Evaluation procedure.—Approximately 28 percent of the traffic estimated by the Board of Engineers for Rivers and Harbors to move on the proposed waterway, mouth of Red River to Shreveport, is from and to Lone Star Steel Company's plant. Most of this traffic is moving by rail. The Lone Star Steel Company receives a division of revenues on all rail traffic to and from its plant, since it operates a railroad between Lone Star and Daingerfield, Texas. Obviously, Lone Star Steel Company cannot make a decision to ship by rail-barge or truck-barge without analyzing the effects of such traffic diversion on the costs and revenues of its subsidiary railroad. The Board of Engineers for Rivers and Harbors failed to take this into account in its report. Consequently, its evaluation of Lone Star Steel Company's traffic is in error.

Projected future traffic and transportation savings.—The Board of Engineers for Rivers and Harbors estimated over 90 percent of the base year traffic would increase 4⅜ percent per year in the period 1961–2030. We found that many of the commodities expected to move on the proposed waterway were related to the petroleum industry; for example, lube oil and upbound iron and steel pipe. The production of lube oil in this area has been relatively unchanged in recent years. Oilfields in this area are old established fields and, in recent years, the demand for pipe for refinery and pipeline use has experienced little growth. Moreover, the estimated economic growth rate for the area is totally inconsistent with the finding of the Board of Engineers for Rivers and Harbors that the area will be ecoomically depressed until 1990.

Subsidies to barge transportation.—Based on the Board of Engineers for Rivers and Harbors' estimate of traffic and average annual charges, barge operators will be subsidized $4.60 per ton in 1980, the first year of operation. The average subsidy over the project's economic life is approximately $1.25 per ton. It would be uneconomic to impose the costs of constructing and maintaining this project on the general taxpayers. It also would discriminate against competing modes of transportation.

We cite as a constructive step that President Johnson is requesting a modest user charge of 2 cents per gallon on fuel oil used by towboats on our inland waterways. The Administration is also requesting that this charge be increased in gradual steps by 2 cents per gallon until it reaches 10 cents per gallon in 1970.

Recreation.—Our analysis found that the Board of Engineers for Rivers and Harbors had not fully complied with Senate Document No. 97 and Supplement No. 1 thereto in its evaluation of recreation benefits. The Board of Engineers for Rivers and Harbors failed to adequately assess the effects of alternative recreation projects in the area on the demand and supply for recreation, as well as the value per recreation day. They also incorrectly evaluated the benefits creditable to casual visitors or sightseers. Moreover, they neglected to evaluate the effect of recreation projects to be recommended by the Comprehensive Report on the Red River. This report will be completed in the near future.

Interest rate.—The Board of Engineers for Rivers and Harbors used an interest rate of 3⅛ percent to compute project costs and benefits. Our analysis found that this interest rate is much too low and results in understating project costs and overstating project benefits. Since submission of the report, the interest rate has been increased to 3¼ percent. The current yield on key long-term Treasury bonds is approximately 5½ percent. The opportunity cost of capital is even higher. The use of a more realistic interest rate, for example, 5½ percent, makes the project even less justified than our analysis found it to be. However, in our analysis, we used an interest rate of 3⅛ perecnt so it would be comparable with the Board of Engineers for Rivers and Harbors' report.

It is of significance to note that President Johnson, in his Budget Message, stated the interest rate being used by the Federal agencies in formulating and evaluating proposed water resource projects is significantly lower than the cost of borrowing by the U.S. Treasury. President Johnson also stated that the Water Resources Council is developing a more appropriate interest rate for use in evaluating water resource projects. During the first week of May 1968, the U.S. Treasury borrowed money at an interest rate of 6 percent. Obviously if the subject project were analyzed using a realistic interest rate, the benefit-cost ratio would be substantially reduced.

Area redevelopment benefits.—The Association of American Railroads supports the objectives of alleviating poverty wherever it exists. The area in which the proposed project is located is largely rural and is characterized by substantial rural as opposed to urban poverty.

We have had the opportunity to study a report by the President's National Advisory Commission on Rural Poverty entitled "The People Left Behind,"