



To this day, a work in progress

Financing operations of the St. Lawrence Seaway

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During its first 50 years of service, the St. Lawrence Seaway has successfully adapted to many changes affecting its operations and management. Some of these changes included new cargoes and trading partners, innovations in vessel design and operations, and advances in navigation technologies.

Financing the Seaway's operation over the first half century has been no different. Throughout the waterway's history, the United States and Canada have made numerous changes to Seaway financing to ensure the solvency of the binational waterway, while maintaining its cost competitiveness in the global transportation arena. Even in recent years, both nations continue to reevaluate Seaway financing options and examine alternatives to meet today's economic conditions.

During decades of debate in the early 1900s on the merits and benefits of constructing the St. Lawrence Seaway to provide ocean shipping service to the Great Lakes

region of North America, one of the key issues consistently raised by lawmakers, transportation planners, economists and policy officials on both sides of the border related to how best to fund the massive public project.

After listening to compelling arguments from both sides as to whether the project should be federally funded through general tax receipts or operate as a self liquidating asset, the two nations agreed to adopt a toll-based financing mechanism for the waterway. The two federal corporations created to operate and maintain their respective nation's Seaway locks and channels—the U.S. Saint Lawrence Seaway Development Corporation (SLSDC) and the Canadian St. Lawrence Seaway Authority (SLSA)—jointly established a tolls program in January 1959, with each nation collecting fees in its own currency.

Seaway Financing Milestone Dates

January 29, 1959 The U.S. and Canadian Seaway agencies announce a Tariff of Tolls agreement, which included user charges to fund waterway operations, maintenance and construction debt.

October 21, 1970 President Richard Nixon signs the Merchant Marine Act (P.L. 91-469), which includes an amendment to terminate the SLSDC's accrued interest as well as future interest on its bonded debt totaling \$22 million.

April 1, 1977 The SLSA's refinancing plan approved by the Canadian Parliament takes effect, which included forgiveness of the Authority's outstanding debt interest and principal totaling over \$840 million.

December 18, 1982 President Ronald Reagan signs the U.S. Department of Transportation's Fiscal Year 1983 Appropriations Act (P.L. 97-369), which included an amendment to cancel the SLSDC's remaining \$110 million construction debt.



The original intent was for Seaway tolls to be assessed to users of the waterway at a rate sufficient for each nation to pay back its respective construction debt and interest in 50 years (amortized to be paid off in 2008) while also paying for annual operating costs. Construction of the St. Lawrence River section of the Seaway, including seven new locks (five Canadian and two U.S.), cost Canada \$322 million and the United States \$124 million, while Canada paid an additional \$300 million to improve its 27-mile Welland Canal section of the waterway.

The original Seaway tolls schedule was developed with the Canadian SLSA receiving 71 percent of toll revenues for usage of the St. Lawrence River section of the Seaway and 100 percent of toll revenues collected for transiting the Welland Canal. The remaining 29 percent of St. Lawrence River

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toll receipts were used by the U.S. SLSDC for its operations and debt.

Based on the optimistic forecasts for significant growth in global trade via the Seaway projected prior to its opening, both nations were confident that the tolls-based funding mechanism would be successful in meeting their financial obligations, while still offering a cost competitive trade route.

Facing changes. Following the opening of the Seaway in 1959, it soon became apparent that ocean going vessels were expanding rapidly in size. The Seaway, built to Welland Canal lock dimensions, was steadily being rendered into a niche market. By the mid-1960s, larger containerized ocean ships were becoming the norm for shippers using coastal ports, leaving the Seaway with only the world's smaller bulk and general cargo fleets.

Despite serving a niche market, Seaway tonnage continued to grow, reaching its zenith in the late 1970s. Strong grain shipments to the former Soviet Union coupled with robust movements of iron ore brought the Seaway to virtually full capacity, with annual movements of more than 70 million metric tons between 1977 and 1979. However, several events would soon wield a pronounced impact upon Seaway commerce.

The shift of grain movements to the burgeoning Asian market via West Coast ports over the course of the next two decades cut grain traffic within the Seaway almost in half. The rise of "mini-mills," which employ electric arc furnaces to melt scrap steel and thus do not require iron ore and coking coal, led to the general decline of the once-dominant steel mills in the Midwest and slashed the volume of iron ore moving via the Seaway.

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April 1, 1987 As required by the Water Resources Development Act of 1986 (P.L. 99-662), funding for the U.S. SLSDC is changed from usage of commercial toll receipts to annual federal appropriations from the newly-created Harbor Maintenance Trust Fund. U.S. Seaway tolls are eliminated.

June 25, 1997 The SLSDC and SLSA agreed to amend the Seaway Tariff of Tolls, effective August 1, 1997. It marked the last time the two Seaway entities negotiated Seaway tolls levels.

ADMINISTRATORS OF THE Saint Lawrence Seaway Development Corporation

Lewis G. Castle
July 2, 1954 – June 4, 1960
(died in office)

M. W. Oettershagen
Mar. 29, 1961 – Dec. 30, 1961

Joseph H. McCann
Jan. 1, 1962 – April 4, 1969

David W. Oberlin
Aug. 11, 1969 – Feb. 27, 1983



James L. Emery
Nov. 21, 1983 – Nov. 21, 1990

Stanford E. Parris
Mar. 21, 1991 – April 15, 1995

Gail C. McDonald
Jan. 2, 1996 – April 11, 1997



Albert S. Jacquez
Jan. 4, 1999 – July 1, 2006

Collister "Terry" Johnson, Jr.
Oct. 6, 2006 – current



PRESIDENTS OF THE St. Lawrence Seaway Authority/Management Corporation

The Hon. Lionel Chevrier
July 1, 1954 – June 1, 1957

Charles Gavsie
June 1, 1957 – Feb. 1, 1958

B. J. Roberts
Feb. 2, 1958 – Aug. 1, 1960

Robert James Rankin
Aug. 1, 1960 – July 31, 1965



Pierre Camu
Aug. 1, 1965 – Oct. 25, 1973

Paul D. Normandeau
Oct. 25, 1973 – Jan. 18, 1980

William A. O'Neil
July 3, 1980 – Jan. 3, 1990

Glendon R. Stewart
Jan. 9, 1990 – Aug. 7, 1997



Michel Fournier
Aug. 7, 1997 – Dec. 1, 1998*

Guy Véronneau
Oct. 1, 1998 – Mar. 31, 2003

Richard Corfe
April 1, 2003 – Present



**Transfer to The St. Lawrence Seaway Management Corporation took place on October 1, 1998, while dissolution of the Seaway Authority was effective December 1, 1998.*

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years of operation that lower-than-expected tonnage levels, and thus toll revenues, were simply not going to be sufficient to meet the objectives of the original Seaway financing agreements. In fact, both the SLSDC and SLSA were projecting operating deficits and were already significantly behind schedule in meeting their long-term financial goals.

The most obvious options to resolve the debt situation were either unrealistic or problematic—increase tonnage levels quickly and dramatically or increase toll levels significantly. An alternative solution was federal intervention, which took place in both nations during the 1970s and early 1980s.

Debt forgiveness. The U.S. Congress took the first step, as part of the Merchant Marine Act of 1970, by terminating the SLSDC's accrued and future interest on its bonded debt totaling \$22 million. The intent of the legislation was to put the SLSDC back on track to meet its 50-year target to repay the \$133.5 million incurred for U.S. Seaway construction and subsequent lock rehabilitation costs. Unfortunately, significant reductions in Seaway trade in the early 1980s caused Congress to intervene once again, this time in 1983, to cancel the SLSDC's remaining \$110 million debt balance. In total, the SLSDC had returned to the U.S. Treasury more than \$64 million in interest and debt payments.

Similarly, Canada's outstanding Seaway debt was growing at an alarming rate in the mid-1970s, caused by lower than expected toll receipts, higher than expected operating and maintenance costs and rising interest rates. In 1976 alone, the SLSA lost more than \$50 million in its operations of the Seaway. Recognizing the growing debt problem, the Canadian Parliament took legislative action and approved a refinancing plan for the SLSA, effective April 1, 1977, that included forgiveness of the Authority's debt interest and principal totaling more than \$840 million.

With the start of the 1980s, Seaway tonnage continued to pull back from the all-time highs recorded in the mid and late 1970s. The U.S. Congress stepped in once again; this time in an attempt to reverse the reduction in Seaway commerce by im-



Long Sault Canal construction, May 16, 1957.

proving the waterway's cost competitiveness. With the passage of the Water Resources Development Act (WRDA) of 1986, the SLSDC was reauthorized as an appropriated agency of the U.S. government, receiving its funding through the national Harbor Maintenance Trust Fund (HMTF). This legislation removed the U.S. portion of Seaway tolls, which was approximately 15 percent of the total Seaway toll charges by that time.

Today, the original concept to fund the SLSDC through user fees continues, albeit in an altered manner from toll-based financing. The SLSDC receives an annual allotment from the HMTF, made up of Harbor Maintenance Tax receipts. The national tax on foreign waterborne trade was also created as part of WRDA 1986. Currently, the tax is levied as a 0.125 percent ad valorem fee on the value of U.S. imports unloaded from a commercial vessel using

federally-maintained harbors nationwide. In addition to funding U.S. Seaway operations and maintenance, the tax receipts in the HMTF are used principally to fund port and dredging projects performed by the U.S. Army Corps of Engineers. With the remarkable growth in high-value U.S. imports over the past decade, mostly originating in Asia, the HMTF currently has an asset surplus of more than \$4.5 billion.

The Canadian Seaway entity, reorganized by its government in 1998 as a private, not-for-profit entity and renamed the St. Lawrence Seaway Management Corporation (SLSMC), continues to charge Seaway tolls to fund its operations and maintenance activities. The SLSMC has been successful in managing tolls at levels that not only maintain current customers but also attract new users. In addition, toll incentives have been introduced in recent years that have been instrumental in

SYSTEM FUNDING

attracting new cargoes, including high value general cargoes related to the Alberta tar sands project, commercial gas and oil pipe, and dozens of shiploads of windmill parts in the fast-growing wind energy sector. The Canadian Government still retains ownership of the lock infrastructure and funds necessary capital improvements to these assets.

Improving infrastructure. Over the past 50 years, the Seaway has moved more than 2.5 billion metric tons of cargo valued

at more than \$350 billion. As both nations prepare to celebrate the 50th anniversary of this important and vital transportation route, their governments have recognized the need to ensure the waterway's continued role as a key waterborne component of the overall North American transportation system. The world's largest binational trading relationship—more than \$1.6 billion in goods and services cross the U.S.-Canadian border daily—will require a competitive and reliable option for the next

50 years. With that overarching goal in mind over the past several years, both governments have made significant progress in addressing improvements and upgrades to the Seaway's aging infrastructure.

Following its reorganization in 1998, the SLSMC began an aggressive infrastructure renewal program to make critical improvements at its 13 Seaway locks, including the eight Welland Canal locks that have been in operation since 1932. In addition, the U.S. SLSDC's fiscal year 2009 budget

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request to the U.S. Congress included the agency's first-ever large-scale asset renewal plan to address its infrastructure needs, following the lead of its Canadian partner.

The SLSDC's Asset Renewal Program (ARP) was developed based on many of the engineering findings made in the November 2007 binational Great Lakes St. Lawrence Seaway Study, led by the U.S. Army Corps of Engineers, Transport Canada and the U.S. Department of Transportation. In addition, the ARP addresses lock improvements either underway or completed on the Canadian side of the Seaway to ensure a seamless and integrated lock system. The SLSDC's ARP includes 50 projects to be completed over a 10-year period at an estimated cost of \$165 million.

As the St. Lawrence Seaway enters a new era, its only certainty is change. Flexibility on the part of all waterway stakeholders, including ports, carriers, labor, pilots, lawmakers and the Seaway Corporations, will be critical to adapting to operational, logistical, commercial, political and financial challenges that are certain to arise in the waterway's second half century.

In economically turbulent times, the Seaway offers an anchor of stability. The significant investments underway today promise reliable and efficient delivery of 21st Century goods in an economically sustainable fashion for future generations. ■

Former SLSDC Chief Financial Officer Edward Margosian, SLSMC Chief Financial Officer Serge Bergeron, SLSDC International Trade Specialist Tim Downey and SLSMC Communications and Public Relations Officer Andrew Bogora contributed to this article.