

## **Inadequate Funding Threatens Mississippi River Shipping From Nearly 30 States and America's International Competitiveness**

**Background** - The Mississippi River is America's largest river system, helping to connect states in the heartland of the country with international markets. Some facts help measure this impact:

- The Mississippi connects more than 14,000 miles of inland waterways with the Gulf of Mexico.
- Twenty-nine states and Canada use the river to ship cargo for export markets.
- Roughly 60 percent of all U.S. grain exports are shipped from the Mississippi River.
- The ports along the river collectively rank first or second in terms of foreign tonnage shipped, according to the Maritime Administration.
- The Customs and Border Protection Agency estimates the value of foreign trade through its New Orleans District, which includes the Mississippi River deep draft ports, at between \$85 billion and \$104 billion, depending on the year.
- Nearly 25% of all bulk ships coming to the U.S. come to the Mississippi River ports.

**Problem** -The Mississippi River has an authorized depth of 45 feet (because of rises in the river, this frequently means ships can load to a 47-foot draft). The Army Corps of Engineers, which is responsible for maintaining the river, has not been adequately funded for many years. It has dealt with this problem by dredging the river as needed and, when funding runs short, borrowing from other projects until Congress appropriates additional funding. Whenever asked, Congress has routinely allocated supplemental funds to ensure that the river is maintained to project dimensions.

This year, just as the 2011 fiscal year was set to start, the Army Corps announced it would no longer reprogram funds and would scale back dredging on the river to stay within its budgeted funding amount. However, the 2011 funds are clearly inadequate, as compared to the actual needs of the river:

- 2011 Mississippi River Operations & Management Budget = \$63 million
- 2011 funds available for dredging after administrative expense is taken out = \$53 million
- 2011 minimum estimated need for dredging = \$85 million
- Average annual expense in recent years = \$104 million

Simply put, the Corps plans to spend \$22-41 million less than is needed to dredge the Mississippi.

**Impact on the River** - This fall, the river experienced its lowest levels in a decade, compounding the dredging problems. Corps officials say that certain chokepoints of the river have already begun shoaling, narrowing the available channel. This is a safety concern and could restrict traffic to one way in certain reaches. The real problems will begin when the spring runoff comes, causing sediment to build up along certain stretches and in particular at the mouth of the river. When that happens, Corps officials warn that they cannot guarantee any more than a 40-foot draft instead of the authorized 45-foot channel.

**Impact on Commerce** - A failure to maintain the river damages the Mississippi River's competitiveness internationally, which in turn harms the competitiveness of Midwestern states in the world market. For ships carrying many bulk cargoes, the profit margin may be just one percent. A 40-foot draft represents a reduction of 12-15%, a cut that would make many shipments unprofitable.

The economics of international trade are complex, but a reduction in draft will almost certainly result in a combination of the following:

- **Ships may avoid the river** – If profit margins shrink, shipping will go to other markets. It is important to remember that, as the world climbs out of recession, shipping rates are expected to increase worldwide, further shrinking profits margins for shippers.
- **U.S. Agriculture, coal and steel industries will lose out to foreign producers** - World markets are very competitive and increased transportation costs will tip the balance for low margin cargo.
- **American Midwestern farmers will bear the brunt of the cost** - Farmers who are able to send their crops to the river by rail or truck and then on to export markets have typically commanded higher prices for those crops. It is an elastic economic model and increases in river transportation have resulted in decreases in the price of their cargo. For example, reports indicate that when Hurricane Katrina threatened shipping from the Mississippi River ports, farmers in the Midwest saw an immediate drop in prices for corn and soybeans of 10-15 cents a bushel. Higher costs related to losing Mississippi River draft can be expected to result in a significant cost to agriculture.

**Impact on America** - The Administration has put a new emphasis on the country's international competitiveness. In his State of The Union Address, President Obama announced the ambitious goal of doubling exports over the next five years and created an Export Promotion Cabinet tasked with "ensuring that U.S. businesses can actively participate in international markets by increasing their exports of goods, services, and agricultural products."

The Corps' new policy, which knowingly allows one of America's main export arteries to be reduced and become noncompetitive, would run counter to the ambitious goal proposed by the President. If kept in place, the decision by the Corps to allow the Mississippi River to shoal in will directly cost farmers, U.S. maritime jobs, Midwestern industries and America's overall international competitiveness.

**Solution** - First, the Corps and the Obama Administration need to reverse the current policy. Second, Congress needs to provide immediate funding to cover the anticipated funding shortfall. Finally, future budgets need to contain full funding to ensure adequate funding for channel maintenance.