companies, pay these added expenses through higher terminal use fees and other line items included in our freight contract with ocean carriers. We urge you to oppose government mandates that levy container fees and instead support the existing private sector financing mechanism to pay for infrastructure, pollution mitigation and port security by vetoing SB 927.

Container Taxes Are Unconstitutional and Violate International Trade Law. The State of California cannot legally mandate the collection of fees on international commerce to fund programs such as highway infrastructure, port security or pollution abatement without facing an almost certain challenge in federal court. Other fees related to international cargo and transportation, such as the Harbor Maintenance Fee imposed by the federal government, have been struck down as unconstitutional because they impede interstate commerce. Because many of the containers moving through California ports are moving on to other states, California would have a very difficult time making a container fee stand up in court.

Government imposed container fees could prove detrimental to the health of the California economy.

The California government is not in the business of moving freight and does not possess intimate knowledge of the true costs of installing security fences, building cranes and purchasing low-sulfur diesel fuel. A fee levied on cargo owners, including AAFA member companies, to pay for these projects will surely endure well after the cost of installing fences and building cranes have been absorbed, and it will cost us much more than private financing of the same projects.

Government mandated container fees will only place California's seaports at a competitive disadvantage with other West Coast container ports and planned facilities in Mexico and Canada. While the fee may appear minimal, the fact is that these fees will be imposed on top of other private-sector charges related to infrastructure, pollution abatement and security. When coupled with the congestion problems faced in Southern California, it is clear that cargo owners already have many incentives to move freight through other ports, especially in the Pacific Northwest. Indeed, some of our industry partners are making large investments in other alternative ports.

In closing, we again urge you to veto SB 927. Container fees called for in the bill are not necessary to fund internal port infrastructure or port security. They are inappropriate to fund other projects outside the specific purview of the ports, and they will very likely embroil the state in court and international battles that will ultimately prove expensive over the long run.

Thank you for your time and consideration in this matter.

Sincerely,



Kevin M. Burke
President & CEO

CC: Sunne McPeake, Secretary, Bureau of Business, Transportation and Housing Agency
Michael Genest, Director, Department of Finance



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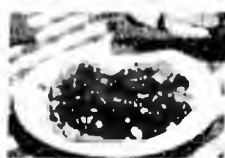
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In Depth/Perspective

How Long Beach City Hall Quietly Worked, Or Let Others Work, To Skew Or Kill Port-Related Homeland Security Legislation

Introductory Perspective

(Sept. 10, 2006) -- The 9/11 attacks are not part of the past. They are part of the present because those who attacked us once are working to attack us again.

Those attacks will kill as many of us and our families, and inflict as much damage on our country, as those in government will allow.

As the fifth anniversary of 9/11 approaches, government and industry officials say they're working to prevent another attack. Many surely are...and with success thus far.

But the record indicates that public officials and entities of the City of Long Beach -- California's fifth largest city, operating part of the nation's largest port complex -- failed to support, and in some cases oversaw spending public money that helped obstruct, efforts to provide the public and the Port with resources for greater security.

Those decisions were made behind closed doors, without public discussion or openly voted actions by City of Long Beach governing bodies...despite California's "open meetings" law.



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The actions affected three key pieces of legislation:

- **HR 494 by Cong. Dana Rohrabacher (R., HB-LB-PV), which provided for locally decided, industry paid homeland security container fees.** The Port of LB's Washington, DC lobbyist publicly took credit for helping kill the bill, an action executed without a public vote on that policy by LB's Board of Harbor Commissioners or the LB City Council.
- **SR 760 (renumbered SB 927) by State Senator Alan Lowenthal (D., LB-SP-PV), endorsed by the City of LB with the Port publicly neutral.** This legislation passed both houses of the state legislature and as we post awaits the Governor's approval or veto. If approved, it will almost certainly face an industry court challenge because the Port of LB's lobbyist helped kill the federal bill (above) which could have mooted salient legal issues (at minimum toward the security aspects of the Lowenthal bill). Industry interests are now urging a veto by Governor, citing the federal issues that the Rohrabacher bill (defeated with help from the Port of LB's lobbyist) would have cured.
- **HR 4954, federal legislation labeled by supporters as the "SAFE Port" Act.** The House version of the bill passed this spring and is set for debate in the Senate in the coming days. While the measure was pending in the House, the Port of LB hosted a meeting with key House members, giving LB and L.A. Port officialdom an opportunity to influence those guiding the bill's provisions. Most LB elected officials were kept out of the loop and (with few

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exceptions) have remained mute.

Meanwhile, the "American Ass'n of Port Authorities," a lobbying group in which the Ports of LB and L.A. are members, worked to defeat a House amendment to the "SAFE Port" bill (failed 202-222) that would have required the inspection of all incoming cargo containers.

On Monday September 11, 2006 the U.S. Senate is scheduled to take up its version of the SAFE Port Act. The Senate version of the bill (subject to amendments) offers LB residents significantly less than what Cong. Rohrabacher proposed regarding local authority on container fees in 2005 and 202 House Democrats voted to support regarding the 100% inspection on incoming cargo containers in May 2006.

[Current Senate summary text]

Section 121: Domestic radiation detection and imaging. Requires the [Homeland Security] Secretary to develop a strategy for deployment of radiation detection capabilities and ensures that by December 2007, all containers entering the U.S., through the busiest 22 seaports, shall be examined for radiation. Requires DHS to submit a report of the strategic plan developed and to implement the strategy nationwide within three years. Requires DHS to submit a separate plan for the development of equipment to detect WMD threats at all U.S. ports of entry.

Section 122: Port security user fee study. Requires DHS to study the need for and feasibility of oceanborne and port-related transportation security user fees to be collected for funding port security improvements. Requires DHS to submit a report detailing the results of the study,

analysis of current customs fees and duties collected that are dedicated to security, comparison of comparable fees imposed in ports of Canada and Mexico, assessment of the impact on competitiveness of U.S. ports, and recommendations based on findings.

As we post on September 10, 2006, the City of Long Beach's elected City Council have yet to take a public position on these matters. Until they do, CA's fifth largest city will not be part of the national debate or discussion on these issues...leaving the field to special interests and their lobbyists.

LBReport.com reported these stories in real time as they happened. We will continue reporting these issues in detail, because we believe they are of local and national importance...not just on the 9/11 anniversary, but beyond.

Killing federal legislation to give local ports clear power to levy security-related container fee

On August 8, 2005, the Port of LB's senior Washington, D.C. lobbyist, E. Del Smith, publicly indicated to LB's Board of Harbor



Commissioners that he had helped defeat legislation, authored by LB area Congressman Dana Rohrabacher (R., HB-LB-PV), that would have neutralized problematic federal arguments to local port authorities levying a security-related fee on containers.

"There has been an effort to increase container fees, a piece of legislation that we helped defeat just recently," Mr. Smith reported.



Mr. Smith's remarkable statement drew no public response from Harbor Commissioners. To our knowledge, the Port's non-

elected (Mayor chosen, Council approved) governing body had not previously agendized, or publicly discussed or publicly voted to oppose the legislation.

Congressman Rohrabacher, whose district includes the Ports of LB and L.A., had for a second time introduced a bill (HR 494) to add verbiage to an existing federal law that lets non-federal interests (Ports) levy harbor fees for specified purposes. Rohrabacher's legislation would have permitted, but not required, Ports to put fees on containers fees to help fund infrastructure and security items, arguably easing the cost for taxpayers.

On August 9, one day after *LBReport.com* reported that Port lobbyist Smith took credit for helping kill the bill, he reiterated and defended that position before the LB City Council. City management, with Council approval, also retains Smith to advocate the City's interests in Washington, D.C.

The Rohrabacher container fee measure would have neutralized a number of problematic federal legal issues regarding a state container fee bill (SB 760 by State Senator Alan Lowenthal). The

LB City Council had endorsed Lowenthal's bill...and evenue from it would be used in part for port security purposes. Killing Rohrabacher's bill also ran counter to City Hall's frequently stated principle of local control (it would have increased local control by enabling a locally-decided security related container fee).

8th district Councilwoman Rae Gabelich raised these matters with lobbyist Smith:

Councilwoman Rae Gabelich: [to Mr. Smith]...You reportedly said yesterday in your presentation to the Harbor Commission, that "there has been an effort to increase container fees, a piece of legislation that we helped defeat just recently." Yet that was part of the 710 Oversight Recommendations to use those fees for local environmental protection. And so my question to you is how can you serve two masters? How do you decide when you go to represent a bill, whose position takes priority?

Mr. Smith: ...Our job is to work with the feasibility of a bill that we have found or been directed to execute. No conflict of interest between the Port and the City. We helped defeat the bill because the bill was ill-drafted. It was never gonna pass because it would have had to have the concurrence of all the seaports in the United States. There are already 125 fees on port already, taxes, the Congress would have never allowed this.

And most of all, we were concerned in our office that, forget the Port and the City, the state of California would have feasibly been able to dip down, levy a fee on a container and take the money back to Sacramento.

And it was with those factors that we joined the Port industry in defeating the bill. I'm hoping this answers your question, perhaps it doesn't.

...

Mr. Smith: [after intervening colloquy]...I want you to hear from my colleague Sante Esposito who of course used to be with the Committee of Congress and wrote these bills...

Mr. Esposito: In legislation the devil's in the details and Del is absolutely right. This particular issue was opposed by the administration, opposed by OMB, opposed by the American Port Association and opposed by the authorizing committee. The proposal would have imposed a fee but then made that money available to the states to decide how they wanted to spend it and I don't think that's what any port wants to have happen.

That doesn't necessarily mean that the container fee issue, approached in a different way, wouldn't work but this particular proposal would not work, and it was defeated in two Congresses overwhelmingly on a bipartisan basis.

Councilwoman Gabelich: You understand that the issue is that we've got to protect the communities that line the freeways that serve the Port and there isn't any money. So we have to find a way to do that, and so maybe with your help we can put something better together...

A month earlier, without audible or visible support from the City of Long Beach, and with the quiet opposition of the Port of LB's lobbyists, the Rohrabacher bill reached the House floor. It held the key to removing federal impediments to the security aspects of the city-supported Lowenthal bill. It failed on a 111-310 vote.

Among local members of Congress, Ed Royce

(R., El Dorado-OC) and Loretta Sanchez (OC) voted "yes;" Juanita Millender-McDonald (D., Carson-LB) and Linda Sanchez (D., Lakewood) voted "no."

Below, from the *Congressional Record* are some excerpts of what took place on the House floor:

Congressional Record, House of Representatives, July 14, 2005

Mr. ROHRABACHER ...I rise to offer an amendment to H.R. 2864 that will expand the scope of section 208 in the Water Resources Development Act of 1986. My amendment will allow our ports to levy a fee on containers and use that fee to pay for security and infrastructure at the ports.

The Rohrabacher amendment will facilitate the effort to modernize and secure American ports. In my district, the ports of Long Beach and Los Angeles handle approximately 44 percent of all of the goods delivered to American shores, yet they are in constant need of revenue for facilities, improvements and upgrades to roads and bridges and rails.

Our marine terminals are invaluable commerce infrastructure, not only to our country but also for the many foreign manufacturers who sell primarily in the U.S. market.

This is the portal through which foreign manufacturers deliver their goods to our markets. Yet these manufacturers provide almost none of the costs of operation or upkeep of these vital assets. This system, as it currently operates, is a subsidy to foreign manufacturers, paid by the American taxpayer, concealing the true cost of imported goods. What we have here is all backwards. What we are in effect doing, as the system works, is putting a tariff on

products that are made in America.

Section 208 of WRDA currently allows ports to charge fees on tonnage and use those fees to fund infrastructure improvements. This section is hardly, if ever, invoked by the ports to raise funds due to the fact that it is complicated to collect and tends to be too unwieldy to be used effectively.

My amendment allows the ports to use a simpler and more efficient method: Fees on containers. The market-based fee in my amendment is simple to implement and to track, should be more widely used to raise funds for port projects. My amendment will also permit these fees to be used for homeland security projects at the ports, as well as infrastructure.

And let us be frank, the security threats that emanate from our ports come from foreign cargo. Why are we paying for their threat? If they want access to our markets, overseas manufacturers should pay the cost to ensure the safety of their deliveries. For too long the funding of marine terminals has been a one-way street with the American taxpayer footing the bill for the factory owners of Shanghai, Beijing and Macau while American manufacturers have been subsidizing their own competition.

Our port facilities should have the freedom to levy a market-based container fee which will provide new revenue and make our system more equitable to the American taxpayer and American manufacturers. The Rohrabacher amendment is the most efficient way to achieve these goals. The Rohrabacher amendment says we are on the side of the American taxpayer, and those people who run overseas to manufacture in China and elsewhere should be paying their part of the cost to make sure that that system, our port system, is working.

I would expect that people on both sides of the aisle would be supporting this. Unfortunately, our port systems, our ports, the people who run them, would rather come to the American taxpayer and get stipends from us rather than asking for a just fee to those manufacturers in China to pay for some of the costs that are required to ship their goods through our ports.

This is an American versus foreign vote here. Whose side are we on? Who is going to pay the bill? Right now if our people go overseas and build their manufacturing plants, we end up subsidizing that by permitting them low-cost ways of getting their goods right into our market and undercutting the American producers who stayed behind to hire American people.

I would ask people on both sides of the aisle to seriously consider this. Do not listen to the ports who simply want more taxpayer subsidies. Let us let the people who use this system, the foreign manufacturers, pay their fair share.

Mr. Chairman, I reserve the balance of my time.

Mr. DUNCAN. Mr. Chairman, I yield myself such time as I may consume.

The gentleman from California is one of the best friends I have in this Congress, and I certainly have great admiration and respect for him, and I sympathize with everything that he has just said; but I must regretfully state the position of the committee at this point, which is in opposition to this amendment.

The civil works program of the Army Corps of Engineers provides Federal assistance for dredging entrance channels and harbors and the Department of Homeland Security now offers grants for

security projects.

But, generally, capital improvements to port infrastructure are a non-Federal responsibility. The gentleman's amendment would permit a non-Federal interest, which could be the port authority or the State generally, to collect a fee per container that moves through the harbor and to use those funds for security purposes or for infrastructure projects within the port or any transportation infrastructure outside the harbor.

First, if the goal is to help ports, this amendment is unnecessary. Ports can already charge fees for services under the authority of section 208 of the Water Resources Development Act of 1986, which they can use to help them with the cost of security and port infrastructure.

Second, this amendment goes too far by allowing the collected funds to be used for transportation projects outside the port. This could mean potentially a State fee paid by shippers of containers at ports being used to pay for highway and rail projects elsewhere in the State. This is why the American Association of Port Authorities and even the gentleman's home port of LA/Long Beach oppose this amendment.

The Subcommittee on Water Resources and Environment held a hearing on this bill in November 2003. The American Association of Port Authorities, the Waterfront Coalition, and the World Shipping Council all testified in opposition to this proposal.

This amendment is the same as the amendment the gentleman from California brought to the House floor last Congress. It was defeated by a vote of 359-65. The committee believes that the ports can and

should charge whatever fees they believe are necessary to cover their security needs and infrastructure projects. They have the authority to do that now, and Congress should not dictate how they make this business decision.

I can assure the gentleman that I would like to work with him on some of the broader section 208 issues to see if we can better address his very legitimate concerns. We certainly sympathize with the gentleman's amendment. The gentleman's amendment is well-intentioned, but at this point the committee position is to urge our colleagues to oppose this amendment.

...[A number of Congressmembers speak in opposition to the bill]...

Mr. ROHRABACHER . Mr. Chairman, I yield myself the balance of my time.

The establishment has set up a system that we have built a Frankenstein monster in China by ensuring that jobs and manufacturing are going to China. I do not know why that is, I think that was a horrible decision, but it is time for us to start backing away from that policy. The most important way to start backing away from the policy of taking American jobs and shipping them to China, building the economic strength of China, the first step to take is to make sure that those people who go to China to manufacture are paying the cost of shipping their goods into America's markets rather than having the taxpayer provide that for them at the expense of our own manufacturers.

I would ask people on both sides of the aisle, let us turn around this policy, change the basic policy on China, vote "yes" on the Rohrabacher amendment.

The Acting CHAIRMAN (Mr. *Simpson*).

The question is on the amendment offered by the gentleman from California (Mr. *Rohrabacher*).

The question was taken; and the Acting Chairman announced that the noes appeared to have it.

Mr. ROHRABACHER . Mr. Chairman, ' demand a recorded vote...

FINAL VOTE RESULTS FOR ROLL CALL

376

(Republicans in roman; Democrats in *italic*; Independents underlined)

H R 2864 RECORDED VOTE 14-Jul-2005 2:11 PM

AUTHOR(S): Rohrabacher of California Amendment

QUESTION: On Agreeing to the Amendment

	Ayes	Noes	PRES	NV
Republican	57	167		6
Democratic	53	145		6
Independent	1			
TOTALS	111	310		12

---- AYES 111 ---

<i>Abercrombie</i>	Gutknecht	<i>Napolitano</i>
Akin	<i>Harman</i>	<i>Olve</i>
Bachus	Hayworth	Otte
<i>Baldwin</i>	Hefley	Paul
<i>Barrow</i>	Herger	Pence
Bartlett (MD)	<i>Herseth</i>	<i>Peterson (MN)</i>
Bono	<i>Hinchey</i>	Petri
<i>Brown (OH)</i>	<i>Hooley</i>	Pitts
Burgess	Hostettler	Pombo
Burton (IN)	Hunter	Renzi
<i>Butterfield</i>	Issa	Rogers (MI)
Buyer	Istook	Rohrabacher
Calvert	Johnson, Sam	Royce

<i>Case</i>	<i>Jones (NC)</i>	<i>Ryan (OH)</i>
<i>Coble</i>	<i>Kaptur</i>	<i>Ryan (WI)</i>
<i>Costa</i>	<i>Kennedy (RI)</i>	<i>Sabo</i>
<i>Costello</i>	<i>Kildee</i>	<i>Sanchez.</i>
<i>DeFazio</i>	<i>King (IA)</i>	<i>Loretta</i>
<i>DeGette</i>	<i>Kucinich</i>	<i>Sanders</i>
<i>Delahunt</i>	<i>Langevin</i>	<i>Schwarz (MI)</i>
<i>DeLauro</i>	<i>Larson (CT)</i>	<i>Scott (GA)</i>
<i>Dingell</i>	<i>Lungren,</i>	<i>Sensenbrenner</i>
<i>Doolittle</i>	<i>Daniel E.</i>	<i>Shadegg</i>
<i>Doyle</i>	<i>Maloney</i>	<i>Sherman</i>
<i>Duncan</i>	<i>Marshall</i>	<i>Sherwood</i>
<i>Emerson</i>	<i>McCollum</i>	<i>Shuster</i>
<i>Engel</i>	<i>(MN)</i>	<i>Slaughter</i>
<i>Evans</i>	<i>McCotter</i>	<i>Sodrel</i>
<i>Farr</i>	<i>McDermott</i>	<i>Stearns</i>
<i>Flake</i>	<i>McGovern</i>	<i>Strickland</i>
<i>Fortenberry</i>	<i>McHenry</i>	<i>Tancredo</i>
<i>Frank (MA)</i>	<i>McKinney</i>	<i>Taylor (MS)</i>
<i>Franks (AZ)</i>	<i>McNulty</i>	<i>Taylor (NC)</i>
<i>Gohmert</i>	<i>Meehan</i>	<i>Udall (CO)</i>
<i>Goode</i>	<i>Mica</i>	<i>Udall (NM)</i>
<i>Goodlatte</i>	<i>Moore (WI)</i>	<i>Walsh</i>
<i>Green (WI)</i>	<i>Murtha</i>	<i>Watt</i>
	<i>Myrick</i>	<i>Wilson (SC)</i>
	<i>Nadler</i>	

---- NOES 310 ----

<i>Ackerman</i>	<i>Gibbons</i>	<i>Nunes</i>
<i>Aderholt</i>	<i>Gilchrest</i>	<i>Nussle</i>
<i>Alexander</i>	<i>Gillmor</i>	<i>Obey</i>
<i>Allen</i>	<i>Gingrey</i>	<i>Ortiz</i>
<i>Andrews</i>	<i>Gonzalez</i>	<i>Osborne</i>
<i>Baca</i>	<i>Gordon</i>	<i>Owens</i>
<i>Baird</i>	<i>Granger</i>	<i>Oxley</i>
<i>Baker</i>	<i>Graves</i>	<i>Pallone</i>
<i>Barrett (SC)</i>	<i>Green, Al</i>	<i>Pascrell</i>
<i>Barton (TX)</i>	<i>Green, Gene</i>	<i>Pastor</i>
<i>Bass</i>	<i>Grijalva</i>	<i>Payne</i>
<i>Bean</i>	<i>Gutierrez</i>	<i>Pearce</i>
<i>Beauprez</i>	<i>Hall</i>	<i>Pelosi</i>
<i>Becerra</i>	<i>Harris</i>	<i>Peterson (PA)</i>
<i>Berkley</i>	<i>Hart</i>	<i>Pickering</i>

<i>Berman</i>	<i>Hastings (FL)</i>	Poe
<i>Berry</i>	<i>Hastings (WA)</i>	<i>Pomeroy</i>
Biggert	Hayes	Porter
Bilirakis	Hensarling	Price (GA)
<i>Bishop (GA)</i>	<i>Higgins</i>	<i>Price (NC)</i>
<i>Bishop (NY)</i>	<i>Hinojosa</i>	Pryce (OH)
Bishop (UT)	Hobson	Putnam
Blackburn	Hoekstra	Radanovich
<i>Blumenauer</i>	<i>Holden</i>	<i>Rahall</i>
Blunt	<i>Holt</i>	Ramstad
Boehlert	<i>Honda</i>	<i>Rangel</i>
Boehner	<i>Hoyer</i>	Regula
Bonilla	Hulshof	Rehberg
Bonner	Hyde	Reichert
Boozman	Inglis (SC)	<i>Reyes</i>
<i>Boren</i>	<i>Inslee</i>	Reynolds
<i>Boswell</i>	<i>Israel</i>	Rogers (AL)
<i>Boucher</i>	<i>Jackson (IL)</i>	Rogers (KY)
Boustany	<i>Jackson-Lee</i>	Ros-Lehtinen
<i>Boyd</i>	<i>(TX)</i>	<i>Ross</i>
Bradley (NH)	<i>Jefferson</i>	<i>Rothman</i>
<i>Brady (PA)</i>	Jenkins	<i>Roybal-Allard</i>
Brady (TX)	Jindal	<i>Ruppersberger</i>
Brown (SC)	Johnson (CT)	<i>Rush</i>
<i>Brown,</i>	Johnson (IL)	Ryun (KS)
<i>Corrine</i>	<i>Johnson, E. B.</i>	<i>Salazar</i>
Brown-Waite,	<i>Jones (OH)</i>	<i>Sánchez, Linda</i>
Ginny	<i>Kanjorski</i>	<i>T.</i>
Camp	Keller	Saxton
Cannon	Kelly	<i>Schakowsky</i>
Cantor	Kennedy (MN)	<i>Schiff</i>
Capito	<i>Kind</i>	<i>Schwartz (PA)</i>
<i>Capuano</i>	King (NY)	<i>Scott (VA)</i>
<i>Cardoza</i>	Kingston	<i>Serrano</i>
<i>Carnahan</i>	Kirk	Sessions
Carter	Kline	Shaw
Castle	Knollenberg	Shays
Chabot	Kolbe	Shimkus
<i>Chandler</i>	Kuhl (NY)	Simmons
Chocola	LaHood	Simpson
<i>Clay</i>	<i>Lantos</i>	<i>Skelton</i>
<i>Cleaver</i>	<i>Larsen (WA)</i>	Smith (NJ)
<i>Clyburn</i>	Latham	Smith (TX)
Cole (OK)	LaTourette	<i>Smith (WA)</i>
Conaway	Leach	<i>Snyder</i>

<i>Conyers</i>	<i>Lee</i>	<i>Solis</i>
<i>Cooper</i>	<i>Levin</i>	<i>Souder</i>
<i>Cox</i>	<i>Lewis (CA)</i>	<i>Spratt</i>
<i>Cramer</i>	<i>Lewis (GA)</i>	<i>Staben</i>
<i>Crenshaw</i>	<i>Lewis (KY)</i>	<i>Stupak</i>
<i>Crowley</i>	<i>Linder</i>	<i>Sullivan</i>
<i>Cuellar</i>	<i>Lipinski</i>	<i>Sweeney</i>
<i>Culberson</i>	<i>LoBiondo</i>	<i>Tanner</i>
<i>Cummings</i>	<i>Lofgren, Zo.</i>	<i>Tauscher</i>
<i>Davis (AL)</i>	<i>Lowey</i>	<i>Terry</i>
<i>Davis (CA)</i>	<i>Lucas</i>	<i>Thomas</i>
<i>Davis (FL)</i>	<i>Lynch</i>	<i>Thompson</i>
<i>Davis (IL)</i>	<i>Mack</i>	<i>(CA)</i>
<i>Davis (KY)</i>	<i>Manzullo</i>	<i>Thompson</i>
<i>Davis (TN)</i>	<i>Marchant</i>	<i>(MS)</i>
<i>Davis, Jo Ann</i>	<i>Markey</i>	<i>Thornberry</i>
<i>Davis, Tom</i>	<i>Matheson</i>	<i>Tiahrt</i>
<i>Deal (GA)</i>	<i>Matsui</i>	<i>Tiberi</i>
<i>DeLay</i>	<i>McCarthy</i>	<i>Tierney</i>
<i>Dent</i>	<i>McCaul (TX)</i>	<i>Towns</i>
<i>Diaz-Balart, L.</i>	<i>McCrary</i>	<i>Turner</i>
<i>Diaz-Balart,</i>	<i>McHugh</i>	<i>Upton</i>
<i>M.</i>	<i>McKeon</i>	<i>Van Hollen</i>
<i>Dicks</i>	<i>McMorris</i>	<i>Velázquez</i>
<i>Doggett</i>	<i>Meek (FL)</i>	<i>Visclosky</i>
<i>Drake</i>	<i>Meeks (NY)</i>	<i>Walden (OR)</i>
<i>Dreier</i>	<i>Melancon</i>	<i>Wamp</i>
<i>Edwards</i>	<i>Menendez</i>	<i>Wasserman</i>
<i>Ehlers</i>	<i>Michaud</i>	<i>Schultz</i>
<i>Emanuel</i>	<i>Millender-</i>	<i>Waters</i>
<i>English (PA)</i>	<i>McDonald</i>	<i>Watson</i>
<i>Eshoo</i>	<i>Miller (MI)</i>	<i>Waxman</i>
<i>Etheridge</i>	<i>Miller (NC)</i>	<i>Weiner</i>
<i>Everett</i>	<i>Miller, Gary</i>	<i>Weldon (FL)</i>
<i>Fattah</i>	<i>Miller, George</i>	<i>Weldon (PA)</i>
<i>Feeney</i>	<i>Mollohan</i>	<i>Weiler</i>
<i>Ferguson</i>	<i>Moore (KS)</i>	<i>Westmoreland</i>
<i>Filner</i>	<i>Moran (KS)</i>	<i>Wexler</i>
<i>Fitzpatrick</i>	<i>Moran (VA)</i>	<i>Whitfield</i>
<i>(PA)</i>	<i>Murphy</i>	<i>Wicker</i>
<i>Foley</i>	<i>Musgrave</i>	<i>Wilson (NM)</i>
<i>Forbes</i>	<i>Neal (MA)</i>	<i>Wolf</i>
<i>Ford</i>	<i>Neugebauer</i>	<i>Woolsey</i>
<i>Fossella</i>	<i>Ney</i>	<i>Wu</i>
<i>Foxx</i>	<i>Northup</i>	<i>Wynn</i>

Frelinghuysen Garrett (NJ) Gerlach	Norwood	Young (AK)
--	---------	------------

--- NOT VOTING 12 ---

Capps	Cunningham	Miller (FL)
Cardin	Gallegly	Oberstar
Carson	Kilpatrick (MI)	Platts
Cubin	McIntyre	Young (FL)

In a March 3, 2006 freewheeling telephone interview with Congressman Rohrabacher, *LBReport.com* asked about the Port of LB's opposition to container fees for security, reflected by an August 2005 boast by PoLB's DC lobbyist that he'd helped killed Rohrabacher's container fee legislation. Speaking extemporaneously on a cell phone while in motion, Congressman Rohrabacher said bluntly:

"It's pretty grotesque. This is the Ports beating themselves in the head with a hammer and then bragging about it. I mean it's insane." He continued:

Cong. Rohrabacher: ...[T]here's a tremendous arrogance in the Ports, and in Long Beach and in Los Angeles in those people involved around the Ports, and when you have arrogance coupled with basically naivete, it's really a very destructive force.

And that's what you've got here. They're involved in a powerful dynamic in our society, the ports. This is an incredibly powerful dynamic, but they are nowhere near as sophisticated as they think they are. And in fact, their parochialism would be funny if it wasn't so destructive, and their opposition to the container fee idea is the best example of that.

However, if you have a good idea and you keep pushing it, and you are someone who doesn't

mind being put down for a number of years until people realize that you are right, it's OK.

Laying Groundwork For Undermining Lowenthal Container Fee Bill (SB 760, now SB 927)

In 2005, the LB City Council publicly voted to support a package of port-related bills authored by State Senator Alan Lowenthal (D., LB-SP-PV). The bills included a container fee measure (SB 760) whose revenue would fund port security measures, clean air programs and port rail programs.

The proposed container fee was fiercely opposed by industry...which cited federal issues that would have been cured by the federal Rohrabacher bill...which died in the House of Representatives without support from the City of LB and with opposition by the Port of LB's lobbyists).

As noted in a May 2005 Assembly committee analysis:

Opponents of this bill make two major arguments against the measure. First, trade-related businesses and organizations contend that the bill violates the United States Constitution's Commerce Clause and breach obligations under international trade agreements, including Article VII of the General Agreement on Trade and Tariffs. They believe that costly litigation could result and an international trade dispute at the World Trade Organization could ensue. Opponents believe that California ports would become competitively disadvantaged by the new fees and that cargo would be diverted elsewhere, away from California ports. They describe the container fee as an illegal tax being imposed at a time when

existing transportation and infrastructure funds are being diverted to the General Fund and that the new charges will have to be passed on to consumers...

Sen. Lowenthal's container fee measure was opposed by the "California Association of Port Authorities"...an entity in which the Port of LB and L.A. are members. The "CA Ass'n of Port Authorities" is also listed on the letterhead of the "California Trade Coalition" (listed names include the CA Chamber of Commerce), which submitted an opposition memo to an Assembly Committee slated to hear the container fee bill on August 17, 2006.

The "California Trade Coalition" memo cited federal legal issues...which the Rohrabacher bill (defeated without support from the City of LB and with opposition by the Port of LB's lobbyist). **"We believe [Sen. Lowenthal's container fee bill] also exposes the state to significant legal expenses as the proposed fee violates the U.S. Constitution** [emphasis in original], specific federal fee authorizing statutes, and international trade agreements, such as article VII of the General Agreement on Trade and Tariffs (GATT)," said the CA Trade Coalition's advocacy memo.

As previously reported by *LBReport.com*, the "CA Ass'n of Port Authorities" also opposed SB 764 by Sen. Lowenthal ("no net increase" in port air pollution measure) that was supported by the City of Long Beach.

The Port of Long Beach was publicly neutral on the "no net increase (SB 764) and container fee (SB 760) measures...but for the past year, the president of the "CA Ass'n of Port Authorities" (a rotating position) was Port of LB Executive Director, Richard Steinke.

On June 20, 2006, one day after *LBReport.com* reported that the "CA Ass'n of Port Authorities" had testified against Sen. Lowenthal's "no net increase" bill in an Assembly committee, Councilmembers Tonia Reyes Uranga and Rae Gabelich quizzed Port officials about the matter.

Councilwoman Reyes Uranga asked PoLB Dir. of Community Affairs & Gov't Relations, Carl Kemp, about Executive Director Steinke's role with the CA Ass'n of Port Authorities. Mr. Kemp replied:

PoLB Dir. of Community Affairs/Gov't Relations Carl Kemp: We along with all California Ports are members of this Association. However, though the Association did take a position on [SB 764, the "no net increase" bill], we were not official voting parties in it, much like the City Council might take a vote where there are Councilmembers who may or may not vote on it, that's the official position of the Council for the record. The Port of Long Beach did not take an official position opposing any of the legislation that would be counter to what the City Council has supported...As we promised the City Council, we are aggressively neutral and we are in regular communication with Senator Lowenthal and his staff and we have a very open line of communication...

Councilwoman Rae Gabelich: [to PoLB Executive Dir. Steinke]...I just have to ask you this. During that vote as the president of CAPA, did you cast your vote to support their not-supporting that initiative [SB 764]?

PoLB Executive Dir. Steinke: No, Councilwoman. As Mr. Kemp explained, though I am the president of the California Association of Port Authorities, which will expire in September, I took no vote for or against the legislation. You have to

understand that we have eleven public ports in California. Many of those ports see legislation as having a competitive disadvantage for their business. Many of the ports north of us, Oakland, Hueneme, Redwood City, Richmond, they all would love the business that comes to southern California. Legislation that might look to prevent business or reduce business down here is looked at as a bonanza for those ports, so they are very aggressive to get as much business as they can... You'll see that many of the times that we will abstain from voting for legislation or in support of legislation...

In a surprising turn of events, Sen. Lowenthal's port bills (which had cleared the State Senate) were blocked by Assembly Democrats. A *Daily Breeze/Copley* news story (linked with permission on *LBReport.com*) indicated this stemmed from some Assembly Democrats' annoyance with Sen. Lowenthal's bill to reform the drawing of legislators' district lines (now visibly Gerrymandered by controlling Democrat majorities).

The Assembly leadership eventually let one of Sen. Lowenthal's port bills reach the Assembly floor. Sen. Lowenthal used a "gut and amended" procedure (pouring the container fee text into another bill, SB 927) and making some substantive changes (money previously slated for the AQMD will now go to the CA Air Resources Board) before the final vote.

SB 927 passed the state legislature and is (as we post) now on the Governor's desk...with industry interests furiously lobbying the Governor to veto it.

In their opposition, they routinely cite the federal legal issues that the Rohrabacher bill (which died without support from the City of LB

and with opposition by the Port's lobbyist) could largely have cured.

"Container fees of the sort contemplated in the Lowenthal bill would violate the Commerce Clause of the U.S. Constitution, international law and U.S. treaty obligations, and would expose the state of California to court challenge were it to become law," said the president of the National Retail Federation ("the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet, independent stores, chain restaurants, drug stores and grocery stores as well as the industry's key trading partners of retail goods and services") in a letter urging Gov. Schwarzenegger to veto the bill.

The letter also contended that the container fee would "substantially increase the cost of moving goods through LA/Long Beach and adversely impact these ports' competitiveness and workforce as retailers and other shippers are forced to look for alternative ports outside the state of California to enter their goods."

LBReport.com will report the Governor's action -- veto or approval -- on the Lowenthal container fee measure when news breaks.

Ensuring Non-Elected Port Officials Help Write Law Regulating Security Measures, Fed'l "SAFE Port" Act

On Sept. 11, 2001, terrorists used airports at Boston and Newark -- operated by area port authorities -- to launch their attacks on America. The port-authority run airports used federally-approved useless "security" approved in a process heavily influenced by hired lobbyists and advocates for industry interest

groups.

Nearly five years after that dark day, the process was arguably repeated.

On March 17, 2006, the Port of Long Beach served as host for a meeting with members of Congress writing and voting on HR 4954, dubbed by its supporters the "SAFE Port" Act,

Those participating in the meeting included Congressmen Dan Lungren (R., Sacramento) and Loretta Sanchez (D.,



Garden Grove), chair and ranking member, respectively, of the Subcommittee on Economic Security, Infrastructure Protection & Cybersecurity of the House Homeland Security Committee.

Also taking part were Port officials (PoLA Exec. Dir Geraldine Knatz, a PoLB alumna), LB Harbor Commissioners James Hankla and Mario Cordero, PoLB Executive Dir. Richard Steinke and multiple PoLB staffers, plus federal officials and industry interests.

But at a press event called to publicized the meeting, we saw no elected officials, no LB or L.A. City Councilmembers or LB city management. We subsequently learned later that then-Mayor Beverly O'Neill's office was informed of the meeting...but other LB elected officials weren't...an oversight that PoLB's Carl Kemp told us resulted from a clerical error. Mr. Kemp said a :cc line on an advisory memo to

Councilmembers was inadvertently not transmitted. "It was my error," Mr. Kemp said.

LBReport.com also subsequently learned and reported that Assemblywoman Betty Karnette (D., LB), whose district includes the Port of LB, was told by staff in Congressman Lungren's DC office that she was not welcome to attend as a participant.



Present at the event was the Port of LB's DC lobbyist E. Del Smith...who for years has also represented the City of

LB's interests in DC.

We noticed that Cong. Rohrabacher (whose district includes the Port of LB-L.A.) wasn't listed as a co-sponsor on the bill...and at a news conference we asked if Congressmembers Lungren and Sanchez support Congressman Rohrabacher's efforts to enable Ports to levy container fees -- paid by shippers whose containers create public security risks and costs -- to help defray public costs of container-related security measures.

(In August 2005, Port of LB lobbyist Smith publicly told LB's Harbor Commissioners that his firm had helped kill Cong. Rohrabacher's container fee legislation.)

Congressman Lungren said the container fee idea is "not original with Dana [Congressman Rohrabacher], there was an [op-ed piece by a third party in a national newspaper] suggesting

that there be a \$20 charge per container. At least that has a connection with the process. I would like to stick with the fees that are already existing. I don't know what the trade implications are with that. I'm not sure what the total tax implications are from that. All I'm saying is we at least start the debate going with a dedicated source of funds or stream of funds for this purpose ought to be established. If they want to find it some other way, I'm happy to engage in that debate but at least we're saying we think it's that important this ought to be dedicated for this purpose."

The House version of the SAFE Port Act relies on maritime customs fees for funding. That view is supported by the American Association of Port Authorities (AAPA), an advocacy group in which the Port of LB is a member. AAPA says it supports increased port security but opposes new taxes on shippers.

In a policy statement on its website posted before introduction of the SAFE Ports act, AAPA said, "AAPA believes that Customs duties should be used as a source of security funds if Congress seeks a dedicated source of funding. AAPA opposes new taxes to fund security enhancements."

The AAPA also worked to defeat an amendment offered by Congressmembers Ed Markey (D., Boston) and Jerrold Nadler (D. NYC) that would have amended the SAFE Port Act to add a requirement that all incoming cargo containers be inspected and sealed before entering the U.S. and scanned for radiation and density and, if appropriate, atomic elements

The text supported by Markey and Nadler stated in pertinent part:

IN GENERAL.--A container may enter the United States, either directly or via a foreign port, only if--

“(A) the container is scanned with equipment that meets the standards established pursuant to paragraph (2)(A) and a copy of the scan is provided to the Secretary; and

“(B) the container is secured with a seal that meets the standards established pursuant to paragraph (2)(B), before the container is loaded on the vessel for shipment to the United States.

“(2) STANDARDS FOR SCANNING EQUIPMENT AND SEALS.--

“(A) **SCANNING EQUIPMENT.**--The Secretary shall establish standards for scanning equipment required to be used under paragraph (1)(A) to ensure that such equipment uses the best-available technology, including technology to scan a container for radiation and density and, if appropriate, for atomic elements.

“(B) **SEALS.**--The Secretary shall establish standards for seals required to be used under paragraph (1)(B) to ensure that such seals use the best-available technology, including technology to detect any breach into a container and identify the time of such breach.

While the AAPA (funded in part by dues paid by LB's and L.A.'s publicly owned Ports) worked to defeat the container inspection requirement, the City of LB officially said...nothing. When the cargo container inspection amendment reached the House floor on May 4, 2006, Congressmembers Markey and Nadler gave strong speeches in support...but they didn't have support from CA's fifth largest

city, home to part of the nation's busiest container port complex. The LB City Council had simply not discussed the issue.

Neither Congresswoman Jane Harman (D., Southbay), a co-author of the "SAFE" port bill, nor Congresswoman Juanita Millender-McDonald (D., Carson-LB) spoke in support of the 100% container inspection requirement. Harman was one of the originally listed co-sponsors of the 100% inspection amendment but on the House floor Harman spoke in favor of the bill without it. "I urge its passage. This is the first great day of the 2006 legislative calendar," Congresswoman Harman said.

After voting to put themselves on record in favor of the 100% container inspection requirement, Congressmembers Harman and Millender-McDonald then joined all but one Democrat (Markey) in voting for the bill without it.

Cong. Dan Lungren (R., Sacramento), a previous LB resident/representative who co-authored the "SAFE" port bill, and Congressman Dana Rohrabacher (R., HB-LB-PV), who represents roughly 20% of LB (SE ELB), voted against the 100% inspection requirement and voted for the bill without it.

We post below extended portions of the May 4, 2006 House debate on the 100% container inspection requirement from the *Congressional Record* [with bracketed material by us for clarity]:

Mr. KING (R. NY) [House Homeland Security Committee chair]: ...Madam Chairman, on September 11 all of us pledged that we would do all we could to prevent another terrorist attack from occurring in this

country. One of the areas where we are most vulnerable is our ports. There are 11 million containers that come into our ports every year from foreign countries. Much progress has been made since September 11 in protecting our ports and improving the inspection process, the screening process, the scanning process; but the reality is that more has to be done.

I strongly believe that the SAFE Ports Act is a major step in the direction of giving us that level of protection that we need. For instance, it provides \$400 million a year in risk-based funding for a dedicated port security grant program.

It mandates the deployment of radiation portal monitors which will cover 98 percent of the containers entering our country and then going out into the country...

And as far as the Container Security Initiative, CSI, it mandates that the Secretary of Homeland Security will not allow any container to be loaded onto a ship overseas unless that container is inspected at our request. In the past, we have had a number of countries that refused to make these inspections. There have been 1,000 containers that have entered this country unexamined, uninspected because the overseas ports would not carry out the inspection. In the future, that will not be allowed to happen.

Also, we require DHS to continually evaluate emerging radioactive detection and imaging technology. We also increase the number of inspectors by 1,200. All of these are part of the layered response and the layered system of defense that we need to significantly and dramatically upgrade the level of protection in our ports.

This is a bill which I believe warrants the

support of the entire House. It passed out of the subcommittee unanimously, and it passed out of the full committee by a vote of 29-0, and I will be urging its adoption today...

Mr. DANIEL E. LUNGREN (R. CA [Sacramento area]):...This is the best of bills: legislation written to make a law, not to make a political statement. Yes, there are political statements that will be made about this bill, but the fact of the matter is we are moving forward in an effective way to solve a challenge that is out there that the American people recognize and that we recognize...

I would say we are going to have a debate about 100 percent inspection, and I would say we all would hope for that day. But I would just direct people's attention to the National Journal of this last Friday on the inside page where they have something called the "Reality Check" and they refer to this effort to have 100 percent container inspection. They say, and this is the National Journal, that "it is a nice idea but not very feasible with current technology. Eleven million containers are shipped to U.S. ports each year. Of those, U.S. Customs and border protection personnel physically screen only about 6 percent, 660,000. 'It is a noble impulse, but as a practical matter, it can't be accomplished right now,' said Jack Riley, homeland security expert with RAND."

The key to being able to carry this out in the future is better equipment that stands [we believe he said "scans"] faster; and that requirement, that impulse, is in this bill as a result of an amendment adopted that was presented by the gentlewoman from Florida. We are attempting to make us safer. Let us rejoice in this day and let us support this bill.

Mr. MARKEY (D., MA):...Mr. Chairman, I thank the gentleman.

This bill has a fatal flaw. It relies upon paperwork checks. If you went to the airport with your bags, showed up, showed the person your ticket and your ID, and then the person just waived you on to the plane with another 150 people and all the bags went on as well, with no scanning, no screening, you would sit petrified in your seat.

Well, that is what is going to happen, unless the recommittal motion which Mr. Nadler and I are going to make later on today is in fact voted upon successfully.

The Republican leadership has refused to allow a debate on 100 percent screening of cargo containers coming into the United States.

Now, why is that important? It is important because of all of the unsecured nuclear material in the former Soviet Union that al Qaeda can purchase, take to a port in Europe, in Asia, in Africa, and then, with a piece of paper and an ID, waive on a 10,000 or 20,000 or 30,000 pound container and, with the nuclear bomb inside of it, send that ship, that container, right to a port in the United States, to New York, to Boston, to California, to any other city in America, without being screened.

President Kennedy took on the Soviet Union technologically in the 1960s. He put a man on the moon in 8 years. The Republicans are saying they can't figure out in 8 years, 8 years, from 2001 to 2009, how to screen cargo containers coming into the United States and how to put tamper-proof seals on them, knowing that al Qaeda has said that bringing a nuclear weapon into the United States is their highest goal, to kill hundreds of thousands of Americans.

So this vote that we have later on today will decide whether or not this fatal flaw in the

Republican bill is allowed to stand, if the Bush administration is allowed to turn a blind eye to the number one threat that al Qaeda poses to our country.

Mr. KING of New York. Mr. Chairman, I yield myself the balance of my time.

Mr. Chairman, we went through a very long and productive, bipartisan process in arriving at this point today. It trivializes the debate, it demeans the process, to be suggesting that anyone, anyone at all in this body, certainly anyone on this committee, is not absolutely committed to the protection of every American life. Those of us who came from districts who lost large numbers of people on September 11 perhaps have even a more acute interest in doing all we possibly can.

But we also don't want to do the most cruel thing of all, and that is hold out a false hope. The worst thing of all is to adopt legislation which is symbolic rather than real. We want results. We are not looking for sound bites, we are not looking for headlines, we are not looking for the evening news, we are not looking for the tabloids. We are looking to get results to save American lives and to make America safer.

That is exactly what this legislation does, through layers of defense, through layers of security, through well-thought-out processes and urging as quickly as possible the advancement and the use of technology that can be done. Not technology that might work or might not work, but technology that can work and will work and can be implemented in an effective way.

That is what this is about. That is what the debate should be about. As the late morning and early afternoon goes forward, I am sure the American voters who are watching this will see that there are those of us who do

want to maintain the level of debate on both sides of the aisle, and that level is going to bring about American security.

Mr. Chairman, I yield back the balance of my time.

...

Mr. NADLER (D. NY):...Mr. Chairman, I rise in very tepid support of this bill. It is a very nice bill. It has some nice provisions. None of it matters very much if we do not at least electronically scan every container before it is put on a ship bound for the United States. All it would take is one atomic bomb, one radiological bomb, to make 9/11 look like a fire cracker, to kill hundreds of thousands of people, to cost hundreds of billions of dollars, to bring commerce to a total halt for weeks or months while every ship, every container is not scanned, but searched, inspected by hand before they are allowed to proceed into this country, because that is what will happen if there is, God forbid, a disaster in this country.

We have no protection against that now. Even with this bill, we depend on risk-based analysis, on paper as Mr. Markey said, to defend us. What the motion to recommit does is to say that no container can be put on a ship bound for the United States until it is scanned for radiation and for density, until the result of that scan is transmitted electronically in real-time to American inspectors in the United States, and until a tamper-proof seal that will tell us whether that container has been tampered with after it is scanned is put on that container.

We are told this is not feasible. Mr. King says the technology does not exist. But it is done in Hong Kong today. It is done in Hong Kong today. The two biggest terminals in Hong Kong have this. Of course, nobody

bothers reading the scans because the Department of Homeland Security cannot be bothered. They are on a hard drive in Hong Kong.

It is relatively cheap, \$6.50 per container, 10 seconds per container, no delay. But the DHS has no urgency. Mr. Gingrey, a Republican of Georgia at the Rules Committee, said that he had a company in his district that makes those tamper-proof seals that can talk to the global positioning satellite; but he cannot get DHS to talk to them, they are not interested.

The motion to recommit we are told is irresponsible and partisan. It is, in fact, word for word identical as the amendment that was agreed to by the chairman of the Transportation Committee and adopted unanimously by a bipartisan vote in the Transportation Committee. But suddenly when it comes to the floor, it is a partisan amendment.

The Republicans on the Transportation Committee understood the necessity for protecting our homeland.

The Republicans on the Homeland Security Committee apparently do not, nor does the Republican leadership, because they will not agree to this obvious thing to do that everyone, bipartisan, on the Transportation Committee agreed to do.

Mr. Chairman, the main risk comes from the so-called low-risk containers, not the high-risk containers. Wal-Mart ships a shipment of sneakers from a factory in Indonesia. And on the truck on the way to the port, the truck driver goes to lunch. And while he is at lunch, someone takes out a package of sneakers and puts in an atomic bomb. The bill of lading is fine. It is a reliable company. It is low-risk, and there is an atomic bomb on that container, and no one sees it because that

container is not scanned.

Maybe it is scanned under this bill in Boston or in Los Angeles. It is too late to look at it in Los Angeles if there is an atomic bomb on board.

Mr. Chairman, this motion to recommit, which I hope Members will vote for on the merits, not vote party line against it because it is a procedural motion or some such nonsense, makes this a worthy bill, and makes this a bill that will really protect Americans... I offer this motion to recommit with the gentleman from Massachusetts (Mr. *Markey*), and I thank him for his efforts on this issue.

This is a reasonable bill, but none of it matters much if we don't at least electronically scan every shipping container. All it takes is one atomic or radiological bomb to make 9/11 look like a firecracker, to kill hundreds of thousands of people, to cost hundreds of billions of dollars, to bring commerce to a total halt for weeks or months while every ship is searched by hand because we don't have in place the means to scan every container.

That is what this motion is about. If we really want to make this country safer, we must demand that before any container is put on a ship bound for the United States it must be scanned electronically in the foreign port. It is too late if we find a nuclear bomb in Los Angeles or New York.

The container must then be sealed with a seal that will tell us if it is tampered with after it is scanned, and the results of the scan must be transmitted electronically to people in the United States for examination.

This motion is identical to an amendment that was unanimously agreed to by Chairman *Young* and the entire Transportation

Committee a month ago. This is not a partisan issue, unless you choose to make it so by voting "no."

They say the technology doesn't exist. The technology most certainly does exist. It is installed right now in Hong Kong. The technology is installed in Hong Kong now, except that the results of those scans are stored on disks because no one at the Department of Homeland Security can be bothered to read them.

The people who say we can't do this are the same people that told us 2 years ago that we couldn't get a bill of lading for every container 24 hours in advance, the same people who told us that if we searched every passenger, the airports would be gridlocked, the planes would never take off. Scanning every container is feasible, it is relatively cheap, and it will not delay global commerce.

If we continue to rely solely on so-called risk-based strategy, the terrorists will simply put the atomic bomb in a low-risk container from Wal-Mart. The real risk is that a good company will have a container with sneakers on a truck in Indonesia. On the way to a port, the driver will stop for lunch; and while he is at lunch terrorists will take out some sneakers and put in a bomb. And the bill of lading will be fine.

The question on this motion is, do we or do we not want to risk American cities and American lives on the chairman's confidence in Wal-Mart's paperwork?

Mr. Speaker, I yield now to a leader on this issue, Mr. *Markey*.

Mr. MARKEY. I thank the gentleman from New York for his great leadership on this issue.

This recommittal motion deals with the fatal

law in the Republican bill. They have refused to allow a vote on this House floor on this issue. This is now the time for the Members to go on record to get real about cargo security.

The threat is that, in the former Soviet Union, with all of the loose nuclear material, that al Qaeda purchases a nuclear device, brings it to a port in Asia, in Africa, in Europe, places it upon a ship. Using the screening which the Republican party supports, the screening would be a piece of paper. Oh, you look okay. You can bring it on to the ship. No inspection, no scanning. That is what their bill does.

The Democratic substitute says that no container can be placed on a ship coming to the United States which is not scanned for uranium, for nuclear materials, for a nuclear bomb, for weapons of mass destruction.

The screening must be done overseas, and we must seal those containers. We must scan and seal overseas so that we do not have to duck and cover here in the United States. That is the risk that al Qaeda has said they pose to us at the very top of their terrorist target list.

The Republicans are basically saying they are going to put a "Beware of Dog" sign out on the lawn but not purchase a dog, never do the screening, never do the inspection, use a paperwork inspection instead.

This bill has a loophole big enough to drive a cargo container filled with nuclear weapons material through it. This is an historic moment.

Here is the seal which the Republicans are still approving to be placed upon a cargo container. This can be cut by a child's scissors, ladies and gentlemen.

This is what should be placed upon each one of the containers after they have been scanned, after they have been sealed, to make sure that if it is tampered with an electronic signal goes to the Department of Homeland Security.

The Republican party says no. The Republican party says they will use paperwork instead of real, physical scanning of each and every cargo container, knowing that it could have a nuclear weapon, knowing that these nuclear materials have not been secured in the former Soviet Union.

Vote "aye" on the recommittal motion and protect the security of our country from the single greatest threat that is posed to it. Vote "aye" on the recommittal motion.

Mr. KING [R. NY]...Mr. Speaker, I rise in opposition to the motion to recommit.

The SPEAKER pro tempore. The gentleman is recognized for 5 minutes.

Mr. KING of New York. Mr. Speaker, I yield to the gentleman from California (Mr. *Daniel E. Lungren*), the author of the legislation.

Mr. DANIEL E. LUNGREN [R. CA] :
Mr. Speaker, I came to this body with many of you to make sure that we did what was necessary to protect our constituents. I brought this bill to the floor, through the subcommittee, committee and to the floor with that promise in mind.

This is not, as the gentleman from Massachusetts said, a Republican bill. This is, in fact, a bipartisan bill. Eighty cosponsors. Passed our committee 29-0.

There is a dispute with respect to this particular technology, and I might just refer you to the National Journal of this last week

talking about this very issue. It said, nice idea, but not very feasible with current technology.

Eleven million containers are shipped to the U.S. ports each year. Of those, U.S. Customs and Border Protection personnel physically screen, that means inspect, only about 6 percent, or 660,000.

It is a noble impulse, but, as a practical matter, it can't be accomplished right now, said Jack Riley, Homeland Security expert with Rand.

The key to being able to carry this out in the future is better equipment that scans faster. That is what our bill does. It asks us to accelerate our investigation into new technology. It mandates that the Secretary, if, in fact, he finds that to be usable, practical, adaptable, that he then negotiate with foreign countries to immediately put it into place and, if they refuse, gives our President and our Secretary the right to refuse to allow their cargo into the United States. We don't put a time limit on it. We said as soon as it is feasible to do it.

So as a great political philosopher, Don Meredith, once said, "If ifs and buts were candy and nuts, every day would be Christmas."

We don't bring you a hope that cannot be fulfilled. We bring you a promise that can be fulfilled in this bill. Please vote down this motion to recommit.

Mr. KING of New York. Mr. Speaker, let me at the outset commend Ranking Member *Thompson*, Chairman LUNGREN, Ranking Member SANCHEZ, Ms. *Harman* for the truly bipartisan job they did in putting this together...

I am proud of how bipartisan this was,

right up till a few moments ago. Just this afternoon we adopted nine Democratic amendments on this bill.

The reality is, though, this is an outstanding port security bill. I came from a district which lost more than 150 friends, neighbors and constituents on September 11. Unlike Mr. *Markey*, I don't need visual aids to remind me of what happened on September 11.

Mr. MARKEY. Will the gentleman yield?

Mr KING of New York. No, I will not yield. I did not interrupt you.

Mr. MARKEY. Mohammed Atta started in Boston, my friend. There were Bostonians on that plane.

The SPEAKER pro tempore. The gentleman from New York is recognized.

Mr. KING of New York. Amazing how the truth hurts.

I don't need visual aids to remind me what happened on September 11. I can go to my district office and see a woman working at the front desk who lost two cousins. I can talk to another member of my staff who lost a son, or another member who lost two brothers on that day. I can go to church on Sunday and see 10, 15 families who lost people.

This is an issue where every Member on both sides of the aisle is committed to doing the right thing. And it is wrong when people on the other side say the Republicans are not trying to stop another nuclear attack. Do they really believe that? Do they so demean the process of debate in this House that they are willing to do anything to get elected, do anything to make points on evening news, the sound bites, the cable TV?

The fact is this bill is a real bill. It does not send a false or misleading hope. It is not a cruel hoax. It does what is real. It does what can be done, and that is why I am so proud of this bill.

We adopted amendments by Ms. *Ginny Brown-Waite*, by Mr. *Shays*. And, by the way, the language in our bill is far similar to the amendment adopted on a bipartisan basis sponsored by a member of the opposition party in the Senate yesterday than anything Mr. *Markey* or Mr. *Nadler* have introduced today.

So I say, do what is right. Stand for real port security, stand for a really strong America. Vote down the motion to recommit and vote for the underlying bill that will bring about real safe ports in this country and we can all be proud of it.

I yield back the balance of my time.

The SPEAKER pro tempore. All time for debate has expired.

Without objection, the previous question is ordered on the motion to recommit...

Mr. NADLER. Mr. Speaker, on that I demand the yeas and nays.

The yeas and nays were ordered...

The motion to recommit failed on a 202-222 near party-line vote (six Repubs voted with Dems). The House then passed the "SAFE Port" bill without the 100% container inspection requirement on a 421-2 vote...sending it to the Senate.

Epilogue and Prologue

On September 11, 2006 the U.S. Senate is scheduled to take up its version of the SAFE

Port Act; two amendments (one by Sen. John McCain (R., AZ) on rail security) have already been offered...and more may be coming.

As the bill currently stands, it includes the following provisions (summary text)

Section 121: Domestic radiation detection and imaging. Requires the [Homeland Security] Secretary to develop a strategy for deployment of radiation detection capabilities and ensures that by December 2007, all containers entering the U.S., through the busiest 22 seaports, shall be examined for radiation. Requires DHS to submit a report of the strategic plan developed and to implement the strategy nationwide within three years. Requires DHS to submit a separate plan for the development of equipment to detect WMD threats at all U.S. ports of entry.

Section 122: Port security user fee study. Requires DHS to study the need for and feasibility of oceanborne and port-related transportation security user fees to be collected for funding port security improvements. Requires DHS to submit a report detailing the results of the study, analysis of current customs fees and duties collected that are dedicated to security, comparison of comparable fees imposed in ports of Canada and Mexico, assessment of the impact on competitiveness of U.S. ports, and recommendations based on findings.

On September 8, 2006, Sen. Susan Collins (R., ME) indicated she expects debate on the issue of requiring the 100% inspection of cargo containers. She voiced her opposition to a 100% container inspection requirement by quoting a letter sent to her by an interest group representing retailers. We quote the *Congressional Record* text below:

Ms. COLLINS. Mr. President, one of the issues that will undoubtedly come up during the debate on the port security bill has to do with the scanning of containers. Some people have asked: Why don't we scan 100 percent of the 11 million containers coming into this country? And the answer is simply that it is not practical with the current technology. The bill that is before us authorizes three pilot projects in three foreign ports where we would take a look at the feasibility and practicality and the implications of 100 percent scanning.

There is 100 percent screening. There is a difference between screening a container, which means gathering information on each and every container and doing a sophisticated computer analysis to determine which are of higher risk, versus scanning each container with an x-ray-type machine or some other method or a physical inspection.

The problem of trying to scan 100 percent of all containers is best summed up by a letter that we recently received from the Supply Chain Security Coalition. This is a coalition of some of the largest and most knowledgeable stakeholders in the supply chain's system, including the Retail Industry Leaders Association.

The letter says:

One hundred percent scanning proposals and amendments advocating such a proposal could potentially actually decrease security by forcing containers to sit for extended periods of time, putting them at greater risk of tampering, and would divert resources away from the current risk assessment approach. In addition -- and this is the key point -- such a mandate has the potential to significantly impede the flow of commerce and damage the U.S. and global economy.

Mr. President, I ask unanimous consent that the full text of that letter be printed in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

Hon. SUSAN COLLINS,
U.S. Senate,
Washington, DC.

DEAR SENATOR COLLINS: On behalf of the Retail Industry Leaders Association, I am writing to urge you to support strong and carefully crafted port security legislation that builds on the current multilayered risk assessment approach that has effectively protected our nation's seaports over the last several years. I also urge you, in the strongest terms possible, to oppose any legislation that would require all U.S. bound cargo containers to be "scanned" for radiation and density, so called 100% scanning legislation. While we strongly support improving the security of our nation's seaports, 100% scanning proposals have the potential to do more harm than good.

The Retail Industry Leaders Association (RILA) is the trade association of the largest and fastest growing companies in the retail industry. Its members include retailers, product manufacturers, and service suppliers, which together account for more than \$1.5 trillion in annual sales. RILA members operate more than 100,000 stores, manufacturing facilities and distribution centers,

have facilities in all 50 states, and provide millions of jobs domestically and worldwide.

We understand that key committees in the Senate has come to an agreement on a port security bill that may be taken up as soon as tomorrow, September 8th, 2006, and that the legislation is based on provisions from earlier bills drafted in the Homeland Security & Government Affairs Committee, the Commerce, Transportation and Infrastructure Committee and the Finance Committee. Each of those bills contain important provisions that will help improve our nation's port security laws by building upon and recognizing the effectiveness of the well-established security measures our government currently has in place. RILA supports legislation that builds upon this proven approach, which is why we worked to help pass port security legislation in the House, H.R. 4954, The SAFE Ports Act. It is our hope that the Senate bill will closely mirror the House legislation, which received overwhelming bipartisan support.

However, I also strongly urge you to oppose any legislation that would require that all U.S. bound cargo containers be scanned for radiation and density, so called "100% scanning" amendments. Such proposals may at first glance appear to improve security, but in reality, they would impose immense costs on our economy and foreign relations without improving the security of our international trading systems.

First, a 100% scanning mandate is unrealistic since the technology does not yet exist to do this efficiently and with a high degree of accuracy. We are not aware of any credible technology to actually analyze the millions of density images that would be taken of outbound cargo containers, meaning such images would have to be reviewed one by one by a port official or Customs officer. Second, this mandate could actually decrease security by forcing containers to sit for extended periods of time, putting them at greater risk of tampering.

In addition, forcing all containers to be scanned--including the vast majority of those that pose no risk--would divert scarce security resources away from the successful risk assessment approach currently utilized by the government. This approach uses sophisticated risk-analysis tools to determine which containers pose a risk and ensures those containers are handled appropriately. It is important for Senators to remember that the Department of Homeland Security currently uses a risk-based targeting approach to inspect inbound cargo. All cargo manifests are submitted at least 24 hours prior to loading on a vessel and the Automated Targeting System (ATS) uses complex, rule-based formulas to assign a numerical score and identify at-risk containers. CBP then inspects 100% of all containers deemed high-risk.

Finally, a 100% scanning mandate has the potential to significantly

impede the flow of commerce and do damage to the economy. According a June 2006 study conducted by the RAND Corporation, 100% scanning would delay the movement cargo containers by 5.5 hours per container. With 11 to 12 million containers entering the U.S. every year, it is obvious that of 100% scanning mandate would bring global commerce and the flow goods to a virtual standstill. This would severely damage the U.S. economy, not only by denying consumers access to thousands of products they need, but also by preventing the delivery of material and other inputs that U.S. manufactures need.

Rather than mandating 100% scanning, port security legislation should authorize additional testing and evaluation of scanning technology. Several of the relevant port security bills address this issue by calling for pilot projects and other evaluations to test the effectiveness and operational capability to conduct increased container scanning, including the "GreenLane Maritime Cargo Security Act" passed by the Senate Homeland Security Committee and the House SAFE Ports Act. These provisions represent the best way to address this issue and answer important operational and economic questions critical to understanding how to effectively implement container scanning.

Retail companies are among the largest and most knowledgeable stakeholders in the supply chain

system and administer the most extensive and efficient logistics operations in the world. The industry has worked hand-in-hand with the Department of Homeland Security (DHS), and specifically with the Coast Guard and Customs and Border Protection to ensure that our customers, employees, and the nation's seaports remain safe and that the nation's economy remains strong. We take a back seat to no industry in our support for strong and carefully crafted port security legislation, and we urge the Senate to move quickly to pass such a bill as soon as possible.

Thank you for your consideration of our views. We look forward to working with you on this critically important issue. Should you have any questions, please contact Paul T. Kelly, Senior Vice President for Government Affairs or Allen Thompson, Vice President for Global Supply Chain Policy.

Sincerely,
Sandy Kennedy,
President.

Ms. COLLINS. Mr. President, what we have tried to do with this bill is very carefully balance the need for effective, improved security with the need to ensure that we are not crippling our international trading system.

As we post on September 10, 2006, the City of Long Beach's lawmakers/policymakers on its elected City Council have yet to take a public position on this matter.

Until they do, CA's fifth largest city will not be part of the national debate or discussion on this

issue that directly affects Long Beach and the nation.

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Retailers Welcome Veto of California Container Tax

WASHINGTON, Sept. 22 /PRNewswire/ -- The National Retail Federation today welcomed California Governor Arnold Schwarzenegger's veto of legislation that would have imposed a \$60 fee on containers moving through two of the nation's largest ports.

"The ports of Los Angeles and Long Beach are the source of imported goods that are sold across the nation," NRF President and CEO Tracy Mullin said. "This fee would have amounted to a tax that would have driven up the price of consumer goods for working Americans shopping in retail stores in virtually every state, not just California. This would have been a tax on consumers, not foreign entities. Governor Schwarzenegger did the right thing in vetoing it."

"Governor Schwarzenegger is correct in his assessment that this bill was laudable in its goals but flawed in its construction," Mullin said. "As major shippers and users of California's ports, U.S. retailers support efforts to improve port security, clean up pollution and enhance port infrastructure. This bill, however, would have violated the Commerce Clause of the U.S. Constitution, international law and U.S. treaty obligations, and would have exposed the state of California to court challenges had it become law. Ultimately, it would have driven retailers and other shippers to look for other ports outside the state of California."

"The California Retailers Association played a vital role in making the impact of this bill clear," Mullin said. "The case they made shows what an effective voice they are for the retail industry in California."

Schwarzenegger announced today that he had vetoed SB 927, sponsored by state Senator Alan Lowenthal, D-Long Beach. The measure, which would have cost retailers and other shippers an estimated \$500 million a year, would have imposed a \$60 tax on each 40-foot container (or the equivalent number of other size containers) moving through the ports of Los Angeles and Long Beach.

LA and Long Beach are the two largest container ports used by retailers to import merchandise from Asia that is then distributed to stores across the nation. The two ports handled a combined 3.6 million 40-foot-equivalent containers last year, according to the Port Tracker report prepared each month by NRF and the economic research, forecasting and analysis firm Global Insight.

The National Retail Federation is the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet, independent stores, chain restaurants, drug stores and grocery stores as well as the industry's key trading partners of retail goods and services. NRF represents an industry with more than 1.4 million U.S. retail establishments, more than 23 million employees -- about one in five American workers and 2005 sales of \$4.4 trillion. As the industry umbrella group, NRF also represents more than 100 state, national and international retail associations. <http://www.nrf.com>.

SOURCE National Retail Federation

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Will California Container Tax Veto Hold?

Arnold Schwarzenegger vetoed seven bills on Friday September 22nd, including a controversial container tax that would have charged cargo owners \$30 per twenty-foot-equivalent unit. While retailers were pleased with the veto, that feeling is not universal.

California Governor Arnold Schwarzenegger rejected Senate Bill 927, which would have levied a \$30 fee per twenty-foot-equivalent unit (TEU) on cargo containers moved through the ports of Los Angeles and Long Beach. Returning the bill to the California Senate unsigned, Schwarzenegger said in part, "This measure is flawed in its construction, application, lack of accountability and failure to coordinate with other public and private financing sources ignoring opportunities to leverage additional funding."

Schwarzenegger added, "This measure is drafted to include only two ports and applies only to goods shipped in containers, ignoring all other forms of shipping and ports of entry." With a nod to the agriculture interests in his own state, Schwarzenegger also pointed out the fees would hit exporters and have the possible unintended consequence of impacting the sale and delivery of goods grown and manufactured in California.

A goods task force appointed by the governor is developing a comprehensive report he says will provide a more thorough and strategic direction and insight on the best options to address goods movement and port-related challenges. He says the report will be available by the end of the year.

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California Legislature Approves Container Tax

The California state legislature recently approved a bill (S.B. 927) that would impose a user fee on the owners of container cargo moving through the ports of Los Angeles or Long Beach. The fee, which would take effect 1 January 2008, would be set at US\$30 per twenty-foot equivalent unit, or US\$60 for the standard 40-foot container. One-third of the proceeds generated by this legislation would be used by ports to improve their security and fund the administrative costs for implementing this programme. The remaining two-thirds would be allocated in equal amounts to the state's yet-to-be-established Port Congestion Relief Trust Fund and Port Mitigation Relief Trust Fund.

Reportedly, several sources believe that California Governor Arnold Schwarzenegger is likely to veto the legislation, although he has not made any indication to this effect. Some legal experts have claimed that the bill is unconstitutional because it impedes interstate commerce, an argument that may play a role in the governor's decision. He has until 30 September to sign or veto the bill.

Several industry associations, including the Waterfront Coalition, the National Retail Federation and the American Apparel and Footwear Association, have expressed strong opposition to the measure. In a letter sent to Gov. Schwarzenegger on 6 September, AAFA argued that the container fee will place California's seaports at a competitive disadvantage vis-a-vis other West Coast ports and planned facilities in Mexico and Canada. AAFA believes that the fee, coupled with the congestion problems that are prevalent in Southern California, will persuade shippers to move freight through alternative ports.

While some container cargo may gradually be diverted to other ports if a container fee is ultimately approved, the total number of containers going through the ports of L.A. and Long Beach is unlikely to change dramatically in the foreseeable future. According to a recent report by the Congressional Budget Office, approximately 28% or US\$118.7 billion of the total value of container cargo imported into the U.S. in 2004 arrived at the port of L.A. while an additional 15% or US\$63.5 billion arrived at the port of Long Beach, making these two ports the first and second-largest handlers of containerised cargo in the U.S. The port of Seattle is the next largest port on the West Coast (and fifth in the U.S.) with 5% or US\$21 billion, followed by Tacoma, Washington (4.6% or US\$19.6 billion), Oakland (4.2% or US\$17.7 billion) and Portland (0.4% or US\$1.8 billion). At first glance, and judging from recent

growth trends, the ports of Seattle, Tacoma and Oakland appear well-positioned to capture any container trade that may be diverted from L.A. and/or Long Beach.

URL : <http://www.tdctrade.com/alert/us0619d.htm>

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California bill would tax container cargo.(The Titan and the Teuton)(Brief article)

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After failing in 2005 to have a measure enacted that would place a tax on ocean containers, California Senator Alan Lowenthal (www.senate.ca.gov/lowenthal) is back. Lowenthal's amendment to the State Senate Bill 927 would assess a fee of \$30 per twenty-foot-equivalent unit (TEU) for cargo moving through the Ports...

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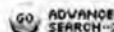
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Schwarzenegger Vetos Container Tax Bill

ISRI recently wrote to California Gov. Arnold Schwarzenegger, urging him to veto a container tax bill that would have imposed a \$30 container tax on imports and exports through the ports of Los Angeles and Long Beach. Schwarzenegger has vetoed the bill.

Schwarzenegger's veto language said that the aims of SB 927 were laudible, but that the bill was "flawed in its construction, application, lack of accountability and failure to coordinate with other public and private financing sources ignoring opportunities to leverage additional funding." He said any attempt to raise funds should better coordinate the public and private sectors and should be more comprehensive than just to include two California ports.

ISRI's letter had argued the bill was redundant and may be unconstitutional and against international trade law.

The letter noted:

- ISRI is generally supportive of efforts to secure ports, mitigate pollution, and reduce congestion, but container taxes are likely unconstitutional and may, in fact, violate international trade law.
- ISRI is a national trade organization, one that believes in free and fair trade, whose West Coast members have provided jobs and pioneered the environmental movement for decades.
- California scrap exporters already pay \$100 per container fee through via PierPASS, a private sector program.
- It makes no sense to sign a bill that would undermine Proposition 1B, a port issues bond of \$4.5 billion, just weeks before the November election.

The container tax is the wrong approach at the wrong time, the letter concluded.

For more information about this issue, please contact Eric Harris, 202/662-8514, ericharris@isri.org.

- [ISRI's Letter to Gov. Schwarzenegger](#)
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[Letter to Schwarzenegger About Container Tax \(Adobe PDF File\)](#)
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Voice of the Recycling Industry

Institute of
Scrap Recycling
Industries, Inc.

September 20, 2006

The Honorable Arnold Schwarzenegger
Governor, State of California
State Capitol
Sacramento, CA 95814

Re: SB 927 (Lowenthal) -- VETO

Dear Governor Schwarzenegger:

The Institute of Scrap Recycling Industries (ISRI) has serious concerns over the direction California is taking to address port security, pollution mitigation and transportation infrastructure issues. Although ISRI is supportive of the Legislators efforts to address these timely issues, SB 927 (Lowenthal), a bill that would impose a \$30 container tax on imports and exports moving through the Ports of Los Angeles and Long Beach, is the wrong solution. Container taxes are likely unconstitutional and may, in fact, violate international trade law. We strongly urge you to **VETO SB 927**.

With 21 chapters nationwide and headquarters in Washington, D.C., ISRI is a trade association that represents over 1,400 companies nationwide, 100 of which are located in California. Our members competitively process, broker, and consume scrap commodities in the global market. ISRI firmly believes in free *and* fair trade. Last year scrap recyclers handled more than 140 million tons of recyclables. Our West Coast Chapter members have been providing good paying jobs in your state and pioneering California's environmental movement for decades.

Trade, more specifically global trade, is vital to the scrap recycling industry and to the U.S. balance of trade, contributing nearly \$9 billion last year. Markets like China and India have become essential to those in the scrap trading business in recent years and will continue to be, especially for California companies.

SB 927 negatively impacts scrap exports. Privately imposed fees from PierPASS, a non-profit created by marine terminal operators to reduce congestion in the ports, already charges scrap exporters \$100 dollars per container fee. Added with the requirements of SB 927, scrap exporters will be asked to pay \$130 per container. Our members will be significantly injured by this additional tax.

Largely due to a very competitive market and an increased number of global participants, scrap exporters operate on extremely low profit margins. A significant contribution to California recyclers' ability to remain



Institute of
Scrap Recycling
Industries, Inc.

competitive in the global market has been your state's ability to keep export costs low for bulk commodities. This market advantage is now in jeopardy and could cost California good paying jobs.

SB 927 is not the right answer. You and the Legislature have asked the Secretary of State to include SB 1266 in the November 7th election. It makes no sense to undermine Proposition 1B by passing SB 927 just weeks before the people of California have had a chance to voice their opinion.

As a national association, ISRI understands the challenges of being all things to everyone. But, we strongly believe that SB 927 is the wrong approach at the wrong time.

We respectfully urge you to **VETO SB927** (Lowenthal).

Sincerely,

Eric Harris
Director of Governmental and International Affairs

cc: The Honorable Fred Aguiar, Cabinet Secretary
Dennis Albiani, Deputy Legislative Secretary
Sunne Wright McPeak, Secretary
Business, Transportation, & Housing Agency





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For Immediate Release
Contact: J. Craig Shearman (202) 626-8134
shearmanc@nrf.com

Retailers Oppose California Container Tax

WASHINGTON, D.C., September 7, 2006 – The National Retail Federation this week urged California Governor Arnold Schwarzenegger to veto legislation that would impose a \$60 fee on containers moving through two of the nation's largest ports, saying the measure would force retailers to bring imported goods into the country through ports in other states.

"Container fees of the sort contemplated in the Lowenthal bill would violate the Commerce Clause of the U.S. Constitution, international law and U.S. treaty obligations, and would expose the state of California to court challenge were it to become law," NRF President and CEO Tracy Mullin said in letter sent to Schwarzenegger on Wednesday. "In addition, the fee would substantially increase the cost of moving goods through LA/Long Beach and adversely impact these ports' competitiveness and workforce as retailers and other shippers are forced to look for alternative ports outside the state of California to enter their goods."

SB 927, sponsored by state Senator Alan Lowenthal, D-Long Beach, passed the state Senate 22-16 August 31, one day after being approved 42-35 in the state Assembly, and is now awaiting action by Schwarzenegger. The measure, which would cost retailers and other shippers an estimated \$500 million a year, would impose a \$60 tax on each 40-foot container (or the equivalent number of other size containers) moving through the ports of Los Angeles and Long Beach.

Supporters say the bill would raise funds for improving port security, cleaning up pollution and building port infrastructure, but the measure is written in a way that would allow it to be used for non-transportation projects and initiatives as well.

LA and Long Beach are the two largest container ports used by retailers to import merchandise from Asia that is then distributed to stores across the nation. The two ports handled a combined 3.6 million 40-foot-equivalent containers last year, according to the Port Tracker report prepared each month by NRF and the economic research, forecasting and analysis firm Global Insight.

The National Retail Federation is the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet, independent stores, chain restaurants, drug stores and grocery stores as well as the industry's key trading partners of retail goods and services. NRF represents an industry with more than 1.4 million U.S. retail establishments, more than 23 million employees - about one in five American workers - and 2005 sales of \$4.4 trillion. As the industry umbrella group, NRF also represents more than 100 state, national and international retail associations. www.nrf.com.

- # -

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Howard Jarvis Taxpayers Association

DEDICATED TO PROTECTING PROPOSITION 13 AND PROMOTING TAXPAYERS' RIGHTS.

CALIFORNIA COMMENTARY

The "Container Tax:" Just Another Proposition 13 Avoidance Scheme

By Jon Coupal

Week of September 18, 2006

Now that football season has begun, optimistic fans dream of winning the big game and a world championship. Coaches devise game plans that will keep the opposing team off balance and maximize their chances of victory. For the unlucky teams who don't have the best talent, deception and misdirection plays are the only chance they have to succeed.

The same is true in the California Legislature. The beginning of games on the gridiron also signals the end of games under the Capitol dome, where politicians seek to gain advantage with creative scheming and an assortment of trick plays. The legislative "end run" is one of the most popular tactics in the political playbook. One egregious example is the recent passage of a half-billion dollar container tax. The bill, which would amount to a massive new consumer tax, now sits on Governor Arnold Schwarzenegger's desk, awaiting a swift veto by a leader who has rightly stood firm against all new taxes.

Senate Bill 927, authored by State Senator Alan Lowenthal attempts an end run around the people of California, Proposition 13 and the Constitution. How so? The purpose of this bill is to impose a "fee" on every shipping container off-loaded in the Los Angeles and Long Beach Ports. Revenue from the fund would, ostensibly, be used to improve the rail system, enhance port security and mitigate the environmental pollution which results from the transport of these containers.

But is this new levy really a "fee" with a close connection between the fee payer and the regulatory program sought to be financed? Of course not. This is just another transparent attempt by government to collect more revenue just because it can.

The real clue that this proposed "fee" is a tax is clear from the language of the bill itself. In order to qualify as a true fee, we have to know, with some specificity, what it is that the fee will be paying for. General categories of expenditure are not sufficient and strongly suggest that the money will disappear into the various black holes of government bureaucracies. In this case, it is even worse. Various agencies are tasked to come up with lists of projects that should be funded. This is backwards. In order to qualify as a true fee, the projects should be known in advance. That way, the legitimacy of the fee can be tested against the actual government programs or improvements sought to be financed. Excuse us if we don't trust government, but when it comes to legitimate "fees" government has a horrible track record.

Supporters of the new tax return to the argument that more revenue is needed to increase safety at ports and build new infrastructure to keep goods moving. If that is true, then why not simply follow the law which requires that new taxes be voted on by the people? Tax increases have been approved by voters throughout California including conservative Orange County to liberal San Francisco. The people of California are smart and have demonstrated their willingness to invest when there is a need. Container tax proponents should have a greater trust in the people and a willingness to make the case that their proposal is needed and appropriate.

Unfortunately, a straightforward approach is no longer the way state and local politicians play the game. Over the past five years, the California Legislature and local government have tried to raise more than \$7 billion in new taxes using creative strategies like the legislative end run.

The good news is that the Governor has already affirmed his opposition to new taxes and underscored his commitment to protecting jobs and the economy. He has zealously promoted California agriculture to the world. If this measure becomes law, California's economic competitiveness would be damaged as other ports in competing states and countries would immediately capitalize on the increased transportation costs of doing business with California. Meanwhile, the precedent established by passing an illegal tax would open the door to new taxes of all kinds, passed without a vote of the people. Indeed new supposed "fees" have already been proposed on just about everything imaginable -- on phone bills, electric bills, beer, bottled water, wine, soda, diapers, prescription drugs, health care facilities, bicycles and groceries (even on grocery bags themselves)!

The Legislature has failed to call a tax a tax. Senate Bill 927's "user fee" is a tax -- and not an insignificant one either. It should be spiked by Governor Schwarzenegger before it can harm California families who deserve better.

Jon Coupal is president of the Howard Jarvis Taxpayers Association -- California's largest taxpayer organization -- which is dedicated to the protection of Proposition 13 and promoting taxpayers' rights.

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RILA Urges Governor Schwarzenegger to Veto Anti-Business Container Tax

ARLINGTON, Va., Sept. 8 /PRNewswire/ -- RILA President Sandy Kennedy strongly urged California Governor Arnold Schwarzenegger today to veto legislation that would impose new fees on maritime cargo containers arriving at the ports of Los Angeles and Long Beach. The legislation, SB 927, by Senator Alan Lowenthal would impose a \$30 fee on every 20-foot cargo container arriving and departing from these ports.

In a letter to Governor Schwarzenegger sent earlier this week urging a veto of the legislation, Kennedy wrote that "additional cargo fees will burden companies that already pay billions in maritime related costs, will make California less attractive for shippers and may violate the U.S. commerce clause."

"Mandating additional cargo fees could have unintended consequences of directing cargo to other West Coast ports or even outside of the U.S. altogether," wrote Kennedy. "The local economies surrounding L.A./Long Beach depend on the jobs and tax revenue that the ports generate and the addition of cargo fees could make the ports unattractive and jeopardize future contracts with the region."

Kennedy also warned that container taxes are unconstitutional. "It is questionable whether California can legally impose fees on international commerce to fund state programs," she wrote. "Previous fees related to international cargo and transportation have been struck down as unconstitutional as they impede interstate commerce. Because many of the containers moving through California ports are moving on to other states, California would have a very difficult time making a container fee stand up in court."

Kennedy also reminded the Governor that industry already pays more than its fair share in container fees, and that these fees are rarely used for their intended purposes. "According to a 2002 General Accounting Office (GAO) study from 1999-2001 'customs duties levied on commodities imported through the maritime transportation system averaged approximately \$15.2 billion each year.' In addition to monies collected from user fees levied on the maritime transportation system, since September 11 the U.S. Congress has authorized nearly \$3.4 billion in federal grants solely for the state of California that have helped to subsidize the port security needs of the state," wrote Kennedy.

"Before considering additional levies or fees, California should examine how to better direct existing resources in support of public programs and the economic consequences of any new fees," concluded Kennedy.

The Retail Industry Leaders Association (RILA) is a trade association of the largest and fastest growing companies in the retail industry. Its members include retailers, product manufacturers, and service suppliers, which together account for more than \$1.5 trillion in annual sales. RILA members operate more than 100,000 stores, manufacturing facilities and distribution centers, have facilities in all 50 states, and provide millions of jobs domestically and worldwide.

SOURCE Retail Industry Leaders Association

Related links:

- <http://www.retail-leaders.org>

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Gov. Vetoes LA, LB Container User Fee Legislation

Schwarzenegger sinks Senate bill opposed by transportation, retail, and industry groups



SACRAMENTO - 09/23/06 - California Governor Arnold Schwarzenegger has vetoed a controversial State Senate bill that would have levied a user fee on every container cargo discharged at the ports of Los Angeles and Long Beach.

The wording of the legislation stipulated that revenues generated by the bill would have been used only "to fund rail system improvements, pollution mitigation measures, and port security enhancements."

The bill - SB 927 - was originally authored by Democratic State Senator Alan Lowenthal, whose 27th Senate District encompasses the Port of Long Beach and several adjacent communities.

The Los Angeles Area Chamber of Commerce (LAACOC) strongly opposed the bill, saying in a statement following the Governor's veto that "SB 927, which applied only to our region's two ports, was an unfair tax. It would have placed Southern California at a significant economic disadvantage and potentially cost hundreds of jobs."

Joining the LAACOC in campaigning against the legislation was a litany of trade and industry groups including the National Retail Federation, the Retail Industry Leaders Association, the California Manufacturers and Technology Association, the Waterfront Coalition, the Wine Institute, the California Chamber of Commerce, the California Farm Bureau, the California Trade Coalition, and the Pacific Merchant Shipping Association (PMSA).

According to the San Francisco-based PMSA, the legislation "would have caused anti-competitive and unfair impacts across the California goods movement industry."

The group represents US and foreign-flag ocean carriers and marine terminal operators responsible for handling 90% of the international cargo that moves through West Coast ports.

"The container tax proposal was a terribly flawed, unconstitutional and discriminatory approach," said PMSA President John McLaurin, who praised the governor's action.

"The shipping and goods movement industry strongly supports efforts to address environmental and infrastructure issues around the ports and we are committed to real public-private partnerships to address these challenges," he said

California's ports, said McLaurin, "are already financed by user fee revenues which raise

approximately \$800 million a year for port operations, rail facilities, security projects and environmental programs, including the most ambitious and aggressive air quality control programs in the world."

The cargo tax proposal - which the Industry group called "illegal" - "raised serious legal questions as it was not a traditional fee for service."

The imposition of such fees "is contrary to the United States Constitution and would violate US obligations under international treaties," said McLaurin.

In addition, he said, "SB 927 would have had other anti-competitive impacts on exporters and importers and would - if it were legal - actually result in increased diversion of cargo from the ports of Los Angeles and Long Beach to other, lower-cost ports."

According to the official language of the bill, the legislation was "intended to address the enormous growth that is occurring at the ports of Los Angeles and Long Beach and the effects of that growth and the ports' operations on the surrounding communities and region."

In an earlier statement, Lowenthal's office said that "the ports are the single largest source of pollution in the South Coast Air Basin, and the existing port-related infrastructure is already strained and ill-equipped to handle the growth in cargo shipments that is occurring and will continue to occur."

SB927 would have established two funds within the State Treasury for the deposit of revenues generated by the container fee of \$30 on every 20-foot equivalent unit (TEU) container discharged at either port.

It called for each port to create a fee notification and collection process fee to go into effect January 1, 2007 and notify, no later than June 1, 2007, cargo owners that a "maximum" and "modest" \$30 per TEU user fee would be assessed beginning September 1, 2008 and collected at least twice per year.

The ports of Los Angeles and Long Beach rank, respectively, as the first and second busiest container ports in the US. Combined, they form one of the most active "load center" port complexes in the world.

Last year, the Port of Los Angeles handled some 7.5 million TEUs, while the adjacent Port of Long Beach saw 6.7 million TEUs' move through its terminal facilities.

Several telephone calls from the *CalTrade Report* to Sen. Lowenthal's office seeking comment on the veto were not immediately answered.



Alliance of the Ports of Canada, the Caribbean,
Latin America and the United States

Repeal the Harbor Maintenance Tax Now!

The Harbor Maintenance Tax (HMT) Is Broken. After fully funding maintenance dredging of federal navigation channels for more than 100 years, Congress instituted a so-called "user fee" in 1986 – the HMT. Originally, the HMT was levied as an ad valorem fee on cargoes and passengers using U.S. ports. Following a 1998 U.S. Supreme Court decision finding that the HMT was a tax, not a user fee, and collecting it on exports was unconstitutional, the HMT is currently levied only on imports, passengers, and domestic cargoes. In addition, U.S. trading partners have alleged that the HMT is an unfair trade practice.

No Other User Fee System Can Work. While other transportation systems in the U.S. rely on a user fee, a user fee system is not workable for dredging. First, there are numerous and varied users, including the U.S. military. Second, many bulk U.S. exports, like agricultural products, have very slim profit margins and additional transportation taxes could price them out of the international market. Third, not all high volume ports require significant maintenance dredging.

Maritime Commerce Already Pays Significant Federal Taxes and Fees. A September 1999 General Accounting Office report on the Commercial Maritime Industry's Federal assessments found that the industry pays significant taxes and fees into the Federal Treasury – 124 assessments totaling \$22 billion a year.

The HMT Has Driven U.S. Cargo and Jobs to Canada. Cargo can enter this country through U.S. ports (and pay the HMT) or come through Canadian ports and enter by land (and avoid paying the HMT). The HMT puts ports near the Canadian border at a huge

disadvantage and has resulted in a loss of jobs in U.S. ports, which are some of the highest paid union jobs in the United States.

The HMT Inhibits U.S. Coastwise Trade. The collection of the HMT on domestic commerce is also a significant disincentive to coastwise waterborne trade, which could help alleviate surface transportation congestion in the future. Currently, international cargo entering a U.S. port and then transshipped by water would be assessed the HMT not once but twice. With trade projected to double by 2020, elimination of the HMT would make coastwise water transportation more price-competitive.

The Federal Role in Navigation Must be Maintained. Well-maintained harbors are critical to our national and economic security. The U.S. military depends on well-maintained navigation channels since they use U.S. ports as bases of operations. Ports also are a vital part of our transportation infrastructure, handling 99 percent of our nation's international trade. The maintenance of navigation channels is an appropriate Federal government function that provides benefits to American businesses and consumers in all 50 states.

As such, it should be funded from general treasury revenues.

The undersigned organizations ask for your support is repealing the Harbor Maintenance Tax in 2001.

Repeal the Harbor Maintenance Tax Now!

- American Association of Port Authorities
- American Great Lakes Ports
- American Maritime Congress
- Americans for Tax Reform
- American Waterways Operators
- Association of American Railroads
- Association of International Automobile Manufacturers

- Chamber of Shipping of America
- Detroit/Wayne County Port Authority
- Electronic Industries Alliance
- Georgia Ports Authority
- Great Lakes Maritime Task Force
- Hampton Roads Maritime Association
- International Council of Cruise Lines
- International Longshore and Warehouse Union
- International Longshoremen's Association
- K Associates, Ltd.
- Lake Carriers' Association
- Management and Transportation Associates, Inc.
- Maritime Institute
- National Grain and Feed Association
- North Carolina State Ports Authority
- Port of Everett
- Port of Greater Baton Rouge
- Port of Miami
- Port of Oswego Authority
- Port of Richmond, VA
- Port of Shreveport-Bossier
- Seaworthy Systems. Inc.

- Shipbuilders Council of America
- South Carolina State Ports Authority
- Tampa Port Authority
- The Port Authority of NY & NJ
- Toledo-Lucas County Port Authority
- Transportation Institute
- U.S. Great Lakes Shipping Association
- Washington Council on International Trade
- World Shipping Council

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Industry Profile	National Defense Role	Passenger/Cruise Industry	Promotional Programs	Pending Legislative Matters	Pending Regulatory Matters	Federal Agency Overview	Related Sites
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Industry Profile



Present Status

The United States continues to depend primarily on oceanborne shipments for its international trade. As the world's largest trading nation, the United States exports and imports about one-fourth of global merchandise trade in value annually (over \$2 trillion in 2000). The largest part of this merchandise trade - over 1.2 billion metric tons of cargo - is moved by water. Another billion tons of cargo, 24 percent of the Nation's total, is carried in domestic waterborne movements, which serve over 90 percent of the U.S. population. Based on current projections, by the year 2020 U.S. foreign trade in goods may grow to four times today's value and almost double its current tonnage, and inland waterways traffic will increase by one-third.

The United States once relied on a huge fleet of relatively small ships to provide the commercial and sealift shipping capacity appropriate for its trade. Since the end of World War II, the U.S.-flag merchant marine has been in a continual state of decline. The United States now ranks 19th in number of oceangoing vessels, having fallen from a top-ten ranking just a few years ago. The U.S.-flag merchant fleet ranks 12th on a deadweight tonnage basis. Today, the U.S. fleet's share of oceanborne commercial foreign trade, by weight, continues to be less than five percent. Other traditional maritime powers have experienced similar declines.

While the number of vessels in the U.S. fleet has shrunk, at the same time many nations have built an international maritime presence as a means of projecting visibility and earning hard currency. These registries may not require the same level of protection for seafarer health, welfare and safety as on U.S.-flag vessels. Often, foreign-flag vessel owners do not pay any corporate income taxes on revenues earned in U.S. foreign commerce, and the crews frequently do not pay income taxes to any country. By comparison, vessels operating under the U.S. flag are subject to all the taxes and regulatory laws applicable in the United States.

Changes in maritime technology and reductions in crew sizes have contributed to a contraction of the industry's supply of vessels and manpower. The average capacity of liner vessels in the U.S.-flag fleet is nearly 28,000 DWT, compared to 12,000 DWT in 1970. Even though the size of the U.S.-flag fleet has declined in recent years, the productivity of the fleet has improved substantially. Today, the U.S.-flag foreign trade liner fleet carries over 42 percent more cargo than in 1970, but in fewer, larger vessels. Today's fleet includes ships and barges, and also containers, chassis, computer-based data systems, rail and truck interchanges, warehouses, piers, cranes, terminals, and highly skilled people ashore and at sea. Technological advances have greatly improved the flow of cargo, resulting in virtually seamless movement of goods from origin to destination anywhere in the world. These advances have also been applied to the movement of military shipments.

The maritime issues and challenges facing the nation are significant and complex. The present and future ability of the U.S.-flag fleet to serve as a contributor to economic sovereignty and national security remains a challenge. Changes in world political trends and economies occur constantly. The 104th Congress understood the precarious situation the Nation faced when it overwhelmingly adopted the Maritime Security Act of 1996. This measure established the Maritime Security Program to support a fleet of militarily useful U.S.-flag commercial vessels and American-citizen crews necessary for the military and economic security of the Nation. Funding for the Maritime Security Program permits 47 oceangoing vessels to participate in the program.

Types of Merchant Ships

The U.S.-flag merchant marine is made up of a variety of vessel configurations for specialized and general cargo purposes. The following is an overall synopsis of the privately owned commercial self-propelled and non-self-propelled U.S.-flag fleet as of July 1, 2002, in terms of number of active and inactive vessels engaged in core areas of operation -- deep-sea foreign, deep-sea domestic, Great Lakes, and inland rivers.

	Vessels Over 1,000 gross tons	Vessels Under 1,000 gross tons
Tankers	87	77
Dry Bulk Carriers	69	4
Containerships	85	0
Tank Barges	2,082	2,137
Dry Cargo Barges	690	23,006
Other Freighters *	50	303
Other Barges	602	6,698
Passenger **	1,333	N/A
Towboats	5,445	N/A
Workboats ***	1,631	N/A
Dredging	570	N/A

TOTAL: 44,869 Vessels

- * Includes general cargo ships, roll on/roll off ships, multi-purpose ships, and LASH vessels. Excludes offshore supply vessels.
- ** Includes ferries, cruise vessels, day excursion vessels, vehicular and railroad car ferries, etc.
- *** Includes crewboats, supply and utility vessels.

Sources: Maritime Administration
World Dredging Mining and Construction

Manpower Pool

The pool of skilled labor actively employed on U.S.-flag vessels is considered a national security asset, able to meet surge-shipping requirements during times of emergency. According to the U.S. Department of Labor, as of year-end 1998 an estimated 56,000 people were employed in the waterborne transportation industry. Approximately 30 percent of these employees worked onboard, merchant and civilian-manned military sealift vessels on the oceans and Great Lakes, 47 percent were engaged in the inland, dredging and piloting sectors, and the remaining personnel worked in the passenger, gaming, sightseeing and excursion vessel trades.

Cargo Carrying Capacity

As of July 1, 2002, the carrying capacity of the privately owned active and inactive commercial self-propelled and non self-propelled U.S.-flag fleet was estimated to be (in metric tons):

	Vessels Over 1,000 gross tons	Vessels Under 1,000 gross tons
Tankers	5,349,000 metric tons	797,000 metric tons
Dry Bulk Carriers	2,600,000 metric tons	2,000 metric tons
Containerships	2,812,000 metric tons	0
Tank Barges	9,484,000 metric tons	3,168,000 metric tons

Dry Cargo Barges	3,289,000 metric tons	36,436,000 metric tons
Other Freighters *	898,000 metric tons	149,000 metric tons
Other Barges	2,598,000 metric tons	5,827,000 metric tons

TOTAL: 73,409,000 metric tons

Passenger **	906,167 capacity
Towboats	9,939,549 horsepower
Workboats ***	578,603 metric ton capacity

* Includes general cargo ships, roll on/roll off ships, multi-purpose ships, and LASH vessels. Excludes offshore supply vessels.

** Includes ferries, cruise vessels, day excursion vessels, vehicular and railroad car ferries, etc.

*** Includes crewboats, supply and utility vessels.

Source: Maritime Administration

Taxes Paid by the Maritime Industry

In addition to federal and state corporate and personal income taxes, the commercial maritime industry pays a number of other federal taxes yearly in order to operate both domestically and internationally. According to a study updated by the U.S. General Accounting Office in September 1999, the commercial maritime industry was assessed \$22 billion in fiscal year 1998, nearly double the assessment calculated in the agency's original study just seven years earlier. Eleven federal agencies were identified as levying a total of 124 diverse assessments, 85 of which are specific to and paid only by the maritime industry. Such taxes include the Harbor Maintenance Tax, vessel entry processing fees, vessel tonnage tax, and an inland waterways fuel tax. In 1998, the U.S. Supreme Court ruled that the export-related portion of the Harbor Maintenance Fee violated the constitutional provision of taxes imposed on exports.

The 10 agencies for which taxes are collected include:

- Animal and Plant Health Inspection Service
- Centers for Disease Control and Prevention
- Coast Guard
- Customs Service
- Federal Communications Commission
- Federal Maritime Commission
- Grain Inspection Administration
- Internal Revenue Service
- Maritime Administration
- National Oceanic and Atmospheric Administration

The 105th and the 106th Congresses rejected an effort of the Office of Management and Budget to tax only commercial vessel operators for navigational assistance services, such as buoy placement and maintenance, vessel traffic services, and radio and satellite navigation systems.

Marine Insurance

The general principles of marine insurance are the same as with other types of insurance in that there are two parties: the assured and assurer (or carrier). The complex circumstances involved in sea and inland voyages require very specific arrangements for the provision of marine insurance. Generally, the marine policy may cover the risks of a single voyage or may insure for a certain period of time. Cargo is almost always insured by voyage. Vessels are usually insured for a certain duration of time, usually year by year. Cargo policies may be on a single lot or may be open to cover cargo as shipped by the insured. Hull insurance or vessel insurance may cover a ship or a whole fleet.

Hull and Machinery (H&M) Insurance

An H&M policy covers physical damage to the vessel, its machinery and equipment. In addition, the policy normally covers general average, salvage, sue and labor and collision liability. Coverage for a vessel under an H&M policy is written with a vessel value, which has been agreed upon between the owner and the underwriters of the policy. Most H&M policies include a deductible for partial losses. Often a shipowner may elect to cover a portion of the value of a vessel for total loss only. This is done using an increased value policy, which usually costs significantly less than a full form H&M policy. There are several factors taken into account when determining the rate being charged for an H&M policy. They include the type of vessel, the value, the owner/operators experience, the loss record, the size of the deductible and the intended trade. H&M policies can be written to cover a single vessel or an entire fleet.

There are several different types of H&M policies a vessel owner can purchase to insure his vessel.

- **Navigation Policy** -- provides coverage when vessels are used in maritime operations.
- **Port Risk Policy** -- used when a vessel is expected to be laid up or non-operational for an extended period of time.
- **Builder's Risk Policy** -- used to cover a ship being built from the time its keel is laid until the ship is completed and accepted by the owner including sea trials.
- **War Risk Policy** -- covers damage to the vessel for war and other risks excluded from the H&M policy by the War, Strikes and Related Exclusions clause. This policy also covers damages caused by strikes, lockouts, labor disturbance, riots and civil commotions, which may be important in a port environment.

Protection and Indemnity Insurance

A Protection and Indemnity (P&I) policy is purchased in conjunction with a hull insurance policy to provide liability protection not found in the hull policy. This type of coverage is usually placed either through a mutual P&I Club or with individual stock insurance companies.

The P&I policy provides coverage should an insured vessel cause damage to piers, wharves, bridges, cable or other fixed or removable objects. Also covered are the cost of raising, destroying or removing a wreck which is sunk and which constitutes a hazard to navigation, bodily injury, loss of life, and sickness of seamen, passengers, ship visitors, stevedores, etc. coverage for the repatriation expenses of seamen who become ill and/or injured during a voyage, and collision risks not fully covered under a hull policy.

Further, the P&I policy provides coverage for damage to cargo caused by the insured vessel should the damage arise from the negligence of the vessel operator and for pollution risks. Operators often use this coverage to meet the requirements of the Coast Guard to obtain Certificates of Financial Responsibility. Domestically, many operators purchase pollution protection coverage through the Water Quality Insurance Syndicate (WQIS).

For those shipowners who are not members of a mutual P&I club, the amount of insurance provided in a P&I policy is usually equivalent to the amount of insurance on the hull of the vessel. This amount of insurance is usually adequate where the ship owner may limit his

personal liability to the value of the hull. However, where the owner of the ship has privity or knowledge of the events or conditions that caused a loss, this limitation on the shipowner's liability may no longer be applicable. In those circumstances, an owner may purchase an Excess P&I policy.

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Ocean Shipping

Companies

In 1996, the Congress enacted the Maritime Security Act establishing a 10-year promotional program for the U.S.-flag fleet, the Maritime Security Program (MSP). It replaced the operating-differential subsidy (ODS) a program authorized by the Merchant Marine Act of 1936 that sought to equalize the disparity in operating costs between American-flag ships and foreign competitors with respect to wages, insurance, and maintenance and repairs. MSP reduced by more than 50 percent the federal operating assistance payments for militarily useful U.S.-flag ships -- from a \$225 million annual payment under the ODS program to \$100 million under MSP. Payments to vessel operators are no longer based on collective-bargaining costs and the difference between the cost of operating a foreign-flag and an American-flag ship.

The 108th Congress, through the enactment of the Maritime Security Act of 2003, expanded the fleet from 47 to a total of 60 vessels. The legislation also called for additional funding for the program subject to annual appropriations.

MSP funding provides for the soon-to-be 60 U.S.-flag vessels to participate in the program. Companies presently awarded MSP operating agreements are: American President Lines, American Car Carriers, Central Gulf Lines, Farrell Lines, Intermarine Inc., Liberty Maritime, Lykes Lines, Maersk Line, OSG Car Carriers, and Waterman Steamship.

The 1936 Act also authorized the construction-differential subsidy (CDS) program, which was designed to assist U.S.-flag vessel operators by helping to fund the difference in costs between having a ship built in a foreign shipyard and having the same ship constructed in a U.S. shipyard. The CDS program, while still authorized, has not been funded since 1981.

July 2002 Self-Propelled U.S.-Flag Deep-Sea Foreign Trades Vessel Fleet

VESSEL TYPE	NUMBER	CARGO TONNAGE
Containership	61	2,510,000 metric tons
Dry Bulk Vessel	12	579,000 metric tons
Liquid Bulk Vessel	17	771,000 metric tons
Other*	37	748,000 metric tons

* Includes general cargo ships, roll on/roll off ships, multi-purpose ships, and LASH vessels. Excludes offshore supply vessels.

Source: Maritime Administration

Liner Trades

Liner or berth service is defined as a scheduled operation by a common carrier whose ships operate on a predetermined and fixed itinerary over a given route, at relatively regular intervals, and are advertised considerably before sailing in order to solicit cargo from the public. These common carriers provide

transportation on fixed schedules and at rates (tariffs) made electronically available to the public. The liner fleet includes full containerships, partial containerships, lighter aboard ships (LASH), roll on/roll off (Ro/Ros), and barge-carrying vessels. Vessels in the liner trades carry high-value cargo as to its worth and multi-faceted cargo as to its physical description, including packaged goods and refrigerated fruit and vegetables. The U.S.-flag commercial fleet is a worldwide leader in innovative technologies in ocean shipping. Innovations include double-stack trains, seamless cargo tracking and identification technologies.

As of July 1, 2002, there were 127 private vessels (containerships, roll-on/roll-off, general cargo, multi-purpose, LASH vessels, and deck barges) in the active oceangoing U.S.-flag fleet serving the foreign trades. In addition, this trade was served by 136 non-self-propelled vessels in excess of 1,000 gross registered tons and 109 non-self-propelled vessels of less than 1,000 gross registered tons.

Shipping Conferences

One very important aspect inherent in the liner shipping industry is the conference system. Conferences, first formed in 1875 by the steamship lines to prevent predatory rate wars, are defined as associations of water common carriers which meet at stated intervals to discuss matters of interest and to set tariffs, or rates and rate structures. Members of the conference agree to abide by the rules of the conference with regard to the rates that will be charged. There are two types of conferences -- open and closed. A conference is closed if one can enter only by the consent of existing members of the conference. It is open if anyone can enter by meeting certain technical and financial standards. By statute, U.S.-flag shipping companies are required to join only open conferences.

Tramp Service

Non-liner service is comprised of tramp and other types of non-scheduled service, which do not conform to the criteria for a common carrier in liner service. A tramp ship, in traditional terms, is one that operates on an irregular or non-scheduled basis from one port of lading to one port of discharge, lifting one dry cargo commodity, usually of low value, without mark or count, and from one shipper to one consignee. Some vessels in irregular service, however, may carry mixed cargoes of bulk and packaged goods. The tramp operator does not usually hold himself out as a common carrier and his ship is free to operate anywhere on any terms, not infrequently being chartered out on time terms. Rates vary from day to day depending upon supply and demand.

Bulk Trades

The bulk shipping industry's economic environment is much different from the liner industry. Bulk shipping is much less structured and not organized along schedules but it is, in its own way, very disciplined. The bulk trades, mainly oil, chemicals, and dry raw materials, are structured to follow the cargoes. This means that an operator does not have a fixed schedule of sailings for his vessel and will employ it where and when he can get a cargo. Bulk service is generally not provided on a regularly scheduled basis, but rather as needed, on specialized ships transporting a specific commodity. Cargoes are shipped unpackaged either dry, such as grain and ore, or liquid, such as petroleum products.

The rate structure is not set in deliberations by a group of operators as they are in a liner conference framework. Rather, the rates are set by dictates of market forces of supply/demand for the commodity and for tonnage. Brokers are the key to making contracts and many contracts are executed over the telephone and by telegraph strictly on the verbal agreement of businessmen. In the bulk trades, bulk operators are contract carriers, either time or voyage chartered by the shipper.

Bulk carriers can be divided primarily into two principal types of ownership. The first is the proprietary owner, whose costs may be calculated as part of the corporation's operating expenses. To minimize those costs the proprietary owner may try to offer his ship for charter on the ballast leg of a voyage. The other type is the privately owned company, which sells its transportation service as the market dictates. Both types are not common carriers but contract carriers which charter ships on a long-term or short-term voyage or other basis.

Bulk operations in foreign trade include both dry cargo vessels (grain and coal carriers) and tankers (chemical or petroleum products).

Dry Bulk Fleet

As of July 1, 2002, there were 12 dry cargo vessels in the privately owned oceangoing active U.S.-flag fleet serving the foreign trades. These ships are specifically designed to transport vast amounts of cargoes such as sugar, grain, ore, coal, etc. Examples of dry bulk vessels include colliers and OBOs. In addition, there were 101 non-self-propelled vessels of 1,000 net or greater and 106 non-self-propelled vessels of less than 1,000 gross registered tons serving the international trades.

Liquid Bulk Fleet

As of July 1, 2002, there were 17 liquid bulk vessels (tankers) in the privately owned oceangoing active U.S.-flag fleet serving the foreign trades, operated by the vessel-operating subsidiaries of major oil or other companies, or by independently operated companies. These ships are specifically designed to transport oil and other liquid cargoes. At times, tankers also carry grain. Examples of liquid bulk vessels include tankers, liquid natural gas (LNG), and liquid petroleum gas (LPG) carriers. In addition, there were 39 non-self-propelled vessels of 1,000 gross registered tons or greater and 3 non-self-propelled vessels of less than 1,000 gross registered tons serving the international trades.

Flags of Convenience

(FOC) All ships must be registered to one of the nations of the world in order that responsibility for violations of international law and convention may be assigned. These ships then fall under the jurisdiction of their nation of registry. Shipping concerns adopted the practice of shopping around for nations that would give them the best deal on taxes, wages, and legal restrictions. They "conveniently" register their ships with these countries, which include Liberia -- which has the world's largest shipping fleet -- Panama, Honduras, the Bahamas, Vanuatu, and the Marshall Islands.

International Maritime Organization

The International Maritime Organization (IMO), a specialized agency of the United Nations whose primary focus is maritime affairs, is responsible for measures to improve the safety of international shipping and prevent marine pollution from ships. It is also involved in legal matters, including liability and compensation issues and the facilitation of international maritime traffic. Established under a 1948 United Nations Convention that entered into force on March 17, 1958, IMO is open to membership by all states that are members of the United Nations and to other states in accordance with the admission procedures of the IMO Convention.

IMO consists of an Assembly, a Council, and five Committees: Maritime Safety Committee (MSC) - the senior technical body responsible for all matters affecting maritime safety; the Marine Environment Protection Committee (MEPC) - responsible for the prevention and control of pollution from ships; the Legal Committee; the Facilitation Committee; and, the Technical Cooperation Committee. The organization, which is based in London, England, currently has 162 member states and two associate members. The Secretary-General, William O'Neil of Canada, who is appointed by the Council and approved by the Assembly, heads the IMO Secretariat.

United States' Role

The U.S. Coast Guard, by appointment of the Department of State, leads U.S. delegations to IMO meetings while the Department of State leads the U.S. delegations to the Council and the Technical Cooperation Committee. In addition to the Coast Guard, U.S. delegations often include representatives from other U.S. agencies, such as the Maritime Administration, the Department of Defense, the National Oceanic and Atmospheric Administration, and the Environmental Protection Agency. Private sector representatives also serve on the U.S. delegation, including representatives of the Transportation Institute.

Since the late 1970s, the United States has taken the initiative to improve international standards for maritime safety and protection of the marine environment so as to provide a significant degree of protection for its waters, waterways, environmental resources, population, and property. Largely as a result of U.S. efforts, the international maritime community has become more uniformly regulated by increasingly comprehensive and stringent international standards. Over the past three decades, most of the vessel design, equipment, and operational standards adopted in IMO instruments have evolved to the point of substantial parity with U.S. requirements. And in 2002, the United States was instrumental in persuading the IMO to adopt a comprehensive regime to strengthen maritime security and prevent and suppress acts of terrorism against shipping.

IMO conventions are not automatically binding upon governments, since IMO only recommends the decisions to member governments for adoption. An IMO convention is not binding to the United States and industry until certain criteria are met. These include: official recommendation of the convention to the President by the State Department; ratification of the convention by the President upon the advice and consent of the Senate; domestic implementing legislation, if required; and promulgation of regulations by the Coast Guard, if required.

IMO Conventions and Protocols

Currently, IMO has adopted 40 conventions and protocols that are mandatory instruments for those countries that have become party to them. The majority of conventions adopted under the auspices of IMO or for which the organization is otherwise responsible falls into three main categories - maritime safety, the prevention of marine pollution; and, liability and compensation, especially in relation to damage caused by pollution. Outside of these major groupings are a number of other conventions dealing with facilitation, tonnage measurement, unlawful acts against shipping and salvage, etc. Some of the more important conventions of interest and importance to vessel operators and to which the United States is a signatory include:

- **International Convention for Safety of Life at Sea (SOLAS)** - regarded as the most important of all international treaties concerning the safety of merchant ships and which specifies minimum standards for the construction, equipment and operation of vessels.
- **International Convention for the Prevention of Marine Pollution from Ships (MARPOL)** - which places restraints on the contamination of the sea, land and air by ships.
- **International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW), 1978, as amended in 1995** - establishes internationally acceptable minimum standards and requirements on training, certification and watchkeeping for seafarers.

The IMO has also developed 26 separate codes of safe practice, some of which are mandated through a specific convention and others of which are only recommendations, for example:

- **International Management Code for the Safe Operation of Ships and for Pollution Prevention (ISM Code)** - establishes safety management objectives and emphasizes the role of sound management in safety and pollution prevention. Compliance with the ISM Code is mandated by the SOLAS Convention, Chapter IX.
- **International Ship and Port Facility Security Code (ISPS Code)** -- details security-related requirements for governments, port authorities and shipping companies in a mandatory section (Part A), together with a series of guidelines about how to meet these requirements in a second non-mandatory section (Part B). The ISPS Code will come into force in July 2004.

In addition, IMO has approved or adopted hundreds of recommendations and guidelines in the form of resolutions, circulars, and manuals that further supplement or assist in the implementation of the conventions.

protocols, and codes to improve maritime safety and the protection of the marine environment.

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Jones Act / Domestic Shipping

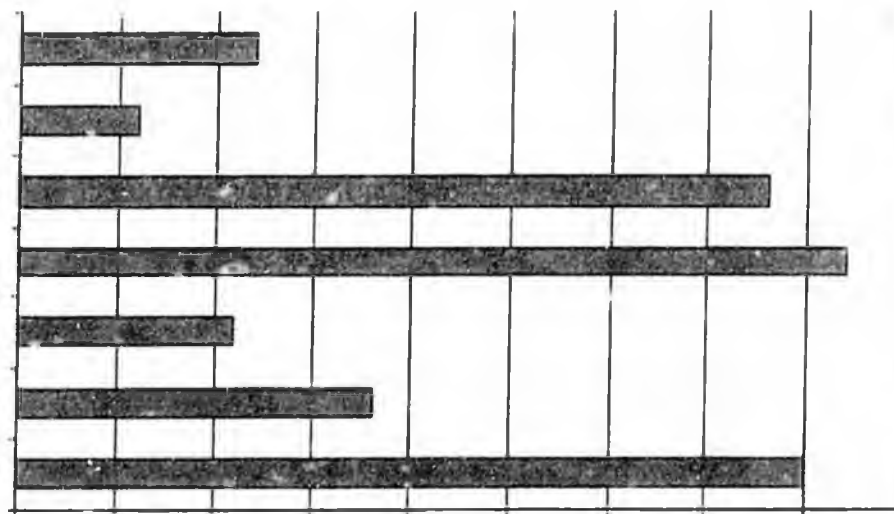
The Jones Act

America's dependence on the seas has been integral to its economic health and survival as a nation. Similarly, because of the vastness of the nation, the expansive network of rivers, lakes, and canals is critical to the efficient transportation of natural resources, food, and manufactured goods from state to state and ultimately to market. Because of the importance of the merchant marine and the critical role that coastwise and inland waterway transportation plays in its economy, America has always made sound decisions about protecting the integrity of this system along with the vitality of our waterways.

Thus, the Jones Act, titled after its sponsor Senator Wesley R. Jones, a Republican from Washington State, was passed as part of the Merchant Marine Act of 1920. This federal legislation specifies that domestic waterborne commerce between two points within the United States and subject to coastwise laws must be transported in vessels built in the United States, documented under the laws of the United States, and owned by the citizens of the United States.

Provisions such as these are not unique in the world, nor are they new to the United States. A recent survey conducted by the Maritime Administration -- an agency of the Department of Transportation -- found that 47 nations have laws restricting foreign access to domestic trade. These similar cabotage laws -- from the French word *caboter* which means to sail coastwise or by the capes -- reserve a country's domestic maritime transportation for its own citizens. Cabotage principles are designed to guarantee the participation of a country's citizens in its own domestic trade. These laws foster the development of a merchant marine and give preference to local labor and industry. More importantly, they support national security and protect the domestic economy. Cabotage laws have been the norm since the early days of our nation. In 1789, the first Congress of the United States restricted registration for coastal trades and fisheries to U.S.-built and U.S.-owned vessels and gave these vessels preferential treatment with respect to tonnage taxes and cargo import duties. Additional cabotage laws were enacted during the intervening years between that first cabotage law and the enactment of the Jones Act over a century later. Variations of these cabotage laws exist today in the U.S. transportation, utility, and communication industries. Federal laws reserve other kinds of U.S. maritime activity to Americans -- including passenger ships, fishing in U.S. territorial waters, towing in U.S. harbors or between two points in the United States, salvage operations in the U.S., dredging in U.S. waters, and the exploitation of minerals and other energy resources within the 200 mile economic zone.

Maritime Administration
Survey of fifty Three Maritime Nations



Source: U.S. Department of Transportation

The Jones Act fleet includes over 42,000 commercial vessels and annually transports approximately one billion tons of cargo. Based on the principle that cargo carried between U.S. ports is vital to the American economy, the Jones Act protects the nation's waterways from being turned over to foreign ships, owners, or crews.

Important Benefits of the Jones Act

- The Jones Act assures that the U. S. mainland and its offshore communities continue to have reliable domestic water transportation service subject to national control in times of emergency.
- Jones Act vessel construction and repair in U.S. shipyards assures the availability of the skilled professionals and the modern facilities needed in time of war or national emergency
- Freight revenues earned by domestic carriers, shipyards, and repair yards are subject to taxes. Foreign owned carriers and shipyards are not!
- Because of these requirements for the U. S.-manned vessels, the American merchant mariner is kept employed and trained, while at the same time maintaining readiness to man essential vessels in times of war or national emergency

Jones Act vessels support a wide range of American industries. For ocean shipping, the coastwise and intercoastal fleet primarily employs crude oil and product tankers while the domestic offshore fleet mainly employs container vessels. For Great Lakes shipping, the Jones Act fleet carries iron ore, coal and limestone. Inland waterways shipping carries more domestic cargo than ocean shipping and Great Lakes shipping combined, transporting farm products, petroleum products, coal and non-metallic minerals, and chemical and allied products in bulk by barge.

Every State Benefits From Jones Act Trade

Jones Act cargo movement includes crude oil in coastal tankers from Alaska to California, grain via inland river barge from the Midwest to the Gulf Coast, metallic ores from Minnesota and Michigan in massive self-unloading Great Lakes vessels to Indiana and Ohio, inter-plant movement of chemicals and fertilizers along the Texas Gulf Coast, coal by barge from Appalachia to the Midwest, and merchandise to and from Alaska, Hawaii, and Puerto Rico.

On a value-of-cargo basis, 19 state-to-state flows account for 40 percent -- over \$200 billion -- of Jones Act cargoes.

Domestic Jones Act Tonnage by State 2001

(Thousand metric tons)

STATE	SHIPPING	RECEIVING	INTRASTATE
Alabama	9,486	15,443	11,774
Alaska	47,491	2,323	3,561
Arkansas	3,977	4,355	2,725
California	5,065	27,176	8,109
Connecticut	791	10,569	1,186
Delaware	12,452	1,839	1,824

District of Columbia	-	601	-
Florida	8,106	51,727	3,807
Georgia	733	1,577	168
Guam	42	293	-
Hawaii	698	5,107	7,960
Idaho	911	8	292
Illinois	81,502	18,085	9,338
Indiana	12,827	45,117	3,746
Iowa	8,729	3,732	551
Kansas	178	1,658	286
Kentucky	48,394	30,165	13,140
Louisiana	95,322	115,649	36,684
Maine	89	2,425	142
Maryland	6,282	10,516	4,265
Massachusetts	862	8622	1,757
Michigan	22,797	18,861	14,885
Minnesota	25,706	5,750	2,011
Mississippi	12,497	9,818	795
Missouri	16,022	7,730	7,725
Nebraska	93	69	-
New Hampshire	15	504	-
New Jersey	26,731	18,476	4,407
New York	15,025	19,071	15,061
North Carolina	140	2,383	1,660
Ohio	17,007	56,519	11,422
Oklahoma	1,776	1,966	6
Oregon	3,116	9,103	3,518
Other	4,838	7,340	11

Pacific Islands	2	22	-
Pennsylvania	16,823	32,945	20,341
Puerto Rico	1,161	6,577	2,010
Rhode Island	299	4,930	33
South Carolina	392	3,291	1,901
Tennessee	7,253	30,785	4,351
Texas	39,709	18,760	51,584
Trans-shipment*	254	65	-
Vermont	-	-	-
Virgin Islands	16,894	-	438
Virginia	11,946	5,344	5,869
Washington	13,473	27,315	12,104
West Virginia	48,230	14,411	9,420
Wisconsin	19,439	6,759	119

* Indicates ports and offshore anchorages where cargo is moved from one vessel to another.

Source: U.S. Army Corps of Engineers

A Major Source of Employment

An estimated 124,000 U.S. citizens are engaged in a variety of Jones Act-related jobs including the crewing of vessels, the building and repair of those vessels, and the shore-side management and support of trade. On all American coasts, throughout the inland waterway system, and across the Great Lakes, Jones Act employment impacts the economic vitality of much of the United States.

The Jones Act Employs Approximately 124,000 Persons on a Full-Time Equivalent Basis

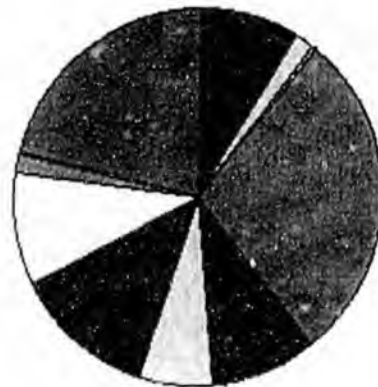
Number of Jobs	Jobs Employment Category
80,170	Crews of Jones Act vessels
14,000	Maintenance of Jones Act vessels
9,139	Shoreside management of vessels and core marine business
17,247	Construction and repairs of Jones Act vessels at shipyards
2,397	Supply of stores, supplies, and equipment
416	Providing insurance coverage to the fleet
619	Financing the Jones Act fleet
123,988	Total

Source: Mercer Management Consulting, Inc.

A Large Contributor to the American Economy

The total direct economic activity associated with the Jones Act fleet is estimated at \$15 billion each year. This includes \$8 billion in other goods and services, excluding fuel, which are largely produced by American manufacturers and financial institutions. The Jones Act fleet transports about 1.1 billion tons of cargo worth approximately \$222 billion at a cost of about \$12 billion – less than 6 percent of the value of the cargo. Approximately \$1 billion of transportation and other services to meet the needs of offshore oil and gas operations is generated and \$1 billion in other marine activities including dredging, patrols, and environmental services is generated by the Jones Act fleet.

The Jones Act is a Major Contributor to the U.S. Economy
(millions of dollars)



Jones Act Fleet: 41,419 Vessels
124,000 Jobs

Total: \$14,874

Source: Mercer Management Consulting, Inc.

The 124,000 employees that are involved in Jones Act activities annually pay \$1.1 billion in federal income taxes and \$272 million in state taxes. In addition, the operators of Jones Act vessels and the shipbuilders and repairers that support them contribute about \$300 million and \$55 million in federal and state taxes, respectively, on their corporate profits. The reality is that a significant portion of this revenue would not enter the U.S. economy if the Jones Act did not exist and if foreign shipyards, crews, owners, and suppliers were operating within U.S. waters while purchasing goods and services outside of the U.S. The simplistic view of income taxes paid on Jones Act fleet operating profits underestimates the full effect of the Jones Act. Suppliers create jobs and earn profits on the goods and services they provide to Jones Act operators, resulting in even more tax revenue generated as a result of the Jones Act.

An American Tradition Worthy of Protection

Some have criticized the Jones Act, saying that it protects a more expensive mode of transportation that costs America more dollars. The reality is that the difference between U.S. and foreign costs for shipping can be explained entirely by the difference in costs related to taxation, regulation and labor costs, and working conditions.

Americans have a higher national standard of living, compensation, and working conditions. American workers

and American companies have to meet national safety regulations. American employers have to adhere to strict U.S. laws. American companies, their employees, their vendors, and suppliers all have to pay American taxes. All of these costs directly impact shipping costs, and thus American shippers. No matter how streamlined and cost-effective their operations are, they will always be at a disadvantage when compared to foreign operators who do not have to play by comparable rules.

If the Jones Act was repealed, the U.S. would experience a devastating loss of maritime jobs – a loss to the U.S. that is estimated at \$15 billion in direct economic value. In addition to the economic damage that would result from the thousands of lost jobs, shipyards would stop investing in cost-efficient operations. Long-term shipping contracts would cease, thus the economy of scale built into those contracts would disappear. The current Jones Act fleet would begin to erode and defaults on federally-guaranteed mortgages would escalate dramatically, costing the federal government millions of dollars. Total exposure of the federal government and the owners of the vessels has been estimated to be over \$1 billion, thus the government has a compelling financial incentive in seeing that the Jones Act fleet is not undermined and wiped out by foreign competition.

By Necessity ... A Competitive and Innovative Industry

Jones Act marine transportation is fiercely competitive, with carriers competing for spot business and long term contracts. As a result, rates are naturally constrained. Interestingly enough, while general inflation has doubled and insurance and other costs of doing business have skyrocketed during the past ten years, Jones Act rates for petroleum products have remained fixed. In some markets, such as the inland grain trade on the greater Mississippi River system, a futures market exists to forward fix, speculate, and hedge grain barging commitments.

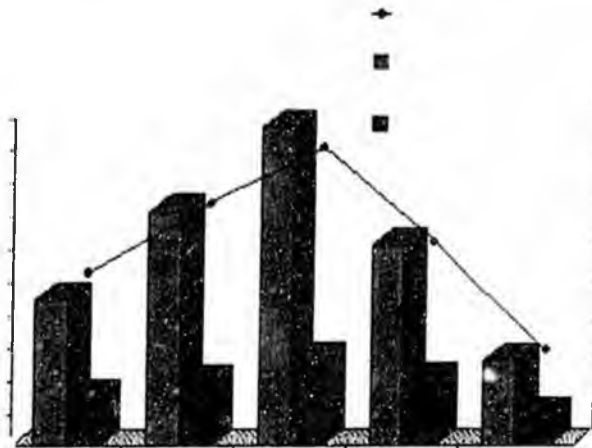
Jones Act marine transportation rates are also naturally limited by competition from other modes of transportation. In virtually every market, rising maritime shipping rates trigger customers to shift cargoes to other modes of transportation. On the flip side of the coin, Jones Act trade must remain competitive and keep its costs low in order to capture cargo from competing modes of transportation, such as oil product pipelines connecting the U.S. Gulf to the Mid-Atlantic states and western coal delivered to the southeast by rail. Foreign sourcing and transportation also imposes powerful rate ceilings on many cargo movements, such as the shipping of petroleum products on the Atlantic Seaboard.

At the same time, innovative production techniques have resulted in lower construction costs. For example, barge prices are lower today than they were a decade ago. Innovative technologies and economies of scale have been developed in order to meet vigorous competition. And all of this has occurred naturally within the industry, thus there is no requirement for the manipulation of outside forces in order to increase competition or innovation. It is already happening – with very positive results for America and American taxpayers.

Buy American

The size and average 30-year life of the fleet used in Jones Act trade dictates that about 2,000 replacement vessels are required each year to maintain the fleet at its current capacity. With these 2,000+ Jones Act vessels being replaced each year, approximately 20,000 shipyard workers are employed through new vessel construction. In addition, 14,000 American jobs are created as a result of the maintenance and repair of existing vessels used in Jones Act trade. The "rule of thumb" for the Jones Act fleet is that new construction creates 10 shipyard jobs per "average" vessel.

Potential Jones Act Vessel Construction Schedule and Shipyard Employment (annual averages in five year increments)



Source: Mercer Management Consulting, Inc.

If foreign-flag ships were permitted to transport merchandise between two points in the United States, the foreign-flag operators would be able to avoid paying U.S. taxes! They would employ foreign citizens, not Americans. They would be subject to foreign construction and safety rules, not stringent American guidelines. Amending the Jones Act would result in the removal of a portion of the U.S. gross national product, adversely affecting the U.S. balance of payments.

The ripple effect on the U.S. economy would extend far beyond the waterfront. Shipyards, their suppliers, their insurers, their employees, and the employees of their suppliers would suffer. Land transportation systems that now efficiently connect and coordinate with water transportation systems would encounter more complex problems in maintaining the smooth flow of domestic cargoes, which would, in turn, increase shipping costs. Terminating the Jones Act amounts to a shortsighted and "penny wise, pound foolish" decision if it comes to pass.

Foreign trade ministers oppose the Jones Act for very obvious economic reasons. They want to build ships in their own subsidized shipyards that would be used to transport the domestic commerce of the United States. Meanwhile, they do not "graciously" offer to terminate their own cabotage laws in exchange. And even if they did, the deal would not be equitable since America's domestic trade is far greater in size than the domestic markets of our foreign competitors.

Our Nation's Security Depends on the Jones Act

An undeniably vital aspect of the Jones Act is the range of national security benefits it affords the United States. First, the Jones Act fleet plays a vital role in maintaining the nation's economic security by ensuring that the United States controls its essential transportation assets and the related infrastructure in both peacetime and wartime. American-owned and American-manned ships ensure the safe transport of grain down the Mississippi, ore across the Great Lakes, coal from America's heartland, and more. Without the Jones Act, America's internal network of waterways would be vulnerable to foreign shippers who don't play by the same set of safety rules or adhere to important environmental standards. America's economy relies on an efficient system of shipping, thus with foreign vessel operators playing a role, our natural resources and goods, and citizens are subject to the whims of ship operators who have a lot less at stake.

Because of the Jones Act trade, American shipyards and repair yards efficiently operate during times of peace. As a result, when war places demands on these resources, they can be mobilized to repair, convert, and construct vessels for military use -- quickly and efficiently. At the same time, with the Jones Act in place, equipment manufacturers that supply the military are in business and ready to serve the nation when they are called upon to use their expertise to produce vital equipment for military needs.

In addition, the actual Jones Act vessels and Jones Act crews form a ready team of professionals who play a central role in meeting U.S. defense needs when they emerge -- sometimes at a moment's notice. Without this ready fleet of ships and people, the U.S. taxpayer would bear the burden of building these ships and maintaining these highly technical capabilities over many years. It has been estimated that the Department of Defense would have to spend \$800 million annually to maintain these resources. With the military budget

under continued assault to streamline staffing and ship requirements, it is easy to see the importance of keeping the current cost-effective manning and shipping system intact through the Jones Act. The Jones Act fleet serves as an important adjunct to government-owned defense resources, without any burden of cost to the government and the American taxpayer. And real world demonstrations such as the Vietnam conflict and the Gulf War confirm the importance of Jones Act vessels in the mobilization of U.S. allies and in meeting logistics requirements.

"The Gulf War was a staggering logistical accomplishment... We moved more than 95 percent of all the equipment, supplies, and fuel by sea. And U.S.-flagged ships carried 80 percent of the ocean going cargo. We did it in record time and with a near-perfect safety record. We tapped the U.S. maritime industry and thousands of merchant mariners to help augment the government's strategic sealift forces."

VADN Francis R. Donovan
USN Commander, Military Sealift Command, August 1992

Critical To Our Environment And To Our Safety

The regulations issued and enforced by the U.S. Coast Guard are the most effective in the world. Employing U.S. citizens and resident crews while navigating the coasts and rivers of America involves the reliance on people whose orientation is to obey the law, work hard, and have a personal stake in the environmental and economic well-being of the United States. Thus, communities from sea to shining sea are safer for having U.S. operators and U.S. merchant mariners serve the nation's maritime transportation needs. Thus, the Jones Act is vital to the environmental security of our nation.

The U.S. Merchant Marine must meet the stringent requirements of federal, state, and local laws that protect America's precious waterways and tidal areas. The U.S. Merchant Marine is required to meet stringent oversight inspections that have the highest standards in the world. Plus, because Jones Act carriers are liable for failures in performance by law, through insurance premiums, and through the pressure of demanding charterers, U.S. operators cannot cut corners or run a slipshod operation using untrained mariners. The introduction of foreign-flag ship operators into the American system invites disaster. Some foreign ships do not have the burden of following national guidelines that guarantee a well-maintained vessel that is constructed for superior safety. Foreign crews are often paid extremely low wages, receive few benefits, and work inhumane schedules. Many do not have the superior level of training or professionalism that characterizes the U.S. Merchant Marine. Thus, if the Jones Act is repealed, America's waterways will be heavily traveled by vessels and crews that do not perform to American standards -- nor will they have the incentive to do so.

If the Jones Act were to be terminated, the number of foreign-flag vessels carrying hazardous cargoes along our environmentally sensitive coastlines and within the harbors and waterways would increase beyond the already unacceptable level. Our nation's precious environment would be even more vulnerable to those whose operating systems are not up to our standards or within our control.

Vital To America's Future

The Jones Act has been integral to the economic and national security of our nation since it began. Today, the Jones Act offers a clear way to preserve the millions of dollars of tax income gained from Jones Act trade and fleets. The Jones Act employs thousands of Americans through shipping and shipping support activities across the nation. The Jones Act fleet is a competitive and innovative industry that continues to provide America with high quality and cost-effective services from coast to coast. The Jones Act ensures a ship building and ship repair resource that can be mobilized quickly in times of war. The Jones Act guarantees a professional and ready force of merchant mariners who are vital to America's ability to supply our military forces -- bringing food, equipment, and ammunition needed to sustain a conflict in distant lands. The Jones Act ensures that our nation's waterways are traveled by well-built ships that meet American safety and environmental standards. The Jones Act facilitates America's complex and streamlined system of transportation of goods that is invaluable to a strong economy.

America cannot afford to lose control of the movement of crude oil in coastal tankers from Alaska to California ... grain via inland river barge from the midwest to the Gulf Coast ... metallic ores from Minnesota and Michigan on Great Lakes vessels to Ohio ... coal by barge from Appalachia ... and goods to and from Alaska, Hawaii, and Puerto Rico. American citizens residing across the vast reaches of this nation expect and deserve the broad-reaching benefits of our nation's current high standard of shipping and professionalism that is guaranteed by the Jones Act.

The Jones Act is an American tradition founded on common sense; an American tradition that protects economic superiority and national security through quality shipping and unparalleled professionalism. Cabotage laws have enabled America to become the economic force of the world while securing the safety of our vast national network of inland waterways and coastwise trade. The Jones Act has served America well during the better part of this century, fostering a superior and streamlined system of transportation that is so critical to our nation's economic health and fostering the professionalism of a team of merchant mariners second to none. The Jones Act has had a dramatic impact on America's past. It has brought us to a position of strength today. It will continue to serve America well in its future.

For further information about the Jones Act, please visit the Maritime Cabotage Task Force

Domestic Shipping

This segment of the American merchant marine that operates on the Great Lakes, the inland waterways, and in the coastwise, intercoastal, and domestic offshore trades carries a combined total of over one billion short tons of cargo each year. The major products moving in the domestic trade are crude petroleum, raw materials, coal, chemicals, and farm products. Traditional liner cargoes and manufactured products move between the contiguous 48 states and Alaska, Hawaii and Puerto Rico. In order to maintain market share, the domestic fleet must compete successfully with alternative modes of inland transportation, including railroads, trucking, and occasionally airfreight. It is a vital component of the overall transportation network that serves our country.

In 2002, the Jones Act fleet comprises more than 41,000 vessels and associated equipment, including approximately 1,000 tug and 30,000 barges, needed to carry this cargo and 80 million passengers annually. These vessels range from the largest of containerships to small, dry cargo barges including tankers, dredging vessels, and passenger ships. To move these commodities and passengers, the fleet has doubled in size since 1965 based on the number of large vessels in the fleet. During the same timeframe, productivity has more than tripled, increasing at an annual rate 2-4 times greater than America business on the whole.

The U.S. domestic fleet plays a vital role in sustaining the national maritime infrastructure that supports U.S. maritime and naval power. For example, 87 percent of all U.S.-flagged shipboard employment opportunities are found in the U.S. privately owned, domestic fleet; that fleet provides over 70 percent of the new construction opportunity for U.S. shipbuilders; and 97 percent of all cargo moving on U.S.-flag vessels moves on vessels operating under the coastwise laws.

Domestic waterborne services offer the Nation a number of benefits:

- Relatively low transportation costs, especially for low-value/dth commodities that are often in close proximity to the domestic waters
- Historically determined location of major industrial centers close to or along domestic waters
- Relief of congestion at land- and air-based facilities during national emergencies

Domestic Deep-Sea Trades (Coastwise and Non-Contiguous)

The major segments of the domestic deep-sea trade are the contiguous and non-contiguous trades. The major non-contiguous trades are between the mainland and Alaska, Hawaii, Puerto Rico, Guam, and the islands of Wake and Midway. The contiguous routes consist of the coastwise traffic along the Atlantic, Gulf and Pacific Coasts.

Cargo in the domestic deep-sea trade is predominantly industrial, principally petroleum and dry bulk products. In 2000, more than 226 million metric tons of cargo was transported via the domestic deep-sea trade. Petroleum products accounted for 50 percent, crude petroleum for 21 percent, chemicals for 6 percent and coal for 6 percent. Manufactured products that move primarily in non-contiguous trades and food products accounted for the remainder. As of July 1, 2002, the self-propelled and non self-propelled commercial deep-sea domestic fleet was comprised of:

TYPE	NUMBER	CARGO CARRYING CAPACITY
Tankers	139	5,354,000 metric tons

Dry Bulk Carrier	2	71,000 metric tons
Containerships	24	302,000 metric tons
Tank Barges	669	4,398,000 metric tons
Dry Cargo Barges	353	2,075,000 metric tons
Other Freighters*	196	238,000 metric tons
Other Barges	3,285	3,472,000 metric tons
Tugs/Towboats	1,875	N/A

* Includes general cargo ships, roll on/roll off ships, multi-purpose ships, and LASH vessels

Source: Maritime Administration

Inland Trade

America's inland network consists of 12,000 miles of waterways. In 2000, more than 691 million metric tons of freight was moved on the inland waterways, handling 60 percent of the Nation's grain exports, 25 percent of the chemical and petroleum exports, and over 20 percent of the domestic coal shipments. Like the Great Lakes, the northern-most inland waters are subject to prohibitive freezing conditions in the winter.

As of July 2002, the industry serving this trade was composed of:

TYPE	NUMBER	CARGO CARRYING CAPACITY
Tugs/Towboats	3,429	N/A
Tank Barges	3,501	8,050,000 metric tons
Dry Cargo Barges	22,438	36,054,000 metric tons
Other Freighters*	107	27,000 metric tons
Other Barges	3,839	4,716,000 metric tons
Tanker	2	N/A

* Includes general cargo ships, roll on/roll off ships, multi-purpose ships, and LASH vessels

Source: Maritime Administration

Great Lakes Trade

Great Lakes domestic cargoes primarily include iron ore, coal, and limestone. The Saint Lawrence Seaway provides Atlantic Ocean access to the Great Lakes. In 2000, 126 million metric tons of cargo moved through the Great Lakes. Winter freezing conditions typically render the Great Lakes fleet inactive for months at a time.

As of July 1, 2002, the domestic Great Lakes fleet was made up of

TYPE	NUMBER	CARGO CARRYING CAPACITY
Dry Bulk Carriers	59	1,952,000 metric tons
Tankers	6	21,000 metric tons
Other Freighters	13	54,000 metric tons

* Includes general cargo ships, roll on/roll off ships, multi-purpose ships, and LASH vessels

Source: Maritime Administration

In addition, the Great Lakes are home to a considerable tug/barge and shipdocking industry. As of July 1,

2002, this industry was comprised of:

TYPE	NUMBER	CARGO CARRYING CAPACITY
Dry Cargo Barges	122	270,000 metric tons
Tank Barges	10	28,000 metric tons
Other Barges	176	218,000 metric tons
Tugs/Tows	141	N/A

Source: Maritime Administration

Dredging Trade

The marine construction and dredging industry is a specialty construction trade characterized by equipment that is housed on floating platforms. The demand for dredging stems from four primary factors:

- To provide unimpeded navigation through an existing channel (maintenance dredging);
- To improve navigation channels to provide access to larger vessels (new work dredging);
- To provide shore protection through beach nourishment;
- To provide environmental restoration of dredged waters or wetlands.

The largest purchaser of marine dredging services is the federal government through the U.S. Army Corps of Engineers. The maintenance-dredging budget ranges from \$220-260 million per year. The new work-dredging budget varies greatly from \$50 million-180 million annually. Since the 1990s, shore protection has grown enormously from about \$25 million to approximately \$90 million annually. Environmental cleanup and wetlands restoration is a slowly growing dredging trade.

As of March 2006, the privately and state-owned U.S.-flag dredging fleet totaled 499 dredges, and was comprised of the following:

- 285 pipeline dredges in which the dredge navigates through a channel on stilts-like spuds. The dredged material is pumped via a slurry pipeline to a designated placement site near the channel.
- 149 mechanical dredges in which material is lifted from the channel bottom via a hydraulic clamshell and placed in a barge that is towed to the ultimate disposal site.
- 29 hopper dredges, which are self-propelled. Coast Guard inspected oceangoing vessels that pump spoils through a "dragarm" while the vessel is sailing. When the hopper is full, the dredge sails to a designated site for disposal.

Source: World Dredging & Mining Construction Annual Report

In addition to the aforementioned, the U.S. Army Corps of Engineers maintains a 12 dredge fleet consisting of 7 pipeline dredges and 5 hopper dredges.

Passenger Vessel Trade

Oceangoing passenger vessels can easily lend themselves to conversion as command and communication facilities, troop carriers, hospital ships, and rest and recreation facilities during military engagements and can provide qualified crews for military sealift. As of July 2002:

- Nine vessels of the Alaska Marine Highway System provide passenger and auto ferry service between Alaskan ports. The newest passenger/vehicle ferry was added to the fleet in 1998. Capable of carrying 550 overnight passengers, it is equipped with high-tech features which can provide emergency response capability in the event of a natural disaster.
- Delta Queen Steamship Co. operates three paddlewheel steamboats on the Mississippi and Ohio Rivers.

- Additional U.S.-flag overnight passenger vessels provide coastwise services on the Atlantic, Pacific and Alaska Coasts; St. Lawrence Seaway; the Great Lakes; the Caribbean; Erie Canal, and the Hudson, Saguenay, and Columbia Rivers. Altogether they number some 30 vessels.
- Twenty gaming/excursion vessels (riverboats) are operating in Indiana and Iowa.
- Approximately 26 U.S.-flag cruise-to-nowhere gaming vessels operate from U.S. ports, primarily in Florida.
- In addition, there are an estimated 5,000 U.S.-flag day passenger vessels (non-cruising) of all types, including excursion vessels, private commuter ferries, and publicly operated ferry systems.

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- project introduction
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- ### Project News & Updates
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 - Construction to begin on Prince Rupert Container Terminal
 - Will West Coast Ports Miss the Boat?
 - \$41m Civil Construction Contract Awarded to BA Blacktop/Pennecon
 - Port Implementing Public Safety and Security Measures - April 24 2006
 - Port Implements Security Measures
 - Summer 2006
 - Federal Courts Dismiss First Nations Court Action
 - Going West
 - Federal Announcement Opens New Opportunities for Prince Rupert Port
 - Macleans Magazine - Trying to unclog Canada's gateway to riches
 - Prince Rupert Port Updates Container Terminal Project
 - Prince Rupert's Fairview Terminal Conversion

Prince Rupert Container Terminal Development

Opening a New World of Opportunity

Changes in shipping preferences created the need for transformation at the Port of Prince Rupert. The Prince Rupert Port Authority is investing in the future of Prince Rupert and the entire region by developing new capabilities to meet the changing needs of shippers and producers from across the Asia Pacific region. Building upon the inherent advantages of the Port of Prince Rupert's deep harbour, strategic location, and superior transportation connections, Prince Rupert is poised to open a new trade corridor in the Asia Pacific theatre with this first phase of container terminal development.

The Prince Rupert Port Authority is building North America's newest container port on the West Coast of North America in partnership with Maher Terminals of Canada Corporation, CN Rail, the Government of Canada, and the Province of British Columbia. The new \$160 million terminal will be located on shortest land-sea link to Asia providing direct and efficient links to Chicago, Toronto, and Memphis. The new facility will have an annual capacity of 500,000 TEU's and be capable of handling the large post panamax container ships of tomorrow. Future plans feature the expansion of the terminal to reach an annual capacity of 2 million TEU's.

The Prince Rupert container terminal project is expected to significantly alleviate congestion at existing West Coast ports and create significant economic opportunities for Canadian importers and exporters with the development of improved transportation connections to the Asia Pacific markets. The project is a key component to the Government of Canada's Pacific Gateway Strategy. The project will also be a catalyst for economic development and expansion across the northwest transportation corridor. Once complete in 2007, the container terminal will create over 400 new full time jobs through the two phases of the project.

Environmental stewardship and responsibility is an integral part of the mission of the Prince Rupert Port Authority and the construction at Prince Rupert's Fairview Terminal will be subject to a strict environmental review and work to minimize impacts. Preliminary review of the project indicates the project may have a net positive impact to the marine environment.

This project has had tremendous support throughout the community. It will create new jobs for existing companies, new businesses in containerization, and new opportunities for entrepreneurs in the exporting sector. An outpouring of enthusiasm from community members ensures that the project will move ahead successfully.

Takes Environmental Responsibility Seriously
Project Postings
Environmental Documentation
Pre-qualified Contractor List

Prince Rupert Container Terminal Development - Phase 1

The new Fairview Container Terminal will move 500,000 TEUs (Twenty Foot Equivalent Units) per year. It is uniquely designed to efficiently handle the largest concentration of intermodal rail business. As such, the new container terminal will be North America's purest marine to rail intermodal transfer facility. The 18 meter (60 foot) extension of the wharf will allow for a berth depth of 16.75 meters (55 feet), enabling the wharf to easily accommodate the largest container ships now on the drawing board. Those ships hold up to 12,500 TEUs, making them up to 22 containers across. The container yard will hold more than 7,000 TEUs and have space for almost 3,000 in temporary storage. It will also have outlets for refrigerated containers. Significant support from CN will result in the upgrade and expansion of the intermodal yard to seven working tracks and six storage tracks, enough to hold more than 17,000 feet of train. CN will provide full double-stack clearance along the route and invest in additional rolling stock. Maher Terminals of Canada Corp. will provide three Super Post Panamax cranes to efficiently handle the world's largest container vessels.

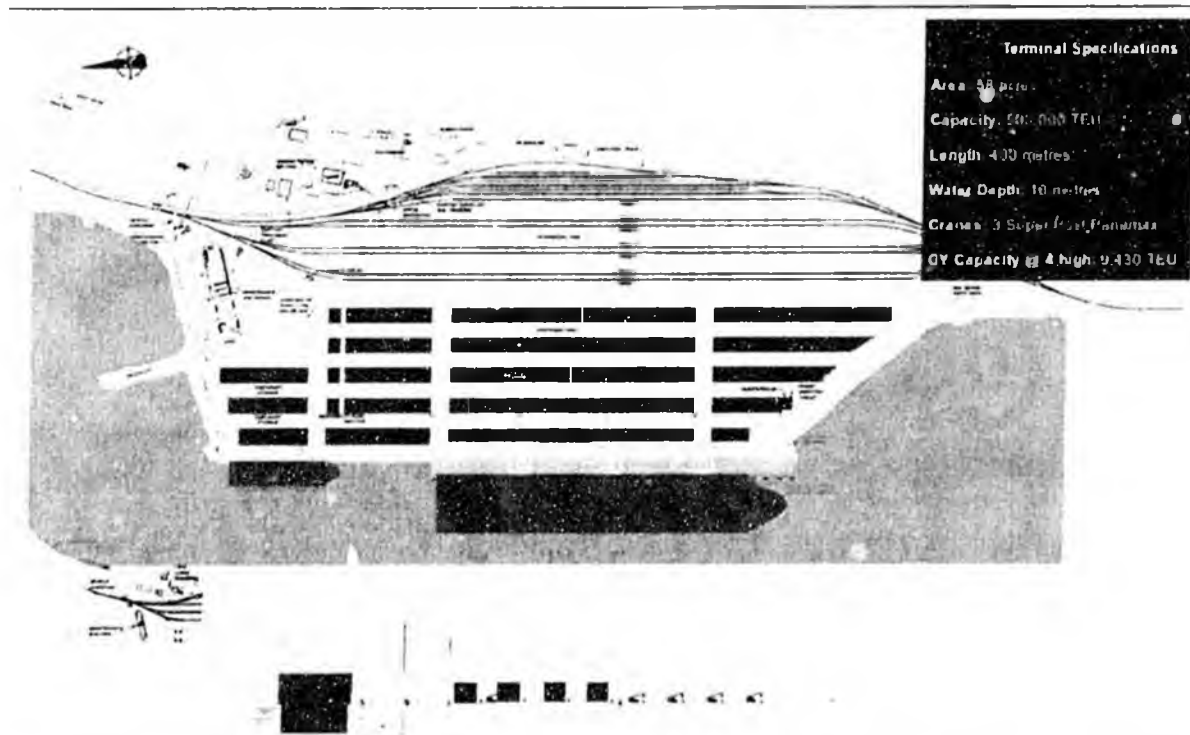
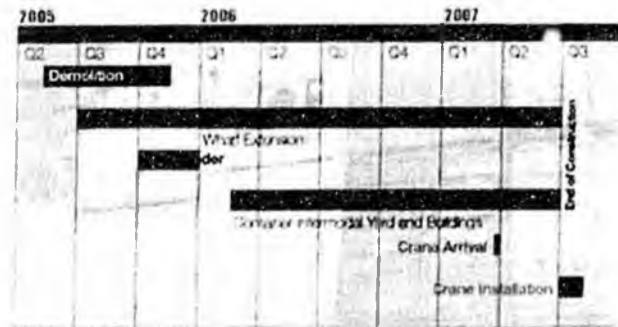
Project Partners



Western Economic
Diversification Canada



Project Timeline

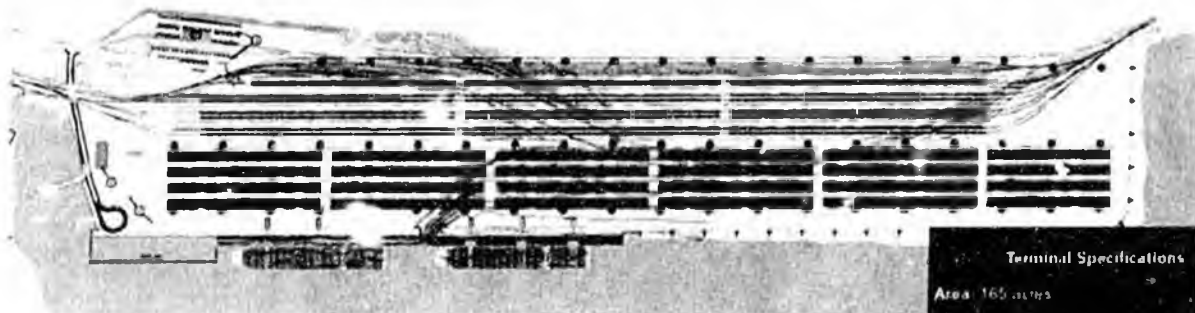


Prince Rupert Container Terminal Development - Phase 2

The vision for the future is the expansion of the terminal to nearly triple the size of the facility to accommodate an annual capacity of 2 million TEU's to meet the demands of continued growth in Asia

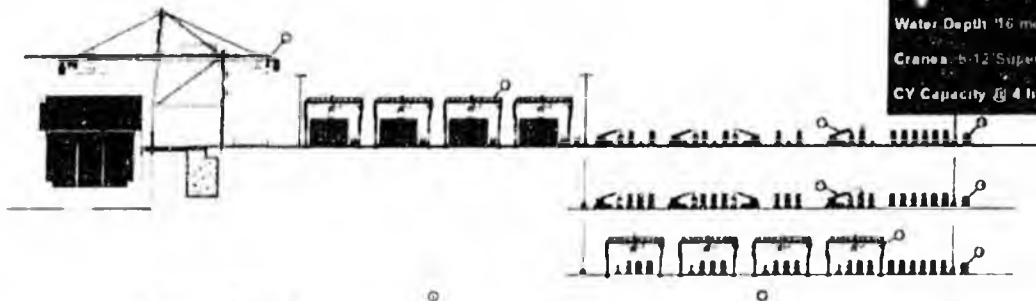
Pacific traffic trade. The project would feature an extension of the wharf to 800 meters maintaining a 17 meter minimum water depth, increasing the dock area to 165 acres, and doubling the number of super post-panamax cranes. The expanded facility would have an on-site storage capacity of 25,000 TEUs and accommodate the continued growth in regional export traffic anticipated to develop over the next decade.

Planning and engineering for both Phase 1 and Phase 2 has been completed through the development planning process to ensure the project planning integrates this eventual expansion. It is anticipated that work will commence on Phase 2 shortly after the completion of Phase 1, and construction of the expanded terminal would be complete for 2010.



Terminal Specifications

- Area: 165 acres
- Capacity: 2 million TEU
- Length: 800 metres
- Water Depth: 16 metres
- Crane: 6-12 Super Post Panamax
- CY Capacity @ 4 high: 25,000 TEU



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Tiny British Columbia Port Aims To Be New Venue for China Trade

Tuesday, August 08, 2006

By Daniel Machalaba, The Wall Street Journal

PRINCE RUPERT, British Columbia --This mist-shrouded port boasts scenic beauty and an abundance of wildlife but a human population of a mere 13,000.

Now, thanks to soaring U.S.-China trade, Prince Rupert may have a very different future: as an important link in the transport chain that supplies DVD players, toys, clothes and other goods to the U.S. heartland.

Large container-ship ports in Los Angeles and Long Beach, Calif., have seen surging volumes as the Asian trade has boomed. This has meant chronic congestion and pushed some cargo to smaller West Coast ports such as Vancouver, British Columbia. Now tiny Prince Rupert 500 miles to the remote north of Vancouver is making a play for a piece of that international trade. And the entry of a well-established U.S. port operator has given the project credibility.

He is M. Brian Maher, whose family-owned company operates the largest container terminal in the port of New York and New Jersey. By October of next year, Mr. Maher expects his giant cranes to be moving Asian goods onto trains at an upgraded Prince Rupert terminal for a 2,600-mile rail ride to the Midwest. He is gambling that big-box retailers and large global shipping companies, frustrated by backups at Southern California ports, will flock to his alternative route.

The project faces plenty of obstacles. A tribal group has filed a lawsuit contending the container-terminal plan violates aboriginal land rights. The city's small population means there will be almost no local demand for the arriving goods, nor local products to put on the ships for their return voyage to Asia. Workers are having to adapt their schedules to environmental concerns, such as holding off blasting when whales, sea otters or porpoises are sighted. And there is no guarantee that either the shipping companies or the big retailers will want goods sent via Prince Rupert.

Situating a container-ship operation at such an out-of-the way spot turns conventional wisdom about port-building on its head. The usual plan is to build ports next to major cities that generate great demand for cargo, and then to compete for freight bound for elsewhere as well. But more than 98 percent of goods imported through Prince Rupert will leave the area immediately on long train rides.

The Prince Rupert project is part of a wave of port development that attempts an end run around the most historically important Asian gateways farther south. Los Angeles and Long Beach handled more than 60 percent of containers that passed through West Coast ports in the U.S. and Canada last year. They are a magnet for cargo because they have a huge local market and abundant rail lines. Manufacturers and retailers have fed the growth by building vast distribution centers about 40 miles east of Los Angeles.

But traffic has been seriously snarled three times in the past decade, including a 10-day shutdown in 2002

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resulting from a stalemate in labor negotiations. The Southern California ports recently expanded capacity by keeping truck gates open at night and on weekends, and by adding more tracks, terminals and dockworkers. But "shippers have already been burned, and they know they can't just rely on established West Coast ports," Mr. Maher maintains. "They have to find alternative gateways."

Prince Rupert has lots of competition in the bid to provide alternatives. Voters in Panama will decide this fall whether to back a \$5.5 billion widening of the Panama Canal to handle bigger ships carrying Asian goods to the U.S. East Coast and Gulf of Mexico ports. Houston is building a container terminal to serve Wal-Mart Stores Inc. and Home Depot Inc. distribution centers. The largest container-ship company in the world, A.P. Moller-Maersk Group of Copenhagen, is building a new terminal in Norfolk, Va. New facilities are under way or planned in smaller ports in Mobile, Ala., Wilmington, N.C., and Jacksonville, Fla.

Kansas City Southern is pushing a Mexican port as the answer. The railroad has spent 10 years assembling a rail line linking the Pacific port of Lazaro Cardenas with Kansas City, and recently launched direct cargo trains over part of the 2,200-mile route. Giant terminal operator Hutchinson Whampoa Ltd. of Hong Kong plans to build a new container terminal in Lazaro Cardenas by the end of next year.

Describing the Prince Rupert project, Kansas City Southern Chairman and Chief Executive Michael Haverty says: "I mean no disrespect, but it's isolated, there's nothing there and you have to go a long way to get there."

As for the shippers and retailers who will decide how much use to make of Prince Rupert, they express interest but aren't ready for commitments. "We need options to the existing West Coast ports and Panama Canal," says Peter Keller, an executive vice president of NYK Line (North America) Inc., a container-ship company. He says Prince Rupert has the water and the rail capacity, but will have to show it can compete on rates and service.

With a deep natural harbor, Prince Rupert has long been a port but not one that could handle container ships. Local authorities such as Don Krusel, president of the Prince Rupert Port Authority, sought to add container capacity and finally won provincial and Canadian national aid for the project. But skepticism remained strong until the port signed up a major terminal operator, Maher Terminals Inc. A terminal operator leases port facilities and provides the cranes that transfer containers from ships for transport over land by truck and train.

The idea of exploiting this isolated natural harbor for major movement of cargo dates all the way back to 1906, when railroad builder Charles Melville Hays had a vision of making it part of a shortcut from Asia to Europe. He proposed to load trains at Prince Rupert with silk arriving from China, speed the freight to Montreal by rail and load it back on ships that would traverse the St. Lawrence River and the Atlantic. But six years later Mr. Hays died on the Titanic.

Prince Rupert developed modestly as a small hub for exporting bulky goods that weren't being put in standard metal containers. The Fairview Terminal at the mouth of the inner harbor loaded lumber into ships bound for Asia, while other docks handled grain and coal. But coal volume suffered as some mines closed. The port's cargo dwindled to under five million tons last year from about 14 million in 1994.

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Nestled among the coastal mountains and islands of northern British Columbia and drenched by about 10 feet of precipitation annually, Prince Rupert stays lush and green. Its harbor at the end of a narrow inlet extends to an unusual depth of more than 100 feet. Lining the waterfront are old wooden piers, a rail yard, ferry terminals, fish-processing plants, and a few seafood restaurants.

Mr. Maher got interested in the area a few years ago at the suggestion of one of his executives. Mr. Maher, 59 years old, is the son of a onetime longshoreman who got into terminal operation in New Jersey after World War II. The area boomed as trade grew and cargo began moving in containers instead of cartons and other loose items. Maher Terminals, owned by Mr. Maher and his brother Basil, 54, now operates a 450-acre terminal in Elizabeth, N.J., next to the New Jersey Turnpike and Newark airport. Home to 26 container-ship lines, the huge facility handles 5,000 trucks a day.

Convinced the flood of Asian cargo would bring new cargo growth to the Pacific Coast, Mr. Maher looked for ways to expand but missed out on a chance to operate a container terminal in Tacoma, Wash. When one of his executives brought up the idea of developing Prince Rupert, Mr. Maher liked the idea, partly because the deep harbor could accommodate the biggest ships without dredging.

The British Columbia port also appeared to offer the shortest, fastest route from China to the U.S. Midwest, and it had an upgraded rail line with capacity to spare. To move a 40-foot container from Shanghai to Chicago via the Los Angeles or Long Beach docks takes about 22 days and costs about \$3,500. Prince Rupert is 1,100 miles closer to Shanghai than Southern California, equal to about two days of travel time.

In addition, in contrast to rail freight from Southern California, once a container is loaded on a train in Prince Rupert, there are few local stops to slow it during its 2,600-mile trek over mountains and prairies to Chicago. While that route is longer than the land route from Los Angeles to Chicago, the rail-transit time might be about the same. "The only thing trains have to worry about is hitting a moose," says Mr. Krusel of the local port authority. He calculates that Asian freight passing through Prince Rupert should arrive in Chicago nearly two days sooner than if it had gone through the Southern California ports.

When Prince Rupert authorities who were pushing the container-ship project solicited proposals from terminal operators, Mr. Maher jumped in. Maher Terminals won a 30-year lease with an option to develop a larger operation later.

While the losing bidders meant to use Prince Rupert just for overflow, Mr. Maher believed the port could become a major cargo gateway for North America despite its remoteness. He agreed to spend \$60 million initially on new cranes and equipment as part of transforming the old docks into a container terminal. Port officials now are drawing up plans for a massive second phase that would expand the terminal far more.

That project could cost hundreds of millions of dollars, meaning that Maher Terminals' investment could ultimately run as high as \$500 million. Mr. Maher argues that continuing rapid growth in cargo from the Far East to the U.S. rising about 10 percent a year means that ship lines will flock to Prince Rupert and other new terminals elsewhere.

While most port terminals have sprawling lanes for thousands of trucks, Prince Rupert because so little cargo will be used locally will have only one truck gate. The vast majority of containers will be loaded onto

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rail cars waiting in a big rail yard. Prince Rupert's deep, funnel-shaped harbor has tides that rise and fall 25 feet every 12 hours, so it will need cranes especially designed to adjust to the huge tidal swings.

To help fill containers for the return trip to Asia, Canadian National Railway Co., which runs the rail lines leaving Prince Rupert, plans to build new depots along a route from Memphis, Tenn., that will collect soybeans, cotton, paper and other exports.

Workers now are demolishing the old Fairview Terminal in the shadow of towering Mount Hays to make way for the first phase of the new port. Steel pilings 120 feet long will extend the pier into deeper water. Workers are laying the foundation for the huge cranes, scheduled to arrive next spring. They, too, are coming from China.

Mr. Maher still must overcome opposition from the Coast Tsimshian First Nations tribal group, whose members have longstanding land-title issues in the region and say they weren't sufficiently consulted about the project. "They are determined that this port won't operate until their issues are resolved," says Greg McDade, lawyer for the tribe. Port officials are confident the project won't be slowed or derailed.

Although the dock will have union labor, some officials of the International Longshore and Warehouse Union express skepticism about port projects such as Prince Rupert, concerned that they may lessen the union's leverage when the current contracts expire in 2008. Current dockworkers in Prince Rupert, who belong to the Canadian chapter of the ILWU, continued to work during the 2002 labor battle.

As far as competition is concerned, the Prince Rupert project has a big jump on the Panama Canal expansion plan, which some say could take 10 years if approved. The Lazaro Cardenas project in Mexico has suffered from labor strife, such as the fatal shooting by police in April of two strikers at a nearby steel mill. Parts of the railroad connecting the Mexican port to the U.S. are circuitous and slow, using mostly a single set of tracks that forces trains to pull into sidings and wait for other trains to pass on heavily trafficked portions of the route. Meanwhile, the giant established ports in Southern California face the possibility of work stoppages when dockworkers' contracts expire.

Among the obstacles to be faced in Prince Rupert are the reluctance of some shipping lines to add new ports because of extra costs such as for piloting the ships. But after years in the New Jersey docks, wrestling with the complexities of operating a terminal amid congestion, union wrangling and local politics, Mr. Maher figures he is ready for just about anything at Prince Rupert.

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Rupert container port may need to be even bigger

By Leanne Ritchie

The Daily News

Friday June 2, 2006

The province's minister of economic development says B.C. has not even begun to contemplate enough port developments to meet the rising tide of container traffic expected from Asia.

Colin Hansen, Minister of Economic Development, has been in Asia for the past two weeks visiting the cities of Beijing, Guangzhou, Hong Kong, Tokyo, and Dhanghai, where they're building a container port with seven times the capacity of what's being planned for the Pacific Coast.

"I've spent a lot of time at port developments. The message I have to bring back to Canada is that Asia is building tremendous capacity for container traffic in China and Hong Kong. We are not even starting to meet the demand that will be there."

Hansen is in Asia to promote B.C.'s natural location, investment and business opportunities.

He said there is a great desire to do business with Canada.

"They feels there are much better opportunities than expanding in the U.S.," he said.

"People are very interested in the development in Prince Rupert but they are wondering if we are thinking big enough with the development there."

Currently, plans for the Fairview Terminal Conversion Project include phase 1, which will be able to handle 500,000 containers annually. Funding of \$170 million is in place for Phase 1.

Phase 2 is expected to expand the port's capacity to handle up to two million containers per year.

Although only in its pre-feasibility phase, the port is also looking at land for a potential third phase, which would double the capacity to four million containers per year.

Yet even with all that, Prince Rupert's plans have been called 'wimpy' by George Stalk, a senior executive with the Boston Consulting Group, who fears Canada's not thinking big enough when it comes to developing Prince Rupert's port.

Premier Gordon Campbell echoed those worries last week during interviews in Vancouver — that the rest of the country is not fully behind the Pacific Gateway project.

"Our biggest problem on the Pacific Coast right now, in Canaaa, is that we don't think big enough," said the premier.

"Is there going to be an embracing of a nationalism agenda to open that Pacific door?"

That's the real question."

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The new Conservative national government matched its Liberal predecessor's commitment of \$590 million to the Gateway project to expand B.C. ports and capture incoming trade.

However, they chose to roll the money out over eight years, as opposed to the previous five-year roll-out.
With files from Canwest News Services



Texas Property Tax Code
2004 Edition

Title 1. Property Tax Code
Subtitle C. Taxable Property and Exemptions

Chapter 11. Taxable Property and Exemptions

Subchapter A. Taxable Property

Sec. 11.01. Real and Tangible Personal Property.

Sec. 11.02. Intangible Personal Property.

[Sections 11.03 to 11.10 reserved for expansion]

Sec. 11.01. Real and Tangible Personal Property.

- (a) All real and tangible personal property that this state has jurisdiction to tax is taxable unless exempt by law.
- (b) This state has jurisdiction to tax real property if located in this state.
- (c) This state has jurisdiction to tax tangible personal property if the property is:
 - (1) located in this state for longer than a temporary period;
 - (2) temporarily located outside this state and the owner resides in this state; or
 - (3) used continually, whether regularly or irregularly, in this state.
- (d) Tangible personal property that is operated or located exclusively outside this state during the year preceding the tax year and on January 1 of the tax year is not taxable in this state.

Amended by 1983 Tex. Laws, p. 1908, ch. 353, Sec. 1; amended by 1989 Tex. Laws, p. 1751, ch. 534, Sec. 2.

Cross References:

Situs of property, see Secs. 21.01, 21.02, 21.03, 21.04, 21.06, 21.07 & 21.08.
Constitutional requirement to tax property, see art. VIII, Secs. 1 & 11, Tex. Const.

Notes:

Foreign trade zones constitute foreign and, hence, interstate commerce, so they are in the purview of U. S. Congress. Imposing local property taxes on the property in foreign trade zones would affect interstate and foreign commerce, and forbidding such taxes would provide uniform treatment of foreign trade zones throughout the country. The exemption from local property taxes does not violate the Tenth Amendment nor the Guarantee Clause of the U. S. Constitution. *Deer Park Independent School District et al. v. Harris County Appraisal District et al.*, 132 F.3d 1095 (U.S. 5th Cir. 1998, petition denied).

An exporter that detains goods in a warehouse while awaiting overseas export is entitled to a property tax exemption under the Commerce Clause and the Equal Protection Clause of the United States Constitution. Taxation would prevent the federal government from speaking with one voice in its regulation of commercial relations with foreign governments. *Vinmar, Inc. v. Harris County Appraisal District*, 947 S.W.2d 554 (Tex. 1997).

The import-export clause of the U. S. Constitution and its related legal test of stream of export exempts goods from taxation once exportation has commenced as a part of transportation in a continuous route or journey. Seaboard states are prohibited from taxing goods merely flowing through their ports from other states. Goods are placed into the stream of export when they were shipped from the vendors to the export shipper for a pre-determined foreign destination. The inspection of the goods, approval for import, and packing the goods were necessary for the safe and efficient movement of these goods and merely facilitated their export. Taxing the goods violated the United States import-export clause. *Virginia Indonesia Company v. Harris County Appraisal District*, 910 S.W.2d 905 (Tex. 1995).

Property is taxable in Texas if and to the extent the federal constitution permits Texas to tax it. *Greyhound Lines v. Board of Equalization*, 419 S.W.2d 345 (Tex. 1967).

The ad valorem tax did not violate the subsidiary's substantive due process rights because taxing property with no direct benefits to the property does not amount to a palpable and arbitrary abuse of power unless its initial inclusion in the district was itself a palpable and arbitrary abuse of power. The constitutional requirement of equality and uniformity is met when taxation is uniformly assessed on an ad valorem basis on all taxable property without regard to benefits received. *Southwest Property Trust, Inc. v. Dallas County Flood Control District No. 1*, No. 05-97-00399-CV (Tex. App.-Dallas [5th Dist.] 2002, rehearing

overruled).

Computer application software consisting of imperceivable binary pulses that need not be packaged in a tangible form met the definition of intangible personal property. Such computer software is intangible personal property and not taxable for property tax purposes. The Legislature in Tax Code Section 11.01 allowed for only certain classes of intangible property to be taxed and defined intangible personal property in Tax Code Section 1.04(6). *Dallas Central Appraisal District v. Tech Data Corporation*, 930 S.W.2d 119 (Tex. App.-Dallas 1996, writ denied).

Taxation of leased shipping containers owned by United States-domiciled taxpayers and located within appraisal districts January 1 did not provide a commercial advantage to local business and did not violate the United States Constitution. No multiple taxation was shown and taxpayer was required to pay for governmental services. *Harris County Appraisal District v. Transamerica Container Leasing, Inc.*, 920 S.W.2d 678 (Tex. App.-Houston [1st District] 1995, writ sought).

Property mistakenly granted an exemption from taxation under Sec. 11.01(d) could be back-assessed as omitted property under provisions of Sec. 25.25. *Friedrich Air Conditioning and Refrigeration Company v. Bexar Appraisal District*, 762 S.W.2d 763 (Tex. App.-San Antonio 1988, no writ).

Goods are located in the state for more than a temporary period only if, under federal law, they are in interstate transit. If the owner of the goods interrupts the continuity of transit for any business purposes or profit and not to accommodate to the means of transportation, the goods are no longer in interstate transit and are taxable in the state. *Dallas County Appraisal District v. L. D. Brinkman and Company*, 701 S.W.2d 20 (Tex. App.-Dallas 1985, writ ref'd n.r.e.).

Article 7150f [repealed, now see Sec. 11.01(d)], prohibits taxation of goods owned by a Texas taxpayer, that are physically present in the state for sufficient time to acquire tax situs at common law, and not exempted by federal law as being in interstate commerce. Under these circumstances, Texas courts would hold that the statute goes beyond reasonable legislative action and uses tax situs as a vehicle for granting a property tax exemption. *Op. Tex. Att'y Gen. No. H-1308* (1978).

Sec. 11.02. Intangible Personal Property.

(a) Except as provided by Subsection (b) of this section, intangible personal property is not taxable.

(b) Intangible property governed by Article 4.01, Insurance Code, or by Section 89.003, Finance Code, is taxable as provided by law, unless exempt by law, if this state has jurisdiction to tax those intangibles.

(c) This state has jurisdiction to tax intangible personal property if the property is:

- (1) owned by a resident of this state; or
- (2) located in this state for business purposes.

(d) Repealed in 1984.

Amended by 1984 Tex. Laws (2nd C.S.), p. 212, ch. 31, art. 3, part A, Sec. 1;
Amended by 1999 Tex. Laws, p. 303, ch. 62, Sec. 7.88.

Cross References:

Intangible personal property defined, see Sec. 1.04.

Transportation intangibles, see ch. 24.

Situs of intangible property, see Sec. 21.06.

Situs of transportation intangibles, see Sec. 21.07.

Situs of savings and loan, insurance company intangibles, see Sec. 21.08.

Note:

Computer application software consisting of imperceivable binary pulses that need not be packaged in a tangible form met the definition of intangible personal property. Such computer software is intangible personal property and not taxable for property tax purposes. The Legislature in Tax Code Section 11.01 allowed for only certain classes of intangible property to be taxed and defined intangible personal property in Tax Code Section 1.04(6). *Dallas Central Appraisal District v. Tech Data Corporation*, 930 S.W.2d 119 (Tex. App.-Dallas 1996, writ denied).

[Sections 11.03 to 11.10 reserved for expansion]

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Texas Comptroller of Public Accounts

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Schwarzenegger Vetoes Container Tax, Following NCA Effort
California Governor Arnold Schwarzenegger vetoed legislation calling for a new tax on shipping containers. The bill carried a price tag for shippers of more than \$500 million a year, and the NCA appealed to the governor to nix the bill. NCA also spearheaded a grassroots campaign for California companies to make similar appeals to demonstrate broad industry opposition. The bill, SB 927, would have imposed a \$60 tax on all containers moving through the ports of Los Angeles and Long Beach. Its aim was to raise funds for undefined purposes related to port security, clean air and transportation projects throughout the state.

Unconstitutional Tax

In its letter to Gov. Schwarzenegger, NCA made a strong legal and economic case against the legislation. Citing precedent, NCA emphasized that container taxes constitute an unconstitutional tax on foreign and interstate commerce and have previously been struck down. NCA also spelled out the potential harm to the California economy. On top of other infrastructure fees, the increased costs would make the ports non-competitive, forcing shippers to look to other states. Moreover, legislative goals are already served by privately financed programs. Terminal operators pay rent and fees to the state's ports that include infrastructure support costs. Also, terminal operators invest money in infrastructure and pass their costs to shippers as part of existing freight contracts with ocean carriers.

Government Affairs

NCA's government affairs capabilities allow quick response to legislative developments on the federal, state and local levels. When news arrived that the California bill was on the governor's desk, the NCA sprung into action. It submitted its letter within hours and tapped its existing database of about 500 California companies to deliver information and model correspondence to facilitate a broad industry response.

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HEADLINES

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Two recent studies confirm coffee fights bacteria in the body (more)

US Normalizes Trade with Vietnam

New US trade status coincides with Vietnam's WTO membership (more)

More News Available:

Members receive full, monthly "Coffee Reporter" via e-mail, and can access all stories and statistics at link on homepage (left menu bar). The newsletter is published quarterly in hard copy.



JOE
DUFFALO

Multiple Agency Fiscal Note Summary

Bill Number: 5207 SB	Title: Freight congestion relief
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Estimated Cash Receipts

Agency Name	2007-09		2009-11		2011-13	
	GF- State	Total	GF- State	Total	GF- State	Total
Office of State Treasurer	Non-zero but indeterminate cost. Please see discussion."					
Department of Revenue	478,000	287,280,000	720,000	433,199,000	779,000	467,865,000
Total \$	478,000	287,280,000	720,000	433,199,000	779,000	467,865,000

Local Gov. Courts *						
Local Gov. Other **						
Local Gov. Total						

Estimated Expenditures

Agency Name	2007-09			2009-11			2011-13		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of State Treasurer	0	0	0	0	0	0	0	0	0
Department of Revenue	3	46,600	46,600	1	13,400	13,400	1	13,400	13,400
Department of Transportation	0	0	0	0	0	0	0	0	0
Total	0.3	\$46,600	\$46,600	0.1	\$13,400	\$13,400	0.1	\$13,400	\$13,400

Local Gov. Courts *									
Local Gov. Other **									
Local Gov. Total									

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Prepared by: Doug Jenkins, OFM	Phone: 360-902-0563	Date Published: Final 1/20/2007
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- * See Office of the Administrator for the Courts judicial fiscal note
- ** See local government fiscal note
FNPID: 14732

Individual State Agency Fiscal Note

Bill Number: 5207 SB	Title: Freight congestion relief	Agency: 090-Office of State Treasurer
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Non-zero but indeterminate cost. Please see discussion.

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
Fund					
Total \$					

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: David Ward	Phone: 3607867341	Date: 01/15/2007
Agency Preparation: Dan Mason	Phone: 360-902-9090	Date: 01/16/2007
Agency Approval: Dan Mason	Phone: 360-902-9090	Date: 01/16/2007
OFM Review: Deborah Feinstein	Phone: 360-902-0614	Date: 01/16/2007

Request # 021-1

Bill # 5207 SB

National Coffee Association of U.S.A., Inc.

Contact Us



National Coffee Association of U.S.A., Inc.

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New York, NY 10038

Telephone: 212 766-4007

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For General Information or to Contact a Staff Member: info@ncausa.org

Robert F. Nelson - President & CEO

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Jeff Kendrick - Administrative Assistant



Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

SB 5207 creates the freight congestion relief account and allows the account to retain its earnings from investments.

Earnings from investments:

The amount of earnings by an account is a function of the average daily balance of the account and the earnings rate of the investment portfolio. The average daily balance is a function of the beginning balance in the account and the timing & amount of receipts, disbursements, & transfers during the time period in question. Accordingly, even with a beginning balance of zero, two accounts with the same overall level of receipts, disbursements, and transfers can have different average balances, and hence different earnings.

There will be an impact to the earnings; however, the actual earnings will be determined more by the impact to the average daily balance than the amount of increases or decreases in receipts, disbursements, and transfers. Currently, estimated earnings are indeterminable. Without projected monthly estimates of receipts, disbursements, and transfers, OST is unable to estimate the changes to the average balance of the account and the impact to earnings.

Based on the November 2006 Revenue Forecast, the net rate for estimating earnings for FY 08 is 4.18% and FY 09 is 4.21%. Approximately \$41,800 in FY 08 and \$42,100 in FY 09 in net earnings and \$5,000 in OST management fees would be gained or lost annually for every \$1 million increase or decrease in average daily balance.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

SB 5207 creates the freight congestion relief account and allows the account to retain its earnings from investments.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years					
Total:					

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Department of Revenue Fiscal Note

Bill Number: 5207 SB	Title: Freight congestion relief	Agency: 140-Department of Revenue
-----------------------------	---	--

Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

FUND	FY 2008	FY 2009	2007-09	2009-11	2011-13
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	139,000	339,000	478,000	720,000	779,000
NEW-State 00 - 00 -	83,150,000	203,652,000	286,802,000	432,479,000	467,086,000
Total \$	83,289,000	203,991,000	287,280,000	433,199,000	467,865,000

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years	0.5	0.1	0.3	0.1	0.1
Fund					
GF-STATE-State 001-1	39,900	6,700	46,600	13,400	13,400
Total \$	39,900	6,700	46,600	13,400	13,400

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: David Ward	Phone: 3607867341	Date: 01/15/2007
Agency Preparation: Valerie Torres	Phone: 360-5706084	Date: 01/18/2007
Agency Approval: Kim Davis	Phone: 360-570-6087	Date: 01/18/2007
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 01/18/2007

Request # 5207-1-1

Bill # 5207 SB

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill imposes a \$50 fee per 20-foot equivalent unit of shipping container at marine ports. The marine terminal operator keeps 10 percent of the fees collected for costs associated with the proper collection and reporting of the containers. The rest of the money is remitted to the Department of Revenue (the Department) and deposited in a new account where the money is to be used to provide congestion relief through improvements of freight rail systems and state highways that act as freight corridors.

This bill also reenacts the laws related to the earnings of investments of surplus balances being deposited in the treasury income account and adds the new "freight congestion relief account" to the list of accounts that receive a share of the earnings from the treasury income account.

Sections 1 through 5 and 7 are new sections.

Section 1 declares the intent of the container fee.

Section 2 contains definitions.

Section 3 imposes the \$50 fee per 20-foot equivalent unit and allows the marine terminal operator to keep 10 percent. The portion kept must be reported as gross income under the service and other activities tax classification on the excise tax return. The Department must incorporate the fee into the regular audit cycles. The marine terminal operator must include the information specified on the excise tax return forms. The fee is to take effect no sooner than 75 days after the Department receives notice and is only to take effect on the first day of January, April, July, or October unless the Department waives the notice requirement.

Section 4 creates the new account in the state treasury and specifies that the money can only be spent after appropriation and may only be used to provide congestion relief through improvements of freight rail systems and state highways that function as freight corridors.

Section 5 makes it a gross misdemeanor if the marine terminal operator does not remit the fee to the Department, except for the portion that they are allowed to keep. The marine terminal operator is also personally liable if they fail to collect the fee or if they collect the fee and fail to remit it.

Section 6 reenacts the laws related to the earnings of investments of surplus balances being deposited in the treasury income account. The new "freight congestion relief account" is added to the list of accounts that receive their full share of the earnings from the treasury income account less any fees.

Section 7 makes sections 1 through 5 into a new chapter in Title 47 RCW.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS/DATA SOURCES

This bill does not specify an effective date, therefore, the effective date of the bill is assumed to be 90 days after the session ends. Adding to that the 75 days between when the Department is notified and the fee is imposed and then finding the first of January, April, July, or October after that, the fee is assumed to be imposed effective January 1, 2008.

Growth rates for 20-foot equivalent unit cargo containers (containers) were found in the Washington Port Association's marine cargo forecast for 2004. The number of containers and growth rates forecasted was compared to the container statistics found on the Port of Seattle and Port of Tacoma websites.

It is assumed that both empty and full cargo containers would be taxed and that containers would be taxed being loaded on and loaded off of vessels.

It is assumed that the 10 percent the marine terminal owners keep is subject to business and occupation tax at the services and other rate of 1.5 percent.

REVENUE ESTIMATES

It is estimated that in calendar year 2008 there will be approximately 4.2 million 20-foot equivalent unit cargo containers that would be charged the \$50 fee. This would result in approximately \$221 million in fees in calendar year 2008. The marine terminal owners would keep 10 percent of this amount, and business and occupation tax would apply to what they keep. The rest of the money would be deposited in the freight congestion relief account.

For calendar years 2008 through 2010 the growth rate of the number of processed containers would be 4.1 percent, dropping to 3.9 percent for 2011 through 2013.

The calendar year totals were then broken apart into fiscal year totals.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000): Freight Congestion Relief Account

FY 2008 -	\$ 83,150
FY 2009 -	\$ 203,652
FY 2010 -	\$ 212,002
FY 2011 -	\$ 220,447
FY 2012 -	\$ 229,076
FY 2013 -	\$ 238,010

State Government (cash basis, \$000): Business & Occupation Tax

FY 2008 -	\$ 139
FY 2009 -	\$ 339
FY 2010 -	\$ 353
FY 2011 -	\$ 367
FY 2012 -	\$ 382
FY 2013 -	\$ 419

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumption, and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

To implement this legislation, the Department of Revenue will incur costs of approximately \$39,900 during Fiscal Year 2008. These are programming costs to set up, test, and verify the system to handle the collection of the fee and additional audit time spent to verify reported amounts. Time and effort would equate to 0.5 FTE.

Fiscal Year 2009 costs are approximately \$6,700. These costs are ongoing and include 0.1 FTE to handle the extra audit work required.

The Department of Revenue will incur estimated costs of \$13,400 in the 2009-2011 and the 2011-2013 Biennia. These are ongoing costs to handle the extra audit work required.

Without an appropriation to cover the expenditure impact, the Department of Revenue may not be fully able to implement the legislation.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years	0.5	0.1	0.3	0.1	0.1
A-	26,400	4,600	31,000	9,200	9,200
B-	6,600	1,100	7,700	2,200	2,200
E-	3,400	700	4,100	1,400	1,400
G-	300	300	600	600	600
J-	320		3,200		
Total S	\$39,900	\$6,700	\$46,600	\$13,400	\$13,400

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2008	FY 2009	2007-09	2009-11	2011-13
IT SPEC 4	54,372	0.4		0.2		
REVENUE AUDITOR 3	45,756	0.1	0.1	0.1	0.1	0.1
Total FTE's		0.5	0.1	0.3	0.1	0.1

Part IV: Capital Budget Impact

NONE.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

No rule-making required.

Individual State Agency Fiscal Note

Bill Number: 5207 SB	Title: Freight congestion relief	Agency: 405-Department of Transportation
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Part I: Estimates

No Fiscal Impact

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: David Ward	Phone: 3607867341	Date: 01/15/2007
Agency Preparation: Andrew Wood	Phone: 360-705-7938	Date: 01/17/2007
Agency Approval: Paula Hammond	Phone: 360-705-7027	Date: 01/18/2007
OFM Review: Geri Beardsley	Phone: 360-902-9822	Date: 01/19/2007

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

The legislative proposal imposes a fee on the processing of shipping containers through Washington state ports. Revenue from the fee is deposited in the Freight Rail Congestion Relief Account established by the bill. Any expenditures to provide congestion relief through improvement of freight rail systems and state highways that function as freight corridors would be authorized through an appropriation from the legislature

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions

Part III: Expenditure Detail

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules

SENATE BILL REPORT

SB 5207

As of January 25, 2007

Title: An act relating to creating the freight congestion relief account to improve freight corridors with funding from the imposition of a fee on the processing of shipping containers.

Brief Description: Creating and funding the freight congestion relief account for the purpose of improving freight rail systems and state highways used as freight corridors through imposing a fee on the processing of shipping containers.

Sponsors: Senators Haugen, Murray and Spanel.

Brief History:

Committee Activity: Transportation: 1/24/07.

SENATE COMMITTEE ON TRANSPORTATION

Staff: David Ward (786-7341)

Background: The state has identified various and significant transportation projects that support enhanced freight mobility and capacity. Although the state has provided some funding for these projects, the level of funding is insufficient to provide the level of investment necessary to alleviate congestion levels that impact freight mobility and capacity.

Summary of Bill: A fee is imposed on the processing of shipping containers in the ports of Washington State. The fee must be imposed at the rate of \$50 per twenty-foot equivalent unit (TEU) and is payable by the marine terminal operator processing the container. Marine terminal operators may retain 10 percent of the fee to offset costs associated with the proper reporting of the number of TEUs processed. The remainder of the fee must be remitted to the Department of Revenue (DOR).

The Freight Congestion Relief Account is created in the State Treasury. All receipts received by DOR from the imposition of TEU processing fees must be deposited in the account. The account is subject to appropriation, retains 100 percent of the interest income generated by the account, and may only be used to provide freight-related congestion relief through the improvement of freight rail infrastructure and state highways that function as freight corridors.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: There should be a user fee to fund these critical investments and the return on investment should offset the costs. The system that comprises our state's freight infrastructure needs additional investment and, if possible, should include a component that would allow funding for projects adjacent to the state system that can demonstrably show significant ways to improve, link to, or offload pressure on state freight corridors.

CON: Seventy percent of containerized freight moving through Washington's ports is discretionary. Imposition of a fee on the processing of shipping containers will therefore divert container freight movement away from the state's marine ports. Critical family wage jobs will also be lost and a negative ripple effect will be felt throughout the state economy. Such a fee would also impair state export trade and Washington is a highly trade-dependent state. There are additional concerns that the fee is instead a tax and may well be unconstitutional in that it impedes interstate commerce, import/export activity and the movement of containerized cargo as governed by federal law and international treaty.

Persons Testifying: PRO: Larry Pursley, Washington Trucking Association; Doug Levy, Cities of Everett, Kent, Federal Way, Renton and Puyallup.

CON: Mark Johnson, Washington Retail Association; Rich Berkowitz, Transportation Institute; Randy Ray, Pacific Seafood Processors; Jim Wilcox, Wilcox Farms/Washington Food Industry; Pat Jones, Washington Public Ports Association; Tim Farrell, Port of Tacoma; Terry Finn, Port of Seattle; Gordon Baxter, Masters, Mates and Pilots and Inland Boatmen's Union; Larry McKillip, United Transportation Union; Mike Elliot, Brotherhood of Locomotive Engineers; Karol Kingery, Marine Engineers Beneficial Association; Bill Stauffacher, Burlington Northern Santa Fe Railroad; Tom Parker, Union Pacific Railroad; Scott Hazelgrove, Pacific Merchant Shipping Association; Rick Wickman, Columbia River Steamship Operators.

From: Bob Sivertsen
To: Karl Amylon
Date: 1/18/2007 12:06:24 PM
Subject: Garbage containers

Karl, the State of Washington has a Senate Bill 5207 that proposes a fee for cantainers. The proposed fee is fifty dollars per twenty foot equivalent unit one way. That would mean that we could be charged two hundred dollars round trip for one of our forty foot garbage containers. I am not sure how this works out in our garbage contract but to us that could be a \$70,000 expence per year. This would also increase the cost of any containerized cargo shipped to Ketchikan. The City may want to contact the govenor and have the state address this issue on higher level. FYI thanks bobs



Stories In The News
Ketchikan, Alaska www.sitnews.us

Viewpoints

Proposed container fee legislation will increase cost of groceries

By Bill Tatsuda

January 17, 2007
Wednesday PM

Dear Sitnews,

I received the message below from Super Valu, my grocery wholesaler in Tacoma, WA. If this legislation passes the cost of groceries and most other goods will increase significantly in Ketchikan and Alaska.

Yours truly,

Bill Tatsuda
Tatsuda's IGA
Ketchikan, AK

To all Alaska Retailers,

The State of Washington is considering a container fee for all containers coming in and going out of the State of Washington. The fee is \$50 per 20 foot equivalent container. Most of the containers our customers use are 40 footers so the fee would be \$100 per container. The fee would be for both inbound and outbound and therefore would be \$200 per container for a round trip. Your shipping companies would have to pass these fees on to you.

I would urge you to contact your new governor, Sarah Palin. Urge Governor Palin to contact Washington Governor, Christine Gregoire, and let her know the impact it will have on your

bottom lines and cost of goods to your consumers. We will be contacting our state representatives as well to try to defeat this bill.

Greg Miller
Super Valu
Tacoma, WA

Received January 17, 2007 - Published January 17, 2007

Contact:

E-mail Alaska Governor Sarah Palin
<http://gov.state.ak.us/govmailSP.php>

Note: Comments published on Viewpoints are the opinions of the writer and do not necessarily reflect the opinions of Sitnews.

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E-mail the Editor at editor@sitnews.us

Sitnews
Stories In The News
Ketchikan, Alaska

SENATE BILL 5207

State of Washington 60th Legislature 2007 Regular Session

By Senators Haugen, Murray and Spanel

Read first time 01/12/2007. Referred to Committee on Transportation.

1 AN ACT Relating to creating the freight congestion relief account
2 to improve freight corridors with funding from the imposition of a fee
3 on the processing of shipping containers; reenacting and amending RCW
4 43.84.092; adding a new chapter to Title 47 RCW; and prescribing
5 penalties.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 NEW SECTION. **Sec. 1.** The legislature finds and declares there is
8 a need to mitigate the enormous burden imposed on the state
9 transportation system by the overland movement of cargo shipped to and
10 from Washington state ports. Accordingly, it is the intent of the
11 legislature to alleviate this burden by imposing a fee on the
12 processing of shipping containers through those ports and use the funds
13 derived therefrom to provide congestion relief through the improvement
14 of freight rail systems and state highways that function as freight
15 corridors.

16 NEW SECTION. **Sec. 2.** The definitions in this section apply
17 throughout this chapter unless the context clearly requires otherwise.

18 (1) "Department" means the department of revenue.

1 (2) "Marine terminal operator" means a person engaged in the state
2 of Washington in the business of furnishing use of a wharf, dock,
3 warehouse, or other terminal services and facilities including, but not
4 limited to, all activities of a labor, service, or transportation
5 nature where cargo is documented, handled, moved, or loaded/unloaded
6 from vessels involved in waterborne commerce.

7 (3) "Twenty-foot equivalent unit" means a measure of containerized
8 cargo capacity equal to one standard twenty foot (length) by eight foot
9 (width) by eight foot and six inches (height) container.

10 NEW SECTION. **Sec. 3.** (1) A fee is imposed on the processing of
11 shipping containers in the ports of Washington state.

12 (2) The fee must be imposed at the rate of fifty dollars per
13 twenty-foot equivalent unit and is payable by the marine terminal
14 operator processing the container. Every marine terminal operator
15 engaged in processing twenty-foot equivalent units may retain ten
16 percent of the fifty-dollar fee collected. The moneys retained may be
17 used for costs associated with the proper collection and reporting of
18 twenty-foot equivalent units processed. The retained amount must be
19 reported as gross income under the service and other activities tax
20 classification on the excise tax return.

21 (3) The twenty-foot equivalent unit fee collected by marine
22 terminal operators, less the ten percent amount retained by the marine
23 terminal operator as provided in subsection (2) of this section, must
24 be paid to the department in accordance with RCW 82.32.045.

25 (4) The department must incorporate into the agency's regular audit
26 cycle a reconciliation of the number of twenty-foot equivalent units
27 processed and the amount of revenue collected by the marine terminal
28 operators processing twenty-foot equivalent units. The department must
29 collect from marine terminal operators processing twenty-foot
30 equivalent units the following information, which shall be required to
31 be reported on the appropriate business excise tax return form, as
32 determined by the department:

33 (a) All fees required to be collected under this section during the
34 previous month;

35 (b) A list of all freight containers processed by the marine
36 terminal operator during the previous month; and

1 (c) Satisfactory proof, as determined by the department, that the
2 fee was imposed on each twenty-foot equivalent unit processed.

3 (5) All other applicable provisions of chapter 82.32 RCW apply with
4 respect to the fee imposed under this section. The department shall
5 administer this section.

6 (6) A fee imposed under this section is to take effect no sooner
7 than seventy-five days after the department receives notice, and is to
8 take effect only on the first day of January, April, July, or October.
9 Unless waived by the department, notice includes providing the
10 appropriate department with digital mapping and legal descriptions of
11 areas in which the fee will be collected.

12 NEW SECTION. **Sec. 4.** The freight congestion relief account is
13 created in the state treasury. All receipts from twenty-foot
14 equivalent unit fees imposed under section 3 of this act must be
15 deposited in the account. Moneys in the account may be spent only
16 after appropriation. Expenditures from the account may only be used to
17 provide congestion relief through the improvement of freight rail
18 systems and state highways that function as freight corridors.

19 NEW SECTION. **Sec. 5.** (1) The fee required by this chapter, to be
20 collected by the marine terminal operator, must be deemed to be held in
21 trust by the marine terminal operator until paid to the department, and
22 any marine terminal operator who appropriates or converts the fee
23 collected to his or her own use or to any use other than the payment of
24 the fee to the extent that the money required to be collected is not
25 available for payment on the due date as prescribed in this chapter is
26 guilty of a gross misdemeanor, as provided in RCW 9A.20.021.

27 (2) If a marine terminal operator fails to collect the fee imposed
28 in this chapter or, having collected the fee, fails to pay it to the
29 department in the manner prescribed by this chapter, whether such
30 failure is the result of his or her own acts or the result of acts or
31 conditions beyond his or her control, he or she shall, nevertheless, be
32 personally liable to the state for the amount of the fee.

33 **Sec. 6.** RCW 43.84.092 and 2006 c 337 s 11, 2006 c 311 s 23, 2006
34 c 171 s 10, 2006 c 56 s 10, and 2006 c 6 s 8 are each reenacted and
35 amended to read as follows:

1 (1) All earnings of investments of surplus balances in the state
2 treasury shall be deposited to the treasury income account, which
3 account is hereby established in the state treasury.

4 (2) The treasury income account shall be utilized to pay or receive
5 funds associated with federal programs as required by the federal cash
6 management improvement act of 1990. The treasury income account is
7 subject in all respects to chapter 43.88 RCW, but no appropriation is
8 required for refunds or allocations of interest earnings required by
9 the cash management improvement act. Refunds of interest to the
10 federal treasury required under the cash management improvement act
11 fall under RCW 43.88.180 and shall not require appropriation. The
12 office of financial management shall determine the amounts due to or
13 from the federal government pursuant to the cash management improvement
14 act. The office of financial management may direct transfers of funds
15 between accounts as deemed necessary to implement the provisions of the
16 cash management improvement act, and this subsection. Refunds or
17 allocations shall occur prior to the distributions of earnings set
18 forth in subsection (4) of this section.

19 (3) Except for the provisions of RCW 43.84.160, the treasury income
20 account may be utilized for the payment of purchased banking services
21 on behalf of treasury funds including, but not limited to, depository,
22 safekeeping, and disbursement functions for the state treasury and
23 affected state agencies. The treasury income account is subject in all
24 respects to chapter 43.88 RCW, but no appropriation is required for
25 payments to financial institutions. Payments shall occur prior to
26 distribution of earnings set forth in subsection (4) of this section.

27 (4) Monthly, the state treasurer shall distribute the earnings
28 credited to the treasury income account. The state treasurer shall
29 credit the general fund with all the earnings credited to the treasury
30 income account except:

31 (a) The following accounts and funds shall receive their
32 proportionate share of earnings based upon each account's and fund's
33 average daily balance for the period: The capitol building
34 construction account, the Cedar River channel construction and
35 operation account, the Central Washington University capital projects
36 account, the charitable, educational, penal and reformatory
37 institutions account, the Columbia river basin water supply development
38 account, the common school construction fund, the county criminal

1 justice assistance account, the county sales and use tax equalization
2 account, the data processing building construction account, the
3 deferred compensation administrative account, the deferred compensation
4 principal account, the department of retirement systems expense
5 account, the developmental disabilities community trust account, the
6 drinking water assistance account, the drinking water assistance
7 administrative account, the drinking water assistance repayment
8 account, the Eastern Washington University capital projects account,
9 the education construction fund, the education legacy trust account,
10 the election account, the emergency reserve fund, the energy freedom
11 account, The Evergreen State College capital projects account, the
12 federal forest revolving account, the freight congestion relief
13 account, the freight mobility investment account, the freight mobility
14 multimodal account, the health services account, the public health
15 services account, the health system capacity account, the personal
16 health services account, the state higher education construction
17 account, the higher education construction account, the highway
18 infrastructure account, the high-occupancy toll lanes operations
19 account, the industrial insurance premium refund account, the judges'
20 retirement account, the judicial retirement administrative account, the
21 judicial retirement principal account, the local leasehold excise tax
22 account, the local real estate excise tax account, the local sales and
23 use tax account, the medical aid account, the mobile home park
24 relocation fund, the multimodal transportation account, the municipal
25 criminal justice assistance account, the municipal sales and use tax
26 equalization account, the natural resources deposit account, the oyster
27 reserve land account, the pension funding stabilization account, the
28 perpetual surveillance and maintenance account, the public employees'
29 retirement system plan 1 account, the public employees' retirement
30 system combined plan 2 and plan 3 account, the public facilities
31 construction loan revolving account beginning July 1, 2004, the public
32 health supplemental account, the public works assistance account, the
33 Puyallup tribal settlement account, the real estate appraiser
34 commission account, the regional mobility grant program account, the
35 resource management cost account, the rural Washington loan fund, the
36 site closure account, the small city pavement and sidewalk account, the
37 special wildlife account, the state employees' insurance account, the
38 state employees' insurance reserve account, the state investment board

1 expense account, the state investment board commingled trust fund
2 accounts, the supplemental pension account, the Tacoma Narrows toll
3 bridge account, the teachers' retirement system plan 1 account, the
4 teachers' retirement system combined plan 2 and plan 3 account, the
5 tobacco prevention and control account, the tobacco settlement account,
6 the transportation infrastructure account, the transportation
7 partnership account, the tuition recovery trust fund, the University of
8 Washington bond retirement fund, the University of Washington building
9 account, the volunteer fire fighters' and reserve officers' relief and
10 pension principal fund, the volunteer fire fighters' and reserve
11 officers' administrative fund, the Washington fruit express account,
12 the Washington judicial retirement system account, the Washington law
13 enforcement officers' and fire fighters' system plan 1 retirement
14 account, the Washington law enforcement officers' and fire fighters'
15 system plan 2 retirement account, the Washington public safety
16 employees' plan 2 retirement account, the Washington school employees'
17 retirement system combined plan 2 and 3 account, the Washington state
18 health insurance pool account, the Washington state patrol retirement
19 account, the Washington State University building account, the
20 Washington State University bond retirement fund, the water pollution
21 control revolving fund, and the Western Washington University capital
22 projects account. Earnings derived from investing balances of the
23 agricultural permanent fund, the normal school permanent fund, the
24 permanent common school fund, the scientific permanent fund, and the
25 state university permanent fund shall be allocated to their respective
26 beneficiary accounts. All earnings to be distributed under this
27 subsection (4)(a) shall first be reduced by the allocation to the state
28 treasurer's service fund pursuant to RCW 43.08.190.

29 (b) The following accounts and funds shall receive eighty percent
30 of their proportionate share of earnings based upon each account's or
31 fund's average daily balance for the period: The aeronautics account,
32 the aircraft search and rescue account, the county arterial
33 preservation account, the department of licensing services account, the
34 essential rail assistance account, the ferry bond retirement fund, the
35 grade crossing protective fund, the high capacity transportation
36 account, the highway bond retirement fund, the highway safety account,
37 the motor vehicle fund, the motorcycle safety education account, the
38 pilotage account, the public transportation systems account, the Puget

1 Sound capital construction account, the Puget Sound ferry operations
2 account, the recreational vehicle account, the rural arterial trust
3 account, the safety and education account, the special category C
4 account, the state patrol highway account, the transportation 2003
5 account (nickel account), the transportation equipment fund, the
6 transportation fund, the transportation improvement account, the
7 transportation improvement board bond retirement account, and the urban
8 arterial trust account.

9 (5) In conformance with Article II, section 37 of the state
10 Constitution, no treasury accounts or funds shall be allocated earnings
11 without the specific affirmative directive of this section.

12 NEW SECTION. **Sec. 7.** Sections 1 through 5 of this act constitute
13 a new chapter in Title 47 RCW.

--- END ---

Department of Revenue Fiscal Note

Bill Number: 5207 SB	Title: Freight congestion relief	Agency: 140-Department of Revenue
-----------------------------	---	--

Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

FUND	FY 2008	FY 2009	2007-09	2009-11	2011-13
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	139,000	339,000	478,000	720,000	779,000
NEW-State 00 - 00 -	83,150,000	203,652,000	286,802,000	432,479,000	467,086,000
Total \$	83,289,000	203,991,000	287,280,000	433,199,000	467,865,000

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years	0.5	0.1	0.3	0.1	0.1
Fund					
GF-STATE-State 001-1	39,900	6,700	46,600	13,400	13,400
Total \$	39,900	6,700	46,600	13,400	13,400

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions.

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: David Ward	Phone: 3607867341	Date: 01/15/2007
Agency Preparation: Valerie Torres	Phone: 360-5706084	Date: 01/18/2007
Agency Approval: Kim Davis	Phone: 360-570-6087	Date: 01/18/2007
OFM Review: Doug Jenkins	Phone: 360-902-0563	Date: 01/18/2007

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill imposes a \$50 fee per 20-foot equivalent unit of shipping container at marine ports. The marine terminal operator keeps 10 percent of the fees collected for costs associated with the proper collection and reporting of the containers. The rest of the money is remitted to the Department of Revenue (the Department) and deposited in a new account where the money is to be used to provide congestion relief through improvements of freight rail systems and state highways that act as freight corridors.

This bill also reenacts the laws related to the earnings of investments of surplus balances being deposited in the treasury income account and adds the new "freight congestion relief account" to the list of accounts that receive a share of the earnings from the treasury income account.

Sections 1 through 5 and 7 are new sections.

Section 1 declares the intent of the container fee.

Section 2 contains definitions.

Section 3 imposes the \$50 fee per 20-foot equivalent unit and allows the marine terminal operator to keep 10 percent. The portion kept must be reported as gross income under the service and other activities tax classification on the excise tax return. The Department must incorporate the fee into the regular audit cycles. The marine terminal operator must include the information specified on the excise tax return forms. The fee is to take effect no sooner than 75 days after the Department receives notice and is only to take effect on the first day of January, April, July, or October unless the Department waives the notice requirement.

Section 4 creates the new account in the state treasury and specifies that the money can only be spent after appropriation and may only be used to provide congestion relief through improvements of freight rail systems and state highways that function as freight corridors.

Section 5 makes it a gross misdemeanor if the marine terminal operator does not remit the fee to the Department, except for the portion that they are allowed to keep. The marine terminal operator is also personally liable if they fail to collect the fee or if they collect the fee and fail to remit it.

Section 6 reenacts the laws related to the earnings of investments of surplus balances being deposited in the treasury income account. The new "freight congestion relief account" is added to the list of accounts that receive their full share of the earnings from the treasury income account less any fees.

Section 7 makes sections 1 through 5 into a new chapter in Title 47 RCW.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate, the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS/DATA SOURCES

This bill does not specify an effective date, therefore, the effective date of the bill is assumed to be 90 days after the session ends. Adding to that the 75 days between when the Department is notified and the fee is imposed and then finding the first of January, April, July, or October after that, the fee is assumed to be imposed effective January 1, 2008.

Request # 5207-1-1
Bill # 5207 SB

MEMO

Dated: January 23, 2007

To: Tamara Cook
Director, Legislative Legal and Research Services

From: Representative Kyle Johansen

Re: Proposed Washington State Shipping Container Tax

Dear Ms. Cook:

Enclosed for your review is the most recent draft of a bill introduced in the Washington State legislature that proposes a shipping container tax. The fiscal note accompanying the bill is also enclosed.

I am concerned that this tax would result in increased costs to Alaskan consumers and companies. I also have concerns about the legality of such a tax. Please prepare an opinion that discusses:

1. Whether such a tax is illegal under any provision of the United States Constitution, federal statutes, or judicial construction of the United States Constitution such as the "dormant commerce clause doctrine";
2. Whether such a tax is preempted by federal law, including, but not limited to, laws establishing tariffs, or laws imposing homeland security requirements and fees on shipping containers
3. Whether such a tax is preempted by federal laws related to specific products, such as municipal solid waste or fish products; and
4. Whether there are any other legal theories that would invalidate such a tax

Cc: Karl Amylon

SENATE BILL 5207

State of Washington 60th Legislature 2007 Regular Session

By Senators Haugen, Murray and Spanel

Read first time 01/12/2007. Referred to Committee on Transportation.

1 AN ACT Relating to creating the freight congestion relief account
2 to improve freight corridors with funding from the imposition of a fee
3 on the processing of shipping containers; reenacting and amending RCW
4 43.84.092; adding a new chapter to Title 47 RCW; and prescribing
5 penalties.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 NEW SECTION. **Sec. 1.** The legislature finds and declares there is
8 a need to mitigate the enormous burden imposed on the state
9 transportation system by the overland movement of cargo shipped to and
10 from Washington state ports. Accordingly, it is the intent of the
11 legislature to alleviate this burden by imposing a fee on the
12 processing of shipping containers through those ports and use the funds
13 derived therefrom to provide congestion relief through the improvement
14 of freight rail systems and state highways that function as freight
15 corridors.

16 NEW SECTION. **Sec. 2.** The definitions in this section apply
17 throughout this chapter unless the context clearly requires otherwise.

18 (1) "Department" means the department of revenue.

1 (2) "Marine terminal operator" means a person engaged in the state
2 of Washington in the business of furnishing use of a wharf, dock,
3 warehouse, or other terminal services and facilities including, but not
4 limited to, all activities of a labor, service, or transportation
5 nature where cargo is documented, handled, moved, or loaded/unloaded
6 from vessels involved in waterborne commerce.

7 (3) "Twenty-foot equivalent unit" means a measure of containerized
8 cargo capacity equal to one standard twenty foot (length) by eight foot
9 (width) by eight foot and six inches (height) container.

10 NEW SECTION. **Sec. 3.** (1) A fee is imposed on the processing of
11 shipping containers in the ports of Washington state.

12 (2) The fee must be imposed at the rate of fifty dollars per
13 twenty-foot equivalent unit and is payable by the marine terminal
14 operator processing the container. Every marine terminal operator
15 engaged in processing twenty-foot equivalent units may retain ten
16 percent of the fifty-dollar fee collected. The moneys retained may be
17 used for costs associated with the proper collection and reporting of
18 twenty-foot equivalent units processed. The retained amount must be
19 reported as gross income under the service and other activities tax
20 classification on the excise tax return.

21 (3) The twenty-foot equivalent unit fee collected by marine
22 terminal operators, less the ten percent amount retained by the marine
23 terminal operator as provided in subsection (2) of this section, must
24 be paid to the department in accordance with RCW 82.32.045.

25 (4) The department must incorporate into the agency's regular audit
26 cycle a reconciliation of the number of twenty-foot equivalent units
27 processed and the amount of revenue collected by the marine terminal
28 operators processing twenty-foot equivalent units. The department must
29 collect from marine terminal operators processing twenty-foot
30 equivalent units the following information, which shall be required to
31 be reported on the appropriate business excise tax return form, as
32 determined by the department:

33 (a) All fees required to be collected under this section during the
34 previous month;

35 (b) A list of all freight containers processed by the marine
36 terminal operator during the previous month; and

1 (c) Satisfactory proof, as determined by the department, that the
2 fee was imposed on each twenty-foot equivalent unit processed.

3 (5) All other applicable provisions of chapter 82.32 RCW apply with
4 respect to the fee imposed under this section. The department shall
5 administer this section.

6 (6) A fee imposed under this section is to take effect no sooner
7 than seventy-five days after the department receives notice, and is to
8 take effect only on the first day of January, April, July, or October.
9 Unless waived by the department, notice includes providing the
10 appropriate department with digital mapping and legal descriptions of
11 areas in which the fee will be collected.

12 NEW SECTION. **Sec. 4.** The freight congestion relief account is
13 created in the state treasury. All receipts from twenty-foot
14 equivalent unit fees imposed under section 3 of this act must be
15 deposited in the account. Moneys in the account may be spent only
16 after appropriation. Expenditures from the account may only be used to
17 provide congestion relief through the improvement of freight rail
18 systems and state highways that function as freight corridors.

19 NEW SECTION. **Sec. 5.** (1) The fee required by this chapter, to be
20 collected by the marine terminal operator, must be deemed to be held in
21 trust by the marine terminal operator until paid to the department, and
22 any marine terminal operator who appropriates or converts the fee
23 collected to his or her own use or to any use other than the payment of
24 the fee to the extent that the money required to be collected is not
25 available for payment on the due date as prescribed in this chapter is
26 guilty of a gross misdemeanor, as provided in RCW 9A.20.021.

27 (2) If a marine terminal operator fails to collect the fee imposed
28 in this chapter or, having collected the fee, fails to pay it to the
29 department in the manner prescribed by this chapter, whether such
30 failure is the result of his or her own acts or the result of acts or
31 conditions beyond his or her control, he or she shall, nevertheless, be
32 personally liable to the state for the amount of the fee.

33 **Sec. 6.** RCW 43.84.092 and 2006 c 337 s 11, 2006 c 311 s 23, 2006
34 c 171 s 10, 2006 c 56 s 10, and 2006 c 6 s 8 are each reenacted and
35 amended to read as follows:

1 (1) All earnings of investments of surplus balances in the state
2 treasury shall be deposited to the treasury income account, which
3 account is hereby established in the state treasury.

4 (2) The treasury income account shall be utilized to pay or receive
5 funds associated with federal programs as required by the federal cash
6 management improvement act of 1990. The treasury income account is
7 subject in all respects to chapter 43.88 RCW, but no appropriation is
8 required for refunds or allocations of interest earnings required by
9 the cash management improvement act. Refunds of interest to the
10 federal treasury required under the cash management improvement act
11 fall under RCW 43.88.180 and shall not require appropriation. The
12 office of financial management shall determine the amounts due to or
13 from the federal government pursuant to the cash management improvement
14 act. The office of financial management may direct transfers of funds
15 between accounts as deemed necessary to implement the provisions of the
16 cash management improvement act, and this subsection. Refunds or
17 allocations shall occur prior to the distributions of earnings set
18 forth in subsection (4) of this section.

19 (3) Except for the provisions of RCW 43.84.160, the treasury income
20 account may be utilized for the payment of purchased banking services
21 on behalf of treasury funds including, but not limited to, depository,
22 safekeeping, and disbursement functions for the state treasury and
23 affected state agencies. The treasury income account is subject in all
24 respects to chapter 43.88 RCW, but no appropriation is required for
25 payments to financial institutions. Payments shall occur prior to
26 distribution of earnings set forth in subsection (4) of this section.

27 (4) Monthly, the state treasurer shall distribute the earnings
28 credited to the treasury income account. The state treasurer shall
29 credit the general fund with all the earnings credited to the treasury
30 income account except:

31 (a) The following accounts and funds shall receive their
32 proportionate share of earnings based upon each account's and fund's
33 average daily balance for the period: The capitol building
34 construction account, the Cedar River channel construction and
35 operation account, the Central Washington University capital projects
36 account, the charitable, educational, penal and reformatory
37 institutions account, the Columbia river basin water supply development
38 account, the common school construction fund, the county criminal

1 justice assistance account, the county sales and use tax equalization
2 account, the data processing building construction account, the
3 deferred compensation administrative account, the deferred compensation
4 principal account, the department of retirement systems expense
5 account, the developmental disabilities community trust account, the
6 drinking water assistance account, the drinking water assistance
7 administrative account, the drinking water assistance repayment
8 account, the Eastern Washington University capital projects account,
9 the education construction fund, the education legacy trust account,
10 the election account, the emergency reserve fund, the energy freedom
11 account, The Evergreen State College capital projects account, the
12 federal forest revolving account, the freight congestion relief
13 account, the freight mobility investment account, the freight mobility
14 multimodal account, the health services account, the public health
15 services account, the health system capacity account, the personal
16 health services account, the state higher education construction
17 account, the higher education construction account, the highway
18 infrastructure account, the high-occupancy toll lanes operations
19 account, the industrial insurance premium refund account, the judges'
20 retirement account, the judicial retirement administrative account, the
21 judicial retirement principal account, the local leasehold excise tax
22 account, the local real estate excise tax account, the local sales and
23 use tax account, the medical aid account, the mobile home park
24 relocation fund, the multimodal transportation account, the municipal
25 criminal justice assistance account, the municipal sales and use tax
26 equalization account, the natural resources deposit account, the oyster
27 reserve land account, the pension funding stabilization account, the
28 perpetual surveillance and maintenance account, the public employees'
29 retirement system plan 1 account, the public employees' retirement
30 system combined plan 2 and plan 3 account, the public facilities
31 construction loan revolving account beginning July 1, 2004, the public
32 health supplemental account, the public works assistance account, the
33 Puyallup tribal settlement account, the real estate appraiser
34 commission account, the regional mobility grant program account, the
35 resource management cost account, the rural Washington loan fund, the
36 site closure account, the small city pavement and sidewalk account, the
37 special wildlife account, the state employees' insurance account, the
38 state employees' insurance reserve account, the state investment board

1 expense account, the state investment board commingled trust fund
2 accounts, the supplemental pension account, the Tacoma Narrows toll
3 bridge account, the teachers' retirement system plan 1 account, the
4 teachers' retirement system combined plan 2 and plan 3 account, the
5 tobacco prevention and control account, the tobacco settlement account,
6 the transportation infrastructure account, the transportation
7 partnership account, the tuition recovery trust fund, the University of
8 Washington bond retirement fund, the University of Washington building
9 account, the volunteer fire fighters' and reserve officers' relief and
10 pension principal fund, the volunteer fire fighters' and reserve
11 officers' administrative fund, the Washington fruit express account,
12 the Washington judicial retirement system account, the Washington law
13 enforcement officers' and fire fighters' system plan 1 retirement
14 account, the Washington law enforcement officers' and fire fighters'
15 system plan 2 retirement account, the Washington public safety
16 employees' plan 2 retirement account, the Washington school employees'
17 retirement system combined plan 2 and 3 account, the Washington state
18 health insurance pool account, the Washington state patrol retirement
19 account, the Washington State University building account, the
20 Washington State University bond retirement fund, the water pollution
21 control revolving fund, and the Western Washington University capital
22 projects account. Earnings derived from investing balances of the
23 agricultural permanent fund, the normal school permanent fund, the
24 permanent common school fund, the scientific permanent fund, and the
25 state university permanent fund shall be allocated to their respective
26 beneficiary accounts. All earnings to be distributed under this
27 subsection (4)(a) shall first be reduced by the allocation to the state
28 treasurer's service fund pursuant to RCW 43.08.190.

29 (b) The following accounts and funds shall receive eighty percent
30 of their proportionate share of earnings based upon each account's or
31 fund's average daily balance for the period: The aeronautics account,
32 the aircraft search and rescue account, the county arterial
33 preservation account, the department of licensing services account, the
34 essential rail assistance account, the ferry bond retirement fund, the
35 grade crossing protective fund, the high capacity transportation
36 account, the highway bond retirement fund, the highway safety account,
37 the motor vehicle fund, the motorcycle safety education account, the
38 pilotage account, the public transportation systems account, the Puget

1 Sound capital construction account, the Puget Sound ferry operations
2 account, the recreational vehicle account, the rural arterial trust
3 account, the safety and education account, the special category C
4 account, the state patrol highway account, the transportation 2003
5 account (nickel account), the transportation equipment fund, the
6 transportation fund, the transportation improvement account, the
7 transportation improvement board bond retirement account, and the urban
8 arterial trust account.

9 (5) In conformance with Article II, section 37 of the state
10 Constitution, no treasury accounts or funds shall be allocated earnings
11 without the specific affirmative directive of this section.

12 NEW SECTION. **Sec 7.** Sections 1 through 5 of this act constitute
13 a new chapter in Title 47 RCW.

--- END ---

Multiple Agency Fiscal Note Summary

Bill Number: 5207 SB	Title: Freight congestion relief
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Estimated Cash Receipts

Agency Name	2007-09		2009-11		2011-13	
	GF- State	Total	GF- State	Total	GF- State	Total
Office of State Treasurer	Non-zero but indeterminate cost. Please see discussion."					
Department of Revenue	478,000	287,280,000	720,000	433,199,000	779,000	467,865,000
Total \$	478,000	287,280,000	720,000	433,199,000	779,000	467,865,000

Local Gov. Courts *						
Local Gov. Other **						
Local Gov. Total						

Estimated Expenditures

Agency Name	2007-09			2009-11			2011-13		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of State Treasurer	0	0	0	0	0	0	0	0	0
Department of Revenue	3	46,600	46,600	.1	13,400	13,400	1	13,400	13,400
Department of Transportation	0	0	0	0	0	0	0	0	0
Total	0.3	\$46,600	\$46,600	0.1	\$13,400	\$13,400	0.1	\$13,400	\$13,400

Local Gov. Courts *						
Local Gov. Other **						
Local Gov. Total						

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Prepared by: Doug Jenkins, OFM	Phone: 360-902-0563	Date Published: Final 1/20/2007
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- See Office of the Administrator for the Courts judicial fiscal note
- See local government fiscal note
FNPID: 14732

Individual State Agency Fiscal Note

Bill Number: 5207 SB	Title: Freight congestion relief	Agency: 090-Office of State Treasurer
-----------------------------	---	--

Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Non-zero but indeterminate cost. Please see discussion.

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
Fund					
Total \$					

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: David Ward	Phone: 3607867341	Date: 01/15/2007
Agency Preparation: Dan Mason	Phone: 360-902-9090	Date: 01/16/2007
Agency Approval: Dan Mason	Phone: 360-902-9090	Date: 01/16/2007
OFM Review: Deborah Feinstein	Phone: 360-902-0614	Date: 01/16/2007

Request # 021-1
Bill # 5207 SB

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

SB 5207 creates the freight congestion relief account and allows the account to retain its earnings from investments.

Earnings from investments:

The amount of earnings by an account is a function of the average daily balance of the account and the earnings rate of the investment portfolio. The average daily balance is a function of the beginning balance in the account and the timing & amount of receipts, disbursements, & transfers during the time period in question. Accordingly, even with a beginning balance of zero, two accounts with the same overall level of receipts, disbursements, and transfers can have different average balances, and hence different earnings.

There will be an impact to the earnings; however, the actual earnings will be determined more by the impact to the average daily balance than the amount of increases or decreases in receipts, disbursements, and transfers. Currently, estimated earnings are indeterminable. Without projected monthly estimates of receipts, disbursements, and transfers, OST is unable to estimate the changes to the average balance of the account and the impact to earnings.

Based on the November 2006 Revenue Forecast, the net rate for estimating earnings for FY 08 is 4.18% and FY 09 is 4.21%. Approximately \$41,800 in FY 08 and \$42,100 in FY 09 in net earnings and \$5,000 in OST management fees would be gained or lost annually for every \$1 million increase or decrease in average daily balance.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

SB 5207 creates the freight congestion relief account and allows the account to retain its earnings from investments.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years					
Total:					

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Request # 021-1

Bill # 5207 SB



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Our Opinion

Setting the standard

Even 275 years after he was born, George Washington's life remains an example we all would emulate, if only we could. [Read more](#)

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Obituaries

Edwin F. Braz

Edwin F. Braz, 83, died Fri Feb. 16, 2007, at his home in Kodiak.

Recent obituaries:



'Don't up fee'

By ANNE SUTTON

Associated Press Writer

JUNEAU — It's been called obnoxious and offensive, even described as "an act of aggression from our southern neighbors."

Alaska lawmakers are spouting off about a Washington state senator's proposal to impose a fee of \$100 or more on shipping containers carrying freight in and out of that state — a proposal that is meeting with some turbulence on its home front, as well.

The Alaska House on Wednesday unanimously passed a joint resolution opposing the measure. The Senate is expected to weigh in with a similarly resounding message to the Washington Legislature.

Sponsor Rep. Bill Thomas, R-Haines, said the added cost of shipping would be economically devastating to Alaska.

Ninety-seven percent of goods shipped to Alaska arrive via shipping containers — almost all of them from Washington state.

The fees would add an estimated \$40 million to \$50 million a year to the cost of freight and borne by consumers, Thomas said.

"With shipping fees in Alaska already astronomical, this additional tax could be devastating to the flow of goods to and from the state," Thomas said.

In informal discussions in the hallways and lounge areas of the state Capitol, the buzz is about retaliation, said Sen. Johnny Ellis, D-Anchorage, who made the aggression comment.

Ellis said Washington makes "truckloads — no, supertankers — of money off the state of Alaska," and lawmakers are discussing their options should the fees pass.

"We want to be very calm and measured and professional about this but don't wake up the sleeping giant," Ellis warned. "We have North Slope oil and they make money off of it and we would consider all our options."

Washington state Sen. Mary Margaret Haugen, D-Camano Island, proposed the tax as a way to pay for improvements to the state's congested port facilities.

Haugen did not return calls from The Associated Press but Rick Manugian, a spokesman for Washington Democrats, said the bill is being reworked so that the fees conform with a similar proposal in California.

Haugen's original proposal would charge a one-way rate of \$50 per 20-foot of container.

Since most containers are 40 feet in length, that would amount to \$200 round trip, regardless of whether the container is empty.

The California Legislature is pushing a fee of between \$25 and \$30 per 20-foot unit. A bill that passed last year was vetoed by Gov. Arnold Schwarzenegger.

Manugian also said Haugen would not push the fees this year. Instead, her revised legislation would identify projects that would be paid for by the fees if the Washington Legislature next year agrees to levy them.

Rep. Beth Kerrtula, D-Juneau, said she spoke to Haugen this week and was led to believe the bill was simply being used as leverage to bring the freight industry to the table to help pay for port facilities.

At a conference in January at the Port of Tacoma, the Seattle Post-Intelligencer quoted Washington Gov. Chris Gregoire as saying Haugen's bill was just "a shot across the bow to get everyone to pay attention."

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But Manugian said Haug is indeed serious.

"The impetus is that ports here are congested. They can't move containers fast enough. They need efficiencies and that takes money and the state's strapped," Manugian said.

He pointed out that a more efficient port would cut down on costly delays and be to everyone's benefit.

Kerttula is recommending Alaska lawmakers work with the Washington senator.

"If Washington state ports are too clogged and we don't see our shipments move, that would help us, either," Kerttula said.

Kerttula said Haugen is putting together a study group with a joint House and Senate Transportation Committee and would welcome Alaska's involvement. She said she expects the study group to meet over the summer.

Alaska lawmakers also plan to travel to Olympia, Wash., to testify should the bill, in whatever form, reappear in committee.

Some also are questioning the legality of such a fee and whether it would run afoul of the interstate commerce clause of the U.S. Constitution.

The Alaska resolution urges the state attorney general to file a complaint and request for injunction should the tax pass.

Back to headlines



Increased property tax assessments?

- Yes
- No
- Not sure

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SEATTLE POST-INTELLIGENCER

http://seattlepi.nwsourc.com/local/303745_container15.html

Senate gets earful on container tax

Proposal would drive cargo from region, critics say

Thursday, February 15, 2007

By **KRISTEN MILLARES BOLT**
P-I REPORTER

Sen. Mary Margaret Haugen, D-Camano Island, wanted to start a serious conversation about how to fund transportation projects to allow freight to flow more smoothly through the state of Washington.

So Haugen, who chairs the Transportation Committee, introduced a bill that would levy a \$50 fee on every 20 feet of containers passing through Washington ports.

The money generated from the fee would be earmarked for a passel of freight mobility projects dependent on state funding, such as the \$25 million crowning of Stampede Pass, the \$25 million gap in funding for the second phase of state Route 519 and connecting state Route 167 to state Route 509.

Haugen got what she wanted: a vigorous debate.

Senate hearings brought an earful from ports, labor, shippers, retailers and railroads, who all opposed the proposal as an unfair and trade-suppressing tax that would drive cargo, jobs and money from the region.

But Haugen may have stirred up more controversy than she bargained for, as angry hearings begin today in Alaska on a resolution opposing the bill because it would raise consumer prices there.

Still, what she hasn't found, amid all that talk, is an alternative way to fund the projects, some of which are already slated for public/private partnership.

"They come and tell us they have all these freight mobility problems, and when we ask if there is some alternative, they say no," Haugen said. "How does one take them seriously?"

In an attempt to answer some of the critics' charges that the measure, Senate Bill 5207, would push cargo north to Canada and south to California, Haugen said an amended bill would trim the fee from \$50 per TEU (20-foot equivalent unit, the standard measure of container volume) to between \$25 and \$30 per TEU.

Though the language of the amended bill has not been made public yet, Haugen said its implementation, should it pass, would be tied to that of a similar bill expected from the California Legislature by Feb. 23.

There, state Sen. Alan Lowenthal will introduce a container fee bill similar to one passed by the Legislature last year, which would have levied a fine of \$30 per TEU on containers passing through the ports of L.A. and Long Beach. After intense lobbying by the retail, manufacturing and shipping industries, it was vetoed by Gov. Arnold Schwarzenegger.

"I don't think a \$25 or \$30 container fee is going to put them out of business, or divert that much cargo if California also passes a similar container fee," Haugen said.

That ignores two things: Canadian ports and the reality of Seattle's small market, said Port of Seattle government affairs manager Terry Finn.

"Seventy to 80 percent of the cargo going to the ports of L.A./Long Beach will end up within 500 miles of those docks," Finn said.

"In Seattle, 70 percent of our cargo gets on a train to places like Chicago, so all that freight is discretionary and could be sent elsewhere."

At a conference in January at the Port of Tacoma, Gov. Chris Gregoire said Haugen "wasn't serious" about the bill, which she called "a shot across the bow to get everyone to pay attention."

As introduced, placing a \$50 fee per TEU, the bill would have generated \$287 million from 2007 to 2009, \$433 million from 2009 to 2011, and \$468 million from 2011 to 2013.

But Haugen says she is serious, and so far, she hasn't heard anything from the industry that would change her mind on the state's transportation priorities over the next year. Without those funds, she said, freight mobility projects just

won't happen.

Revised to \$30 per square foot, the bill would generate \$172 million from 2007 to 2009.

"If my colleagues don't want to vote for this, fine -- but don't ask me for any money for freight projects," Haugen said. "I will shift everything we have to safety projects like 520."

The controversy over Haugen's proposal has spread beyond the state along shipping routes through Washington and up to Alaska.

In the state capital of Juneau, a group of incensed representatives -- spurred by industry and concerns for their constituents -- have drafted a resolution opposing the bill and asking Washington to come up with another way to fund freight mobility.

"The problem we've got is that we are so dependent on Washington," said Alaska state Rep. Ralph Samuels, co-sponsor of the resolution, which receives a hearing today at 2:30 p.m. "All the goods we have come on ships, so this bill would drive the cost of day-to-day life up."

Seventy percent of waterborne trade to Alaska from the lower 48 States flows through the Port of Tacoma, unloading at the ports of Anchorage, Kodiak and Dutch Harbor.

Virtually all of the rest of Alaska-bound goods flows through the Seattle port, which serves numerous smaller ports in Alaska.

With fuel prices already at \$6 per gallon in rural Alaska and the price of groceries sky-high, the Alaskan consumer shouldn't have to bear any more costs, Samuels said. And what's more, he said, the bill worsens the deteriorated relationship between Washington and Alaska.

"We are taking it as a poke in the eye," Samuels said.

The goods that stock shelves in Alaska create jobs in the Puget Sound region: more than 100,000 of them in 2003, or 3 percent of the region's total, according to a 2004 report by the Seattle and Tacoma chambers of commerce.

Nearly 90 percent of the freight shipped to Alaska by Totem Ocean Trailer Express Inc., a privately owned Alaska corporation that operates a terminal in Tacoma, is loaded into containers in the Puget Sound region.

"We believe the additional cost for TOTE would be \$11 million per year, which would be transferred to the consumer in Alaska," said TOTE President and Chief Operating Officer Bill Deaver. "The bill puts an onerous burden on the citizens in the state of Alaska."

P-I reporter Kristen Millares Bolt can be reached at 206-448-8142 or kristenbolt@seattlepi.com.

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Web posted Sunday, February 18, 2007

Alaskans bristle over proposed Washington container tax

By Rob Stapleton
Alaska Journal of Commerce

A resolution to impose a \$100 tax on shipping containers by the state of Washington has triggered negative reactions by Alaskans and the ports of Seattle and Tacoma.

"We are opposed to this, in every way," said Aves Thompson, executive director of the Alaska Trucking Association. "The state of Washington can find better ways to raise money than to impose a tax on containers coming to and from Alaska."

Senate Bill 5207 tries to impose a fee of \$50 for each 20-foot-equivalent on every cargo container traveling between Washington state and Alaska. As most cargo containers are at least two 20-foot-equivalent units, this would subject them to a \$100 fee each round trip.

Sen. Mary Margaret Haugen, D-Camano Island, is sponsoring the legislation. The money collected would be deposited in a fund and used for road and rail improvement projects that relieve freight congestion.

Sen. Haugen's office was contacted by the Journal for comment on this story, but was

unavailable for comment.

The fee would raise an estimated \$287 million for freight congestion relief projects in the next two years, and would grow to an estimated \$433 million for 2009-2011.

The implications of the legislation triggered a response from the Alaska Legislature, which issued a joint resolution Feb. 7 opposing the tax.

The resolution urges the Washington state Legislature to consider alternative means for raising revenue to be used for port infrastructure improvements.

Alaska statistics indicate that 97 percent, by weight, and 60 percent, by value, of all goods shipped to Alaska are shipped by marine transportation.

Totem Ocean Trailer Express and its parent company, Saltchuk, are also against the proposal.

"TOTE and Saltchuk have communicated directly, and through organizations we are members of, that this is not good legislation for Alaska," said Curt Stoner, sales manager for TOTE in Alaska.

Stoner also mentioned that he does not expect the bill to get far, because the U.S. Department of Transportation regulates interstate transportation.

Carlile Transportation also thinks that the proposal will die.

"We think that this proposal was intended for international cargo containers, and that it will be re-worked," said Linia Leary, vice president of marketing for Carlile Transportation in Tacoma.

Port officials at both the ports of Seattle and Tacoma are opposed to the container fee.

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2°
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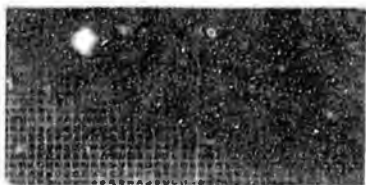
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Officials are saying that it will raise the cost of moving containers from \$200 to \$300, making it harder to compete. The price for moving a container in Portland, Ore., and Vancouver, Wash., is still \$200 or less.

The bill is still awaiting scrutiny by the Washington Legislature's Executive Committee, which will either amend it or pass it out of the state's Transportation Committee.

Rob Stapleton can be reached at rob.stapleton@alaskajournal.com.

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Multiple Agency Fiscal Note Summary

Bill Number: 5207 S SB	Title: Freight congestion relief
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Estimated Cash Receipts

Agency Name	2007-09		2009-11		2011-13	
	GF- State	Total	GF- State	Total	GF- State	Total
Office of State Treasurer	Non-zero but indeterminate cost. Please see discussion."					
Total \$	0	0	0	0	0	0

Local Gov. Courts *						
Local Gov. Other **						
Local Gov. Total						

Estimated Expenditures

Agency Name	2007-09			2009-11			2011-13		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of State Treasurer	0	0	0	0	0	0	0	0	0
Department of Transportation	0	0	0	0	0	0	0	0	0
Freight Mobility Strategic Investment Board	0	0	0	0	0	0	0	0	0
Total	0.0	\$0	\$0	0.0	\$0	\$0	0.0	\$0	\$0

Local Gov. Courts *									
Local Gov. Other **									
Local Gov. Total									

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Prepared by: Geri Beardsley, OFM	Phone: 360-902-9822	Date Published: Final 3/27/2007
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* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

Individual State Agency Fiscal Note

Bill Number: 5207 S SB	Title: Freight congestion relief	Agency: 090-Office of State Treasurer
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Non-zero but indeterminate cost. Please see discussion.

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
Fund					
Total \$					

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Jerry Long	Phone: 360-786-7306	Date: 03/22/2007
Agency Preparation: Dan Mason	Phone: 360-902-9090	Date: 03/23/2007
Agency Approval: Dan Mason	Phone: 360-902-9090	Date: 03/23/2007
OFM Review: Theo Yu	Phone: 360-902-0548	Date: 03/23/2007

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

SSB 5207 creates the freight congestion relief account and allows the account to retain its earnings from investments.

Earnings from investments:

The amount of earnings by an account is a function of the average daily balance of the account and the earnings rate of the investment portfolio. The average daily balance is a function of the beginning balance in the account and the timing & amount of receipts, disbursements, & transfers during the time period in question. Accordingly, even with a beginning balance of zero, two accounts with the same overall level of receipts, disbursements, and transfers can have different average balances, and hence different earnings.

There will be an impact to the earnings; however, the actual earnings will be determined more by the impact to the average daily balance than the amount of increases or decreases in receipts, disbursements, and transfers. Currently, estimated earnings are indeterminable. Without projected monthly estimates of receipts, disbursements, and transfers, OST is unable to estimate the changes to the average balance of the account and the impact to earnings.

Based on the March 2007 Revenue Forecast, the net rate for estimating earnings for FY 08 is 4.41% and FY 09 is 4.40%. Approximately \$44,100 in FY 08 and \$44,000 in FY 09 in net earnings and \$5,000 in OST management fees would be gained or lost annually for every \$1 million increase or decrease in average daily balance.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

SSB 5207 creates the freight congestion relief account and allows the account to retain its earnings from investments.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years					
Total:					

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number: 5207 S SB	Title: Freight congestion relief	Agency: 405-Department of Transportation
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Part I: Estimates

No Fiscal Impact

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Jerry Long	Phone: 360-786-7306	Date: 03/22/2007
Agency Preparation: Brent Thompson	Phone: 360-705-7927	Date: 03/23/2007
Agency Approval: Paula Hammond	Phone: 360-705-7027	Date: 03/26/2007
OFM Review: Geri Beardsley	Phone: 360-902-9822	Date: 03/26/2007

Request # 07-144-1

Bill # 5207 S SB

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This legislative proposal directs the Joint Transportation Committee, subject to appropriation, to conduct a study to evaluate the imposition of a fee on the processing of shipping containers, port related user fees, and other funding mechanisms as a means to fund freight infrastructure improvements. The legislation also creates a freight congestion relief account in the state treasury. The funds may only be spent after an appropriation and may only be used to provide congestion relief through the improvement of freight rail systems and state highways that function as freight corridors. The legislation identifies specific projects that must, at a minimum, be funded through the account.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

None

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement the legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditure (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

None, the legislation only directs that a study be conducted, subject to appropriation, and any funding for congestion relief projects would need to be appropriated.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number: 5207 S SB	Title: Freight congestion relief	Agency: 411-Freight Mobility Strategic Invest
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Part I: Estimates

No Fiscal Impact

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Jerry Long	Phone: 360-786-7306	Date: 03/22/2007
Agency Preparation: Cornelia Kirkpatrick	Phone: (360) 705-7526	Date: 03/23/2007
Agency Approval: Karen Schmidt	Phone: (360) 586-9696	Date: 03/27/2007
OFM Review: Geri Beardsley	Phone: 360-902-9822	Date: 03/27/2007

Request # 2007-4-1

Bill # 5207 S SB

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

The bill authorizes a consultant study that will evaluate the imposition of specific and non specific user fees for improving freight mobility and other related issues. The proposed bill assumes the establishment of a new account and the collection of fees designated for freight rail systems and state highways; however at least one reference is made to a non-state corridor that would also be eligible for funding. The bill requires the development of a new measurement for return on investment or modification of an existing analysis. A future project recommendation body is called for that could be in addition to the Freight Mobility Strategic Investment Board and other state freight efforts.

SSB 5207 identifies areas with possible direct implications for the board. Staff will closely follow the discussion and may become a resource for the consultant which would involve additional staff time. It is assumed there will be some fiscal impact in additional workload for the agency to monitor and participate in the development of the study. The fiscal impact cannot be measured until more information is available.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal revise existing rules.

David Scott

From: Will Vandergriff [Will_Vandergriff@legis.state.ak.us]
Sent: Monday, February 12, 2007 12:51 PM
To: prdistribution
Subject: PR - Washington State Shipping Tax Will Hurt Alaskans
Attachments: PR - Wash. State Shipping Tax Will Hurt Alaskans.doc

FOR IMMEDIATE RELEASE: Feb. 12, 2007

CONTACT: Will Vandergriff, (907) 465-5446
House Majority Press Secretary

Washington State Shipping Tax Will Hurt Alaskans **Rep. Thomas' HJR 8 Sounds Off on "Nuisance Tax,"** **Scheduled for House Transportation Thursday**

(Juneau) – Representative Bill Thomas (R – Haines) is worried that his colleagues in the Washington State Legislature will adversely impact Southeast Alaska with a measure to impose a \$100 fee on marine terminal operators who ship containers from the state. By sponsoring House Joint Resolution 8 (HJR 8), Thomas is putting in writing what he and fellow members of the House of Representatives regard as an unnecessary "nuisance tax" that could pass an undue burden onto Alaskans.

"Alaska depends heavily on goods shipped through ports in Washington State, which has long been a gateway to our state," Thomas said. "Many people do not realize Alaska is the Puget Sound's fifth largest trading partner. The close economic connection between our two states is responsible for at least 103,500 jobs and over \$4 billion in commerce.

The Washington State Senate is currently considering Senate Bill 5207, which would impose a \$50 fee per 20-foot equivalents for shipping containers. The standard container length is 40 feet. The state's Senate is moving the legislation because of what the bill states as "a need to mitigate the enormous burden imposed on the state transportation system by the overland movement of cargo shipped to and from Washington State ports." The fee will be imposed on marine terminal operators, who will be allowed to keep 10% of the fee as compensation for accounting costs, leaving 90% for spending on state port infrastructure improvements.

"Shipping fees in Alaska are already sky-high," Thomas said. "The real losers in this legislation are the consumers, and in our case, we Alaskans. HJR 8 asks Washington to find some other means to fund infrastructure improvements to its ports. The people of Washington State should pay for those improvements, not Alaskan consumers.

"This regressive tax could cripple not only shipping into Alaska, but also the variety and availability of goods that we've grown to depend on. It's already hard enough to find family staples and goods in Southeast. We don't need our most accessible shipping partner cutting off one of our only avenues by forcing operators to pass the burden on to us consumers."

HJR 8 will be considered by the House Transportation Committee Thursday, February 15 at 1:30 p.m.

###

SENATE BILL REPORT

SB 5207

As of January 25, 2007

Title: An act relating to creating the freight congestion relief account to improve freight corridors with funding from the imposition of a fee on the processing of shipping containers.

Brief Description: Creating and funding the freight congestion relief account for the purpose of improving freight rail systems and state highways used as freight corridors through imposing a fee on the processing of shipping containers.

Sponsors: Senators Haugen, Murray and Spanel.

Brief History:

Committee Activity: Transportation: 1/24/07.

SENATE COMMITTEE ON TRANSPORTATION

Staff: David Ward (786-7341)

Background: The state has identified various and significant transportation projects that support enhanced freight mobility and capacity. Although the state has provided some funding for these projects, the level of funding is insufficient to provide the level of investment necessary to alleviate congestion levels that impact freight mobility and capacity.

Summary of Bill: A fee is imposed on the processing of shipping containers in the ports of Washington State. The fee must be imposed at the rate of \$50 per twenty-foot equivalent unit (TEU) and is payable by the marine terminal operator processing the container. Marine terminal operators may retain 10 percent of the fee to offset costs associated with the proper reporting of the number of TEUs processed. The remainder of the fee must be remitted to the Department of Revenue (DOR).

The Freight Congestion Relief Account is created in the State Treasury. All receipts received by DOR from the imposition of TEU processing fees must be deposited in the account. The account is subject to appropriation, retains 100 percent of the interest income generated by the account, and may only be used to provide freight-related congestion relief through the improvement of freight rail infrastructure and state highways that function as freight corridors.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: There should be a user fee to fund these critical investments and the return on investment should offset the costs. The system that comprises our state's freight infrastructure needs additional investment and, if possible, should include a component that would allow funding for projects adjacent to the state system that can demonstrably show significant ways to improve, link to, or offload pressure on state freight corridors.

CON: Seventy percent of containerized freight moving through Washington's ports is discretionary. Imposition of a fee on the processing of shipping containers will therefore divert container freight movement away from the state's marine ports. Critical family wage jobs will also be lost and a negative ripple effect will be felt throughout the state economy. Such a fee would also impair state export trade and Washington is a highly trade-dependent state. There are additional concerns that the fee is instead a tax and may well be unconstitutional in that it impedes interstate commerce, import/export activity and the movement of containerized cargo as governed by federal law and international treaty.

Persons Testifying: PRO: Larry Pursley, Washington Trucking Association; Doug Levy, Cities of Everett, Kent, Federal Way, Renton and Puyallup.

CON: Mark Johnson, Washington Retail Association; Rich Berkowitz, Transportation Institute; Randy Ray, Pacific Seafood Processors; Jim Wilcox, Wilcox Farms/Washington Food Industry; Pat Jones, Washington Public Ports Association; Tim Farrell, Port of Tacoma; Terry Finn, Port of Seattle; Gordon Baxter, Masters, Mates and Pilots and Inland Boatmen's Union; Larry McKillip, United Transportation Union; Mike Elliot, Brotherhood of Locomotive Engineers; Karol Kingery, Marine Engineers Beneficial Association; Bill Stauffacher, Burlington Northern Sante Fe Railroad; Tom Parker, Union Pacific Railroad; Scott Hazelgrove, Pacific Merchant Shipping Association; Rick Wickman, Columbia River Steamship Operators.

Multiple Agency Fiscal Note Summary

Bill Number: 5207 SB	Title: Freight congestion relief
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Estimated Cash Receipts

Agency Name	2007-09		2009-11		2011-13	
	GF- State	Total	GF- State	Total	GF- State	Total
Office of State Treasurer	Non-zero but indeterminate cost. Please see discussion."					
Department of Revenue	478,000	287,280,000	720,000	433,199,000	779,000	467,865,000
Total \$	478,000	287,280,000	720,000	433,199,000	779,000	467,865,000

Local Gov. Courts *						
Local Gov. Other **						
Local Gov. Total						

Estimated Expenditures

Agency Name	2007-09			2009-11			2011-13		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Office of State Treasurer	0	0	0	0	0	0	0	0	0
Department of Revenue	3	46,600	46,600	1	13,400	13,400	1	13,400	13,400
Department of Transportation	0	0	0	0	0	0	0	0	0
Total	0.3	\$46,600	\$46,600	0.1	\$13,400	\$13,400	0.1	\$13,400	\$13,400

Local Gov. Courts *									
Local Gov. Other **									
Local Gov. Total									

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Prepared by: Doug Jenkins, OFM	Phone: 360-902-0563	Date Published: Final 1/20/2007
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- See Office of the Administrator for the Courts judicial fiscal note
- See local government fiscal note
ENPID 14732

Individual State Agency Fiscal Note

Bill Number: 5207 SB	Title: Freight congestion relief	Agency: 090-Office of State Treasurer
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Non-zero but indeterminate cost. Please see discussion.

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
Fund					
Total \$					

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: David Ward	Phone: 3607867341	Date: 01/15/2007
Agency Preparation: Dan Mason	Phone: 360-902-9090	Date: 01/16/2007
Agency Approval: Dan Mason	Phone: 360-902-9090	Date: 01/16/2007
OFM Review: Deborah Feinstein	Phone: 360-902-0614	Date: 01/16/2007

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

SB 5207 creates the freight congestion relief account and allows the account to retain its earnings from investments.

Earnings from investments:

The amount of earnings by an account is a function of the average daily balance of the account and the earnings rate of the investment portfolio. The average daily balance is a function of the beginning balance in the account and the timing & amount of receipts, disbursements, & transfers during the time period in question. Accordingly, even with a beginning balance of zero, two accounts with the same overall level of receipts, disbursements, and transfers can have different average balances, and hence different earnings.

There will be an impact to the earnings; however, the actual earnings will be determined more by the impact to the average daily balance than the amount of increases or decreases in receipts, disbursements, and transfers. Currently, estimated earnings are indeterminable. Without projected monthly estimates of receipts, disbursements, and transfers, OST is unable to estimate the changes to the average balance of the account and the impact to earnings.

Based on the November 2006 Revenue Forecast, the net rate for estimating earnings for FY 08 is 4.18% and FY 09 is 4.21%. Approximately \$41,800 in FY 08 and \$42,100 in FY 09 in net earnings and \$5,000 in OST management fees would be gained or lost annually for every \$1 million increase or decrease in average daily balance.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

SB 5207 creates the freight congestion relief account and allows the account to retain its earnings from investments.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years					
Total:					

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Department of Revenue Fiscal Note

Bill Number: 5207 SB	Title: Freight congestion relief	Agency: 140-Department of Revenue
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

FUND	FY 2008	FY 2009	2007-09	2009-11	2011-13
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	139,000	339,000	478,000	720,000	779,000
NEW-State 00 - 00 -	83,150,000	203,652,000	286,802,000	432,479,000	467,086,000
Total S	83,289,000	203,991,000	287,280,000	433,199,000	467,865,000

Estimated Expenditures from:

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years	0.5	0.1	0.3	0.1	0.1
Fund					
GF-STATE-State 001-1	39,900	6,700	46,600	13,400	13,400
Total S	39,900	6,700	46,600	13,400	13,400

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: David Ward	Phone: 3607867341	Date: 01/15/2007
Agency Preparation: Valerie Torres	Phone: 360-5706084	Date: 01/18/2007
Agency Approval: Kim Davis	Phone: 360-570-6087	Date: 01/18/2007
OEM Review: Doug Jenkins	Phone: 360-902-0563	Date: 01/18/2007

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill imposes a \$50 fee per 20-foot equivalent unit of shipping container at marine ports. The marine terminal operator keeps 10 percent of the fees collected for costs associated with the proper collection and reporting of the containers. The rest of the money is remitted to the Department of Revenue (the Department) and deposited in a new account where the money is to be used to provide congestion relief through improvements of freight rail systems and state highways that act as freight corridors.

This bill also reenacts the laws related to the earnings of investments of surplus balances being deposited in the treasury income account and adds the new "freight congestion relief account" to the list of accounts that receive a share of the earnings from the treasury income account.

Sections 1 through 5 and 7 are new sections.

Section 1 declares the intent of the container fee.

Section 2 contains definitions.

Section 3 imposes the \$50 fee per 20-foot equivalent unit and allows the marine terminal operator to keep 10 percent. The portion kept must be reported as gross income under the service and other activities tax classification on the excise tax return. The Department must incorporate the fee into the regular audit cycles. The marine terminal operator must include the information specified on the excise tax return forms. The fee is to take effect no sooner than 75 days after the Department receives notice and is only to take effect on the first day of January, April, July, or October unless the Department waives the notice requirement.

Section 4 creates the new account in the state treasury and specifies that the money can only be spent after appropriation and may only be used to provide congestion relief through improvements of freight rail systems and state highways that function as freight corridors.

Section 5 makes it a gross misdemeanor if the marine terminal operator does not remit the fee to the Department, except for the portion that they are allowed to keep. The marine terminal operator is also personally liable if they fail to collect the fee or if they collect the fee and fail to remit it.

Section 6 reenacts the laws related to the earnings of investments of surplus balances being deposited in the treasury income account. The new "freight congestion relief account" is added to the list of accounts that receive their full share of the earnings from the treasury income account less any fees.

Section 7 makes sections 1 through 5 into a new chapter in Title 47 RCW.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS/DATA SOURCES

This bill does not specify an effective date, therefore, the effective date of the bill is assumed to be 90 days after the session ends. Adding to that the 75 days between when the Department is notified and the fee is imposed and then finding the first of January, April, July, or October after that, the fee is assumed to be imposed effective January 1, 2008.

Growth rates for 20-foot equivalent unit cargo containers (containers) were found in the Washington Port Association's marine cargo forecast for 2004. The number of containers and growth rates forecasted was compared to the container statistics found on the Port of Seattle and Port of Tacoma websites.

It is assumed that both empty and full cargo containers would be taxed and that containers would be taxed being loaded on and loaded off of vessels.

It is assumed that the 10 percent the marine terminal owners keep is subject to business and occupation tax at the services and other rate of 1.5 percent.

REVENUE ESTIMATES

It is estimated that in calendar year 2008 there will be approximately 4.2 million 20-foot equivalent unit cargo containers that would be charged the \$50 fee. This would result in approximately \$221 million in fees in calendar year 2008. The marine terminal owners would keep 10 percent of this amount, and business and occupation tax would apply to what they keep. The rest of the money would be deposited in the freight congestion relief account.

For calendar years 2008 through 2010 the growth rate of the number of processed containers would be 4.1 percent, dropping to 3.9 percent for 2011 through 2013.

The calendar year totals were then broken apart into fiscal year totals.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000): Freight Congestion Relief Account

FY 2008 -	\$ 83,150
FY 2009 -	\$ 203,652
FY 2010 -	\$ 212,002
FY 2011 -	\$ 220,447
FY 2012 -	\$ 229,076
FY 2013 -	\$ 238,010

State Government (cash basis, \$000): Business & Occupation Tax

FY 2008 -	\$ 139
FY 2009 -	\$ 339
FY 2010 -	\$ 153
FY 2011 -	\$ 367
FY 2012 -	\$ 382
FY 2013 -	\$ 419

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

To implement this legislation, the Department of Revenue will incur costs of approximately \$39,900 during Fiscal Year 2008. These are programming costs to set up, test, and verify the system to handle the collection of the fee and additional audit time spent to verify reported amounts. Time and effort would equate to 0.5 FTE.

Fiscal Year 2009 costs are approximately \$6,700. These costs are ongoing and include 0.1 FTE to handle the extra audit work required.

The Department of Revenue will incur estimated costs of \$13,400 in the 2009-2011 and the 2011-2013 Biennia. These are ongoing costs to handle the extra audit work required.

Without an appropriation to cover the expenditure impact, the Department of Revenue may not be fully able to implement the legislation.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2008	FY 2009	2007-09	2009-11	2011-13
FTE Staff Years	0.5	0.1	0.3	0.1	0.1
A-	26,400	4,600	31,000	9,200	9,200
B-	6,600	1,100	7,700	2,200	2,200
E-	3,400	700	4,100	1,400	1,400
G-	300	300	600	600	600
J-	3,200		3,200		
Total S	\$39,900	\$6,700	\$46,600	3,400	\$13,400

III. B - Detail: List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA

Job Classification	Salary	FY 2008	FY 2009	2007-09	2009-11	2011-13
IT SPEC 4	54,372	0.4		0.2		
REVENUE AUDITOR 3	45,756	0.1	0.1	0.1	0.1	0.1
Total FTE's		0.5	0.1	0.3	0.1	0.1

Part IV: Capital Budget Impact

NONE.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

No rule-making required.

Individual State Agency Fiscal Note

Bill Number: 5207 SB	Title: Freight congestion relief	Agency: 405-Department of Transportation
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Part I: Estimates

No Fiscal Impact

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: David Ward	Phone: 3607867341	Date: 01/15/2007
Agency Preparation: Andrew Wood	Phone: 360-705-7938	Date: 01/17/2007
Agency Approval: Paula Hammond	Phone: 360-705-7027	Date: 01/18/2007
OFM Review: Geri Beardsley	Phone: 360-902-9822	Date: 01/19/2007

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

The legislative proposal imposes a fee on the processing of shipping containers through Washington state ports. Revenue from the fee is deposited in the Freight Rail Congestion Relief Account established by the bill. Any expenditures to provide congestion relief through improvement of freight rail systems and state highways that function as freight corridors would be authorized through an appropriation from the legislature

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules