

**Statement of the Midwest Shippers Association  
Bruce Abbe, Executive Director**

**To the Federal Maritime Commission Inquiry  
U.S. Inland Containerized Cargo Moving Through Canadian and Mexican Seaports  
Docket No. 11-19  
January 6, 2011**

On behalf of the members of the Midwest Shippers Association, we would like to share our perspectives for the Federal Maritime Commission's inquiry regarding intermodal container service serving inland shippers that reach our operations coming through Canadian or Mexican ports.

In particular, we want to share our concerns and opposition to speculation that this inquiry could lead to some form of tax or countervailing duty placed on cargo coming into the U.S. via Canada in regards to the Harbor Maintenance Tax (HMT) now placed on inbound freight at U.S. ports. Despite the HMT being just applied to inbound cargo, we are concerned there would be substantial down-the-line negative impact on exporters that would be counterproductive to our U.S. international trade priorities and our National Export Initiative. Moreover, it potentially could be especially harmful to exporters located in our region of the Upper Midwest.

I apologize if our comments do not address all of the points requested. As an organization of small and medium-sized export shippers we do not have all of the specific data requested. Nevertheless, we fear we could feel adverse impact if the wrong move is made.

Our concerns, in summary, are:

- **Rail Competition and Service Would Likely Be Harmed** – While this is ostensibly a maritime issue, we're concerned that an unintended, indirect consequence of imposing such an expanded tax on Canadian-routed import containers **would be to worsen what many shippers here feel is an unfair, imbalanced shipping rate structure --caused to a substantial degree by uncompetitive intermodal rail service that puts our particular region at a distinct disadvantage.** We already pay far higher container export shipping rates than other regions that are further away from our markets in Asia, although we are on major intermodal rail lines. Uncompetitive intermodal rail service and rates – (over which there currently is virtually no federal oversight) – we believe is a key contributor to these unfair rate differentials. Railroad intermodal rates and services directly affect the international cargo rates and service levels ocean carriers offer in different markets. Where there is competition, the rates and service and equipment supply are more favored. Lower rates and better service drives container traffic to those favored markets. Where there is little competition, the imbalances occur and shippers' interests are hurt. We realize this is a maritime issue. However, for inland shippers in the Midwest, both ocean container cargo policies and rail container cargo policies and practices are inherently intertwined in terms of how they serve shippers.

- **Container Equipment Supply Shortages Would be Further Harmed** – The broad multi-state Upper Midwest region that is served by the two rail intermodal yards in the Twin Cities would be better served if we had a more reliable supply of containers when we need them for exports. The two Canadian railroads have demonstrated more willingness to reposition containers to our region. A new tax on import containers coming through Canada would clearly be aimed at shrinking traffic on Canadian railroads. In turn, it would likely exaggerate our equipment shortage problems.
- **Costs Would Go Up for Exporters Too** – Despite the fact that the HMT is placed upon import containers coming into the U.S., the ocean carriers look upon the business as a two-way income stream. We're concerned that imposition of an expanded HMT to try to thwart competition provided by Canadian import boxes (competition that is sorely needed) would lead to some higher costs for exporters as well. And, again, that could further hurt exporters in this region that already always pay higher rates.
- **Potential for Trade Dispute Counter Measures** – Although this is also speculation, we are concerned about potential retaliatory measures. An added, new select tax on containers coming in from our neighboring countries would be counterproductive to North American Free Trade and current market structure. As other observers have pointed out, there is concern if the U.S. were to try to apply the HMT to Canadian or Mexican routed boxes, that those nations might feel compelled to apply some counter tax measure on our exports to those countries. Both Canada and Mexico are extremely important markets for U.S. ag exporters.
- **HMT Reform is Needed to Not Penalize PNW Ports and to Fund True Cargo Channel & Harbor Maintenance Where It's Most Needed** – We sympathize with west coast ports, particularly those in the PNW that largely serve our region, and which are deep water ports that do not need dredging that is ostensibly to be funded by the HMT. Reform of the HMT is the most on-target way of addressing this and to insure that it is actually doing the important job it is intended to do.

#### **Background:**

The Midwest Shippers Association (MSA) is a regional trade association cooperative made up of grain and oilseed exporting companies, farmer producers, and affiliated supplier firms and organizations. MSA serves a five-state region in the Upper Midwest – Minnesota, North and South Dakota, Iowa and Wisconsin. MSA's core member companies are exporters of premium specialty grains and oilseeds that either must be shipped by containers, or are best shipped by containers. MSA includes a growing number of commodity feed grain exporters which specialize in serving customers overseas, primarily in Asia, which prefer to receive grain shipped in containers – be it loaded inland or shipped by rail in hopper cars and transloaded into containers at the ports. MSA's mission is to help expand international trade in premium and commodity grains from our region; and in particular to work for more competitive shipping costs and service for our region.

Railroad service and costs inevitably have a predominant impact on our members' ability to export competitively with other grain exporting areas worldwide, and our ability, as inland exporters, to supply our customers in Asia with competitively priced food and feed grain products.

While some ag shippers located in southern Wisconsin or eastern Iowa are benefitted by being located closer in proximity to Chicago and its lower rates for shipping to the southern California ports, far and away the majority of MSA's members throughout our large multi-state region depend upon intermodal service from the Twin Cities two container rail yards – the BNSF yard in St. Paul and the Canadian Pacific intermodal yard in Minneapolis.

Our members, including soybean and other grain exporters and freight forwarders they work with, tell us that they regularly find they are charged \$500 to \$900 per container more for a container shipment delivered to Asia, compared to other rates for Chicago and sometimes Toronto-based competitor exporters. These rate differentials are a significant hindrance to the growth of our value-added grain exporting business.

Moreover, our Twin Cities Minneapolis-St. Paul and surrounding multi-state region market is a perennially equipment-short market. Often (as is now the case) we simply lack adequate number of containers available for export from here – this despite the fact that the main BNSF intermodal rail line between Chicago and Seattle runs right through St. Paul, often slowing down but not stopping, at times hauling empties from Chicago. Rates have been skewed to favor the big Chicago metro market to the degree that even major markets elsewhere right on the main rail lines are over-priced-into-minimum service.

Reasonable railroad repositioning rates for moving containers, from where they are in surplus to the prime U.S. export areas like ours, is a major need for our system to work as intended.

**Frankly, many shippers here consider the two Canadian rail lines serving our area to be the biggest breath of fresh air – competition-wise – for improving service for exporters here.**

The CP line often provides a lower cost option for repositioning containers here ....usually from Chicago. The CP rail yard, while smaller than BNSF's in capacity, still provides some welcome competition and needed service in this market.

The Canadian National line, while serving only the Wisconsin east side of our region, is demonstrating what many shippers see as welcome support and customer-service focus in its new willingness to establish what it calls "micro intermodal yards" to serve some key importers and ag and forest product exporters in select areas. Examples include a new yard in Chippewa Falls, Wisconsin; and ongoing service for a large manufacturer with import needs and commodity exporters from a unique small operation in Arcadia, Wisconsin.

CN also has shown a welcome willingness to reposition boxes more economically to areas on the back haul to pick up export cargo.

Veteran transportation officials and shippers in our trade association's network point out that the largest ports on the West Coast are at the size they are because of their inherent competitive advantage due to the size of their local market and the import volumes and mandatory port calls that naturally accrue to them. This volume affords them major competitive advantages in lowering per-unit costs and attracting capital investments. A second-tier port that depends solely on being an intermodal gateway to distant markets cannot be as efficient or as well-connected.

These factors also are the key contributors to the imbalances in the intermodal shipping system that hurts our export capacity and efficiency – surplus boxes, and undervalued export shipping rates in a few areas, and often shortages of boxes and much higher rates in other markets – ours in particular.

The Canadian and Mexican container port and rail services provide some, positive competitive initiative to address these imbalance issues. From the inland shippers' perspective, they help provide some welcome competitive movement in the direction of more equity overall– not less.

In summary, we're concerned about speculation that an extended imposition of the HMT or countervailing tax on import could be placed containers arriving in the Midwest via Canada. And, while it may seem indirect – it could result in a significant negative impact on exporters' container availability, service and rates. Such a move would clearly be aimed at shrinking competitive service at a time when we more competitive service.

### **HMT Reform**

Despite these concerns, the Harbor Maintenance Tax itself is definitely in need of reform.

We sympathize with the Pacific Northwest ports in that they now find the HMT applied to imports coming in, and yet do not benefit from it because they are naturally deep water ports that do not need dredging.

The PNW ports also experience problem with rate disparities -- their export cargo shipping rates for containers we find often may be \$1,000 more than from the Southern California ports. However, this appears to be due more to the ocean carriers and import shippers' practices. Not a rail service issue.

The PNW ports have advised us that they believe a fair option would be to exempt them from the HMT – a policy worth considering, particularly given the imbalance in shipping rates.

Moreover, the HMT needs a re-examination and new steps should be taken to see that funding for maintaining our crucial priority cargo shipping ports and river systems is available and is allocated to take care of pressing problems. The Upper Mississippi River is in dire need to two additional dredgers,

we are advised; and the lower Mississippi needs even more dredging capacity to keep up with the demands mother nature makes upon our vital inland river transportation system.

It is wrong to consider cargo moving to and from inland U.S. locations to be “diverted” when it goes through Canadian or Mexican ports. The underlying message behind that term implies that certain ports and railroads “own” that cargo and we in the Midwest should have to use them without the benefit of any competition for our business. That’s not the way it should work.

The real harmful “diversion” taking place is in how the Harbor Maintenance Tax is now being managed. Its funds are being raided for other purposes; and/or used at locations that often handle minimum if any cargo, while our highest-priority, highest-need cargo shipping ports and river channel transportation systems are grossly underfunded. Reports from the Army Corp of Engineers and Inland Waterways Council indicate our river shipping system infrastructure is going backwards, and will cost us more down the road to repair and maintain.

We need better solutions; and recognition that transportation providers that invest and step up to provide more cost effective service to shippers is a good thing that should not be penalized.

Thank you.

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