CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 15, 2006

H.R. 4880
Maritime Terminal Security Enhancement Act of 2006

As ordered reported by the House Committee on Transportation and Infrastructure on April 5, 2006

SUMMARY

H.R. 4880 would amend the Maritime Transportation Security Act of 2002 (MTSA) to address new and ongoing issues relating to port security. Assuming appropriation of the necessary amounts, CBO estimates that implementing H.R. 4880 would cost about $140 million over the next five years. We estimate that enacting this legislation would have no effect on revenues or direct spending.

The bill contains intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the costs to public ports would not exceed the threshold established by that act ($64 million in 2006, adjusted annually for inflation).

H.R. 4880 also would impose new private-sector mandates, as defined in UMRA, on the shipping industry. CBO estimates that the aggregate direct cost of complying with those mandates would exceed the annual threshold for private-sector mandates ($128 million in 2006, adjusted annually for inflation) in at least one of the first five years the mandates would be in effect, beginning in 2010.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4880 is shown in the following table. The costs of this legislation fall within budget function 400 (transportation).

	By Fiscal Year, in Millions of Dollars				
	2007	2008	2009	2010	2011
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Spending for Center of Excellence					
Estimated Authorization Level	4	4	4	4	4
Estimated Outlays	4	4	4	4	4
Spending to Implement Scan and Seal Requirements					
Estimated Authorization Level	10	15	30	40	45
Estimated Outlays	5	10	25	35	45
Total Spending Under H.R. 4880					
Estimated Authorization Level	14	19	34	44	49
Estimated Outlays	9	14	29	39	49

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 4880 will be enacted near the end of fiscal year 2006 and that the entire amounts estimated to be necessary to carry out the bill will be appropriated for each of fiscal years 2007 through 2011.

CBO estimates that implementing most provisions of H.R. 4880 would have no significant effect on federal spending because the activities that would be required by these provisions are already underway. Such provisions would establish new deadlines for ongoing projects, require new elements to be added to port security plans, and create new federal reporting requirements. The bill's provisions that would establish a Center for Excellence for Maritime Awareness and increase oversite of shipping container security would increase federal costs, assuming appropriation of the amounts needed to implement them. CBO estimates that, in total, these projects would cost about $9 million in 2007 and about $140 million over the 2007-2011 period.

Center for Excellence for Maritime Awareness

H.R. 4880 would direct the United States Coast Guard (USCG) to establish a center for excellence for maritime awareness. The university-based center would provide educational and other assistance to federal agencies on issues relating to maritime security. Such centers sponsored by the Department of Homeland Security (DHS) typically receive between $3 million and $6 million annually. Based on the costs of supporting similar centers established by other agencies within the department, CBO estimates that the USCG would provide a grant of $4 million a year to the new center beginning in 2007.

Container Security

H.R. 4880 would prohibit cargo containers from entering the United States unless they are sealed and have been scanned with imaging and radiation-detection equipment. Under the bill, the USCG would promulgate standards for scanning equipment and for seals to detect breaches in containers after they have been scanned. The new requirements would become effective within three years (for containers loaded in countries that originate more than 75,000 "twenty-foot equivalent" containers) and within five years (for countries originating a smaller volume of traffic). The bill would authorize the appropriation of whatever amounts are necessary for this purpose.

Assuming appropriation of the necessary amounts, CBO estimates that implementing and enforcing this provision would cost about $5 million in 2007. Annual costs would rise to $45 million by 2011. We estimate that most of these amounts would be used to equip, train, pay, and support an additional 300 to 400 DHS employees to review container scans and enforce the bill's requirement that containers be sealed. We expect that annual costs would fall in later years (after 2011) because DHS would probably develop more efficient ways to review scans and inspect seals.

For this estimate, CBO assumes that the cost of installing and maintaining the systems necessary to comply with the bill's requirements would be borne by foreign shipyards rather than the federal government, although we expect that DHS would probably finance some of this effort through its existing container security initiative (CSI). DHS received appropriations of nearly $140 million for the CSI program for 2006. Industry experts have estimated that up-front costs to acquire and deploy the necessary scanning and detection equipment for nearly all foreign ports shipping containers to the U.S. would be about $1.5 billion over three years, with those costs borne primarily by foreign governments and the shipping industry.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 4880 contains intergovernmental mandates as defined in UMRA because it would require ports to comply with certain regulations more quickly than under current law, to resubmit security plans to the Coast Guard in certain circumstances, and to hire a United States citizen for the position of chief security officer. Only the provisions that would require publicly owned ports to comply with regulations more quickly than under current law could impose costs on those entities. Based on information from industry and governmental sources, CBO estimates that the costs to intergovernmental entities of these provisions likely would total less than $3 million and therefore would not exceed the threshold established in UMRA ($64 million in 2006, adjusted annually for inflation).

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 4880 would impose new private-sector mandates, as defined in UMRA, on shipping carriers and owners and operators of maritime terminal facilities. CBO estimates that the aggregate direct cost of complying with those mandates would exceed the annual threshold for private-sector mandates ($128 million in 2006, adjusted annually for inflation) in at least one of the first five years the mandates would be in effect, beginning in 2010. That conclusion is based on our analysis of the mandate with the highest cost that would require that all cargo containers that enter the United States be secured with a seal that meets certain standards.

Seal Requirements for Cargo Containers

The bill would impose a mandate on certain shipping carriers by requiring all containers to be secured with a seal that meets certain standards before the containers are loaded on the vessel for shipment to the United States. The bill would require seals that are able to detect any breach and identify the time of such breach. The requirement would be phased in over the next five years.

While the standards for such seals have not been established, industry sources indicate that based on current technology certain electronic seals could be secured and read at a cost of approximately $30 to $45 per container for each shipment. Based on information from industry and government sources, approximately 15 million containers required to have such seals are projected to enter the United States in 2010. Based on this information, CBO expects that the direct costs to comply with this mandate would amount to at least $450 million or more in 2010, the first year the mandate would be in effect and thus, would exceed the annual threshold for private-sector mandates. In subsequent years, the direct cost of the mandate on shipping carriers would tend to decrease as the cost of seals may decrease according to industry sources, but CBO has no basis for estimating the change in costs.

Other Requirements

The bill also would impose mandates on owners and operator of maritime terminal facilities. The bill would require that any individual having full authority to implement security action at a terminal facility be a citizen of the United States. The bill also would authorize the Secretary of DHS to require that owners or operators of a terminal facility submit certain information that govern operations of the facility to the Secretary to determine if there is any security risk involving the owner or operator. Additionally, the bill would require that owners and operators of maritime terminal facilities resubmit their security plans for approval upon transfer of ownership or operation of the facility. And finally, the bill could impose additional mandates on the private-sector depending on how and when certain regulations addressed in the bill would be issued. Based on information from industry and government sources, CBO expects that the direct cost of complying with those requirements would be small relative to UMRA's annual threshold.

Other Impacts

The bill also would require all shipping containers entering the United States to be scanned with certain equipment with a copy of the scan to be sent to the Coast Guard. Because the bill does not specify who would be required to provide such scans, this provision may not impose a mandate as defined in UMRA on the private sector. Even so, to the extent that scanning causes a delay in the delivery of shipments, the private sector could incur additional costs.

PREVIOUS CBO ESTIMATES

On May 9, 2006, CBO transmitted a cost estimate for S. 2495, the Greenlane Maritime Cargo Security Act, as ordered reported by the Senate Committee on Homeland Security and Governmental Affairs on May 2, 2006. On April 28, 2006, we transmitted a cost estimate for H.R. 4954, the Security and Accountability for Every Port Act, as ordered reported by the House Committee on Homeland Security on April 26, 2006. On March 29, 2006, CBO transmitted a cost estimate for S. 1052, the Transportation Security Improvement Act of 2005, as reported by the Senate Committee on Commerce, Science, and Transportation on February 27, 2006. Like H.R. 4880, all three of those bills would address concerns about port security, particularly regarding freight containers entering the United States from foreign ports, and would use different approaches to address such concerns, which are reflected in CBO's cost estimates.

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