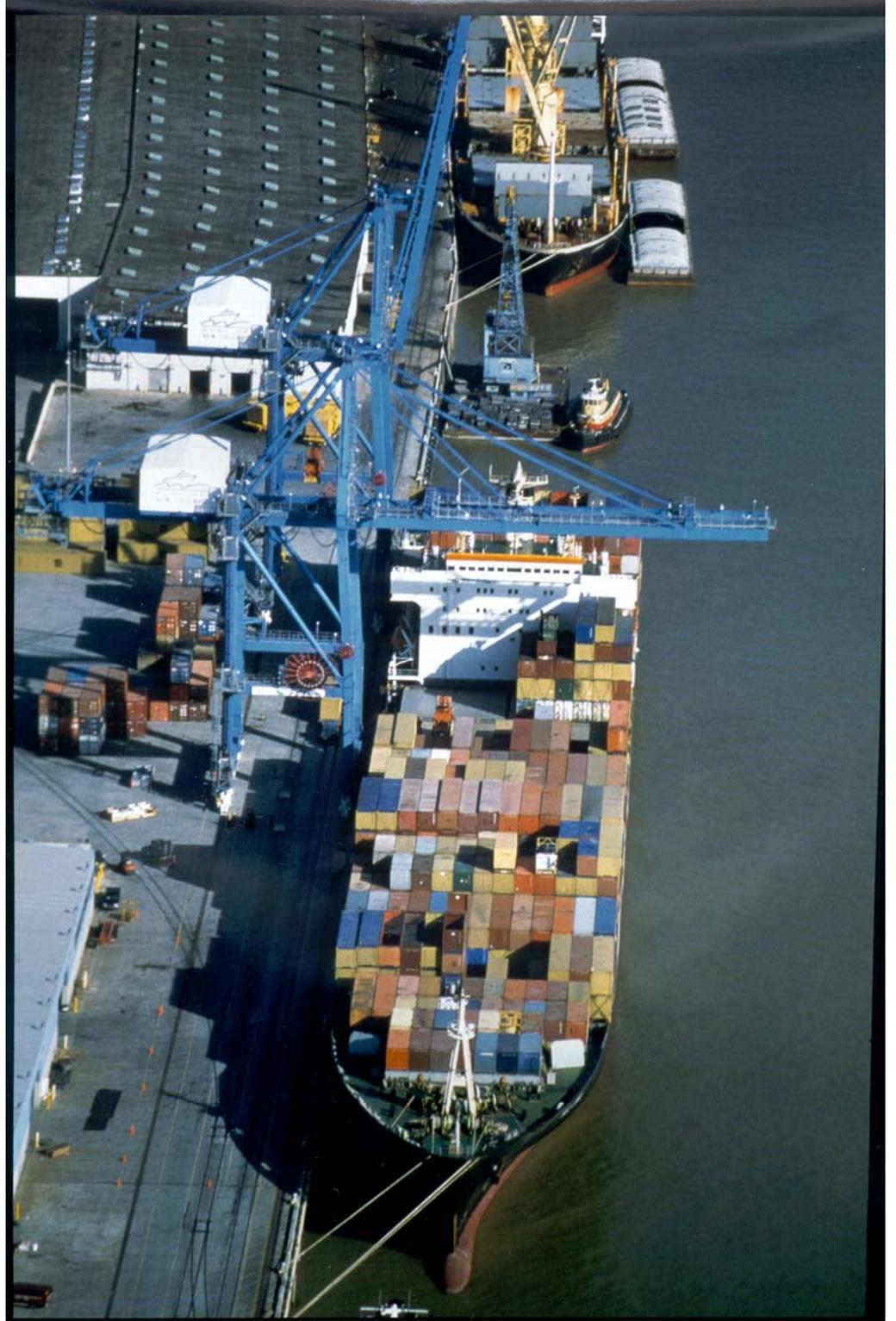

Commercial Mobility



Department of Transportation Strategic Objective: Mobility.

Advance accessible, efficient, intermodal transportation for the movement of people and goods.

MARAD Strategic Objective: Commercial Mobility

Promote and facilitate a United States maritime transportation system that improves the safe and efficient movement of goods and people.

SHORT SEA SHIPPING

Water transportation, especially along our coasts and inland waterways, is a sensible, economical, and environmentally friendly solution to many of our growing congestion problems. Short Sea Shipping is commercial waterborne transportation that does not transit an ocean. It is an alternative form of commercial transportation that utilizes inland and coastal waterways to move commercial freight from major domestic ports to its destination.

The Maritime Administration (MARAD) is engaged in a Short Sea Shipping Initiative, exploring the use of public system incentives, vessel financing and construction, and customer requirements.

Major programs under the initiative pursued during FY 2003 include the following:

Short Sea Shipping Cooperative Program (SCOOP)

MARAD did the preliminary work to form a government-industry cooperative to advance Short Sea Shipping concepts at the request of maritime industry stakeholders. The model for this cooperative is the Cargo Handling Cooperative Program (CHCP), also formed by MARAD. Many operators see opportunities to test new methods or technologies to improve national mobility and global connectivity, but do not have the individual resources to develop pilot programs. At the end of FY 03, plans were in place for an official launch of the program, with an anticipated 19 charter members and 5 associate members.

Support for the I-95 Coalition

The I-95 coalition is a regional partnership

of major public and private transportation agencies, and industry associations serving the Northeastern portion of the United States from Maine to Virginia. With congestion an ongoing concern, the Coalition has sought to explore modal alternatives with the Maritime Administration. In 2003, the Coalition's Executive Board approved a joint proposal for a grant of funding to MARAD to study short sea shipping freight alternatives, along the I-95 corridor.

Support for a Memorandum of Cooperation among the United States, Canada and Mexico for advancing Short Sea Shipping.

Border crossings continue to be plagued by congestion. Canada, Mexico and the United States have begun to work to share Short Sea Shipping technology and information to facilitate global connectivity and mobility, an Initial Memorandum of Cooperation with Canada was signed in July of 2003; plans were in place to extend the agreement to Mexico in November.

Support for the Gulf of Mexico States Accord (GOMSA) for Advancing Short Sea Shipping. GOMSA is a Regional organization of the eleven Mexican and U.S. States that border the Gulf of Mexico. MARAD has been working with GOMSA on providing solutions to cross border congestion and transportation alternatives that can improve the economies of the region. MARAD had scheduled for November 2003 the signing of a Memorandum of Cooperation with GOMSA and its associated private sector partnership for the purpose of assisting them with a forthcoming study to inventory the intermodal capabilities of the region. MARAD looks forward to a growing and productive relationship with GOMSA.

Connecticut / U.S. Short Sea Pilot

Program. The concept of Short Sea Shipping, through extensive MARAD promotion, is beginning to catch the eye of state governments as a method for easing traffic congestion. For example, The State of Connecticut this year (2004) will allocate over \$1.5 million in the establishment of a container on barge service between Bridgeport, CT and New York, NY. When fully implemented, the system is expected to take more than 41,600 tractor-trailers off of the highway per year. MARAD has been promoting these initiatives and will continue to promote the use of water as a transportation enhancement.

MARINE TRANSPORTATION SYSTEM

The Marine Transportation System (MTS) includes all of America's coastal and inland waterways, more than 300 public and private ports, a network of navigable channels, pipelines, vessels, marine terminals, intermodal connections, and associated management and safety information systems. MARAD continued its support of the MTS with participation in the Marine Transportation System National Advisory Council (MTSNAC) and its government interagency counterpart, the Interagency Committee on the Marine Transportation System (ICMTS). MARAD chairs the ICMTS.

MTSNAC, which advises the secretary of Transportation on critical MTS issues, met to finalize its SEA-21 (Sea Transportation Efficiency Act of the 21st Century) report to the Secretary. MTSNAC will continue to advise the Secretary of progress on prioritized issues. It will also study, as directed by the Secretary, issues of national importance that affect the marine transportation system. It will identify the public and private efforts needed to achieve strategic re-

sults and create a partnership to execute agreed-upon action items.

Due to their contacts in the private sector, MARAD's regional offices are actively involved in the regional and local coordinating bodies associated with the MTSNAC. The five regional groups – one each in the South Atlantic and Central Regions and three in the Western Region – work on regional challenges and provide critical input on forthcoming national policies.

Some of the other MARAD activities in support of the Marine Transportation System in 2003 included:

- Partnering with the National Ports and Waterways Institute (NPWI) in a collaborative study of the commercial and technical feasibility of an expanded coastal shipping system on the East Coast, including a demonstration phase to test limited high-speed coastal service between a few selected East Coast ports.
- Working with the ports of Tacoma, Seattle, and Portland to improve the flow of commerce and reduce congestion by developing a rail-based regional distribution center.

MARAD assisted a wide range of national, regional, and local transportation planning groups in considering water transportation needs as part of their transportation planning processes. Specific organizations and potential initiatives included:

- Coastwise Coalition: innovative approaches to increase the use of coastal shipping;
- National Waterways Conference (NWC): Local and regional water transportation planning;

- American Association of State Highway and Transportation Officials (AASHTO): Review alternative transportation modes to help reduce road congestion;
- Gulf/Rivers Intermodal Partnership (GRIP): Increase use of coastal shipping in the U.S. Gulf states to reduce road congestion, improve air quality, and promote commerce in that region; and
- Delaware Valley Regional Planning Commission: Demonstrate water alternatives to road and rail, which can reduce road congestion, improve air quality, and spur more international commerce development in the Delaware Valley region.

The Heartland Intermodal Partnership (HIP)

In June 2003, MARAD led the formation of the Heartland Intermodal Partnership (HIP), a coalition of senior public and private sector professionals from across the 24-states of the nation's heartland. Its mission is to support economic competitiveness of the region's business, industry and labor by improving intermodal transportation. HIP's executive committee includes state departments of transportation, public planning organizations, railroads, trucking companies, ports, and barge and river interests, as well as representatives from MARAD and other DOT agencies.

The nation's Heartland extends from the Great Lakes to the Gulf of Mexico. In addition to a complex network of highways and rail lines, the region has most of the nation's inland waterways, half of its largest deep-water ports, and most of the major shallow-water ports.

HIP chose as its first priorities better understanding of the region's economy and transportation systems – rail, truck and maritime

– and identifying the region's strengths and weaknesses. This review will include market segments, physical infrastructure, and policy.

Inland Waterways Intermodal Cooperative Program (IWICP)

In 2001, MARAD established the IWICP to assist the nation's inland waterway intermodal transport system providers in promoting innovations in cargo handling and new technologies.

With MARAD acting as a catalyst, a core group was formed representing port authorities, private companies, barge lines, and trade organizations involved in doing business on the inland waterways.

The Cooperative has agreed to focus its efforts on initiating a Container-On-Barge (C-O-B) pilot service.

The Cooperative has identified a number of scenarios that this pilot service could take, including:

- A major shipper, working with an ocean carrier, a terminal, and a barge operator, develops both the service and the pricing;
- A major ocean carrier delivers containers to and from foreign ports that have destinations and origins in the U.S. and transfers these containers to barges to and from U.S. inland waterways using a C-O-B service;
- A third-party logistics provider, working with all the necessary modal providers, assembles the components for an integrated "end-to-end" intermodal service; and
- A consortium of modal providers establishing a regularly scheduled C-O-B service between selected points along the inland waterway system.

The next steps are: (1) create an information program for both the economic and environmental benefits of using inland barge transport; (2) conduct an inventory of shallow-draft inland port and terminal infrastructure; and (3) perform a market analysis of freight data for both domestic and international cargo shipments that would potentially benefit from for a C-O-B service.

Port of Anchorage

MARAD is working with the Port of Anchorage, Alaska as part of an innovative partnership to assist in the expansion of intermodal facilities at the port.

Collectively these intermodal improvements are referred to as the Port of Anchorage Expansion Project. The project is being undertaken to expand the facilities without severely impacting the surrounding natural environment. Not only will the depth of the channel increase to 45 feet but, with the use of dredged materials, the wharf face will be moved seaward several hundred yards. One of the major focuses of the project is to up-

date and improve the intermodal connections that interface with the port. The road and rail portion of the project is centered around creating a more effective and efficient on-dock rail system for the movement of containerized cargo inland from the port as well as improving the truck gates that are used for more local traffic. Anchorage, 1 a premier after cruise destinations of the travel industry, is building better facilities including a new ferry terminal which will be more attractive to cruise ship passengers. As container-on-barge becomes more widely used, the Port of Anchorage Expansion Project North Terminal phase will include a barge terminal that will be well equipped to handle specialized type of cargo operation.

In addition to the major upgrades on commercial mobility, the Port of Anchorage project is also important for national security purposes, as Anchorage is a strategic port, used for the deployment of a Stryker Brigade and other military units in Alaska. The 501st Airborne deployed to Afghanistan from the Port of Anchorage.



Port of Anchorage Expansion Project

Small Vessel Waiver Program

The Passenger Vessel Services Act requires that all vessels in passenger commerce in the U.S. be built in the United States. However, due to growing popularity of the near shore sport fishing and sight seeing business several small business owners petitioned Congress for a change in the law to allow small foreign built vessels into this trade. Consequently, Public Law 105-383 Title V was passed allowing MARAD to issue a waiver of the U.S. build requirement for foreign built vessels to carry 12 passengers or less, as long as MARAD determines no harm will come to an existing operator or shipyard. MARAD issues approximately 150 waivers per year.

Inland Waterways Research Project

In FY 2003, at the initiative of the Maritime Administrator, MARAD began a project to bring all of the available research studies on the inland waterways together into one electronic forum. In June of 2003 the Administrator launched the web site, http://www.marad.dot.gov/iwrp/index_main.html, which contains a searchable database with more than 400 items of reference. A sign-up system is being developed whereby researchers can be alerted when new items enter the system.

Deepwater Port Act of 1974

The Deepwater Port Act of 1974, as amended (the Act) provides for the authorization and regulation of the location, ownership, construction, and operation of deepwater ports in waters beyond the territorial limits of the United States. In 2002, the Act was amended to include the importation, transportation and production of liquefied natural gas (LNG). The authority to issue, transfer, amend or reinstate a license for the

construction of a deepwater port has been delegated by the Secretary of Transportation to MARAD.

During FY 2003, Port Pelican, LLC, (Port Pelican) an affiliate of Chevron Texaco Corporation, filed an application to operate an offshore facility to receive, store, and re-gasify LNG, and a pipeline to transport this natural gas to existing offshore gas-gathering stations. This application is the first application to be processed by MARAD. The Port Pelican project is expected to provide significant volumes of natural gas to the nation's gas distribution market, improving the efficiency and flexibility of the existing pipeline infrastructure and providing supply diversification.

Public Port Financing

MARAD continues to monitor and maintain an extensive database of U.S. port financial data (covering 1978-2002) that permits in-depth analyses of the financial aspects of the port industry. In cooperation with the American Association of Port Authorities' Finance Committee, MARAD published in April 2003 the Public Port Finance Survey. The FY 2002 report (most recent year of available statistics) is scheduled to be published in FY 2004. The survey is updated annually.

Prototype Mooring Buoy

MARAD recently provided funding to cooperatively design and test a prototype mooring buoy on the Mississippi River. The prototype mooring buoy, which will be used near locks and dams on the inland river system to stage tows closer to the locks to increase the system efficiency, is being implemented as a part of the Mississippi River Navigation Study. The study was conducted jointly by the U.S. Army Corps of

Engineers, the River Industry Action Committee, and MARAD. It was scheduled to be completed in late autumn, 2003.

Capital Construction Fund

The Capital Construction Fund (CCF) Program was established under the Merchant Marine Act of 1970. It assists operators in accumulating capital to build, acquire, and reconstruct vessels through the deferral of Federal income taxes on certain deposits.

The CCF Program enables operators to build vessels for the U.S.-foreign trade, Great Lakes, and the noncontiguous domestic trade such as between the West Coast and Hawaii. It aids in the construction, reconstruction or acquisition of a wide variety of vessels, including containerships, tankers, bulk carriers, tugs, barges, supply vessels, ferries, and passenger vessels. During calendar year 2003, \$558.3 million was deposited into these accounts. Since the program was initiated in 1971, fundholders have deposited \$8.5 billion in CCF accounts, and withdrawn \$6.1 billion for modernization and expansion of the U.S. merchant marine. As of September 30, 2002, approximately 122 companies were parties to CCF agreements.

Construction Reserve Fund

Like the CCF, the Construction Reserve Fund (CRF) encourages upgrading of the American-flag fleet. The program allows eligible parties to defer taxation of capital gains on the sale or other disposition of a vessel if net proceeds are placed in a CRF and reinvested in a new vessel within three years.

The CRF is used predominantly by owners of vessels operating in coastwise trades, the inland waterways, and other trades not eligi-

ble for the CCF program. Its benefits are not as broad as those of the CCF. The number of companies with active CRF balances increased from 22 to 23 during FY 2002. The total monies on deposit increased to \$87.4 million.

Title XI Loan Guarantee Program

The primary purpose of the Title XI Program is to promote the growth and modernization of the U.S. merchant marine and U.S. shipyards. Title XI authorizes the U.S. Government to guarantee the repayment of debt obligations, including unpaid interest, obtained in the private sector by

- (1) U.S. or foreign shipowners for the purpose of financing or refinancing either U.S.-flag vessels or eligible export vessels constructed, reconstructed, or reconditioned in U.S. shipyards, and (2) U.S. shipyards for the purpose of financing advanced ship building technology and modern shipbuilding technology of a privately owned general shipyard facility located in the U.S.

The Title XI Program is administered by the Secretary of Transportation through MARAD.

MARAD's Title XI Program permits guarantees in an amount not to exceed 87.5 percent of the actual cost of projects eligible for financing. Some eligible projects are limited to 75 percent of actual cost. The maximum guarantee period is 25 years.

Title XI Activities, FY 2003

MARAD issued three Title XI commitments to guarantee obligations for five vessels being constructed at shipyards in the United States. Those three commitments were for the following vessel types: one ferry, two

offshore drill rigs and two containerships. These commitments were for an aggregate amount of \$345,356,000.

MARAD closed on six commitments to guarantee obligations covering the financing, in part, of 13 vessels: two double hull tank barges, five ferries, two containerships, one cruise vessel, one dry dock reconstruction, and two offshore drill rigs. These six commitments were for an aggregate amount of \$304,651,000. In addition, MARAD closed on 13 Title XI vessel deliveries, three extensions of maturity of loans, two assumptions of Title XI debt by vessel buyers, three debt restructures, and four conversions of financing to fixed interest rate. MARAD litigated issues in five bankruptcies relating to nine Title XI companies, and conducted four vessel foreclosures and one shipyard foreclosure.

As of September 30, 2003, Title XI guarantees totaling \$3.9 billion were outstanding, and Title XI applications totaling over \$1.5 billion were pending for approval of Title XI financing. Additional information on MARAD's Title XI Program can be found at the Program's web site at <http://www.marad.dot.gov/TitleXI>.

During FY 2003, both the Department of Transportation Inspector General and the General Accounting Office conducted rigorous audits of the management of the Title XI program.

As a result of these audits, MARAD is in the process of implementing stringent program management reforms including stricter adherence to standard financial tests and more detailed financial monitoring. MARAD will also require an external review of any Title XI application by an independent financial advisor.

On January 16, 2003, MARAD held an auction and foreclosed on the real and personal property comprising the shipyard previously owned by Massachusetts Heavy Industries, Inc. and MHI Shipbuilding, LLC (collectively MHI) and received approximately \$12 million in proceeds.

Two unsuccessful bidders attempted to enjoin the transfer of the real and personal property and to set aside the auction itself. The United States Court for the District of Massachusetts denied their motion for a preliminary injunction. The case is still pending. In addition, the former general contractor of MHI has brought two suits against MARAD, alleging in one that the contractor has priority lien rights of about \$3 million in the proceeds of the auction and, in the other, that MARAD entered into an implied contract with the contractor and is responsible for the debts of MHI under the contract. In a fourth MHI-related case, MARAD seeks the award of approximately \$233,000 in excess proceeds resulting from a foreclosure by another lender of land surrounding the former shipyard.

MARAD participated in the resolution of litigation associated with the construction of two drilling rigs for Petrodrill Four, Ltd. and Petrodrill Five, Ltd. (Petrodrill). MARAD guaranteed Title XI financing for Petrodrill in the amount of \$341.8 million for the construction of two drilling rigs that are now being completed by Cianbro, Inc. in Maine. Construction of these rigs initially began at shipyards in Mississippi and Texas owned by Friede Goldman Halter, Inc. and related entities (the Halter Shipyards), which filed for reorganization under Chapter 11 of the Bankruptcy Code in April, 2001. Halter Shipyards vigorously asserted claims and liens against the rigs after filing for bankruptcy relief. In August 2003, MARAD joined Petrodrill in a settlement with Halter

Shipyards pursuant to which no money was paid by any of the parties. MARAD and Petrodrill released their construction damage claims against the Halter Shipyard, and Halter Shipyards released its claims against Petrodrill and the rigs.

In foreclosure litigation concerning the vessel Trident Crusader, the first priority of MARAD's ship mortgage was upheld by the District Court in a contest with two parties alleging that they held senior liens. The case is being appealed to the Fifth Circuit Court of Appeals by one of the losing parties.

Title XI and Other Insurance Compliance

MARAD monitors the contractual requirements for marine insurance coverage placed in the commercial market on all existing Title XI vessels on which MARAD holds the mortgage, together with Government-owned vessels on charter to private operators.

One aspect of this compliance is to assure that the American marine insurance market has the opportunity to compete for placement of marine insurance on these vessels. MARAD approved marine hull and machinery insurance during FY 03, with 37 percent being placed in the American market and 63 percent being placed in the foreign insurance markets. This compares with 40 percent American market placement for hull and machinery insurance in FY 02. A table containing this information is available at http://marad.dot.gov/publications/AnnualReport/Annual%2002/Web_Ready.pdf.

Innovation

MARAD maintained and strengthened its position as an advocate of the development of new, innovative designs, and subsequent U.S. construction, of state-of-the-art specialty vessels. In this regard, most of the

effort was focused on partnering with the National Science Foundation (NSF) in the design and development of a new and innovative polar exploration and icebreaking vessel. The Polar Research Vessel design team visited the Finnish Maritime Administration and its icebreaker BOTNICA, and the Swedish Maritime Administration's icebreaker ODEN. Likewise, MARAD continued to work with the Department of Commerce (DOC) in the design and construction of a new class of Fisheries Survey Vessels (FSV).

This work as technical consultant to other government departments and agencies spans several of the DOT/MARAD strategic goals. In FY 2003, MARAD became more involved at the international level in the promulgation and adoption of international, consensus shipbuilding standards. Such standards may help "level the playing field" for U.S. shipbuilding interests. It should be noted that, currently, foreign shipbuilding competition is able to use building standards less demanding than those used by U.S. shipbuilders. MARAD's efforts to define internationally sanctioned standards adopted and mandated for use by all shipbuilding nations, will remove an element of unfair competition will be removed from the international marketplace.