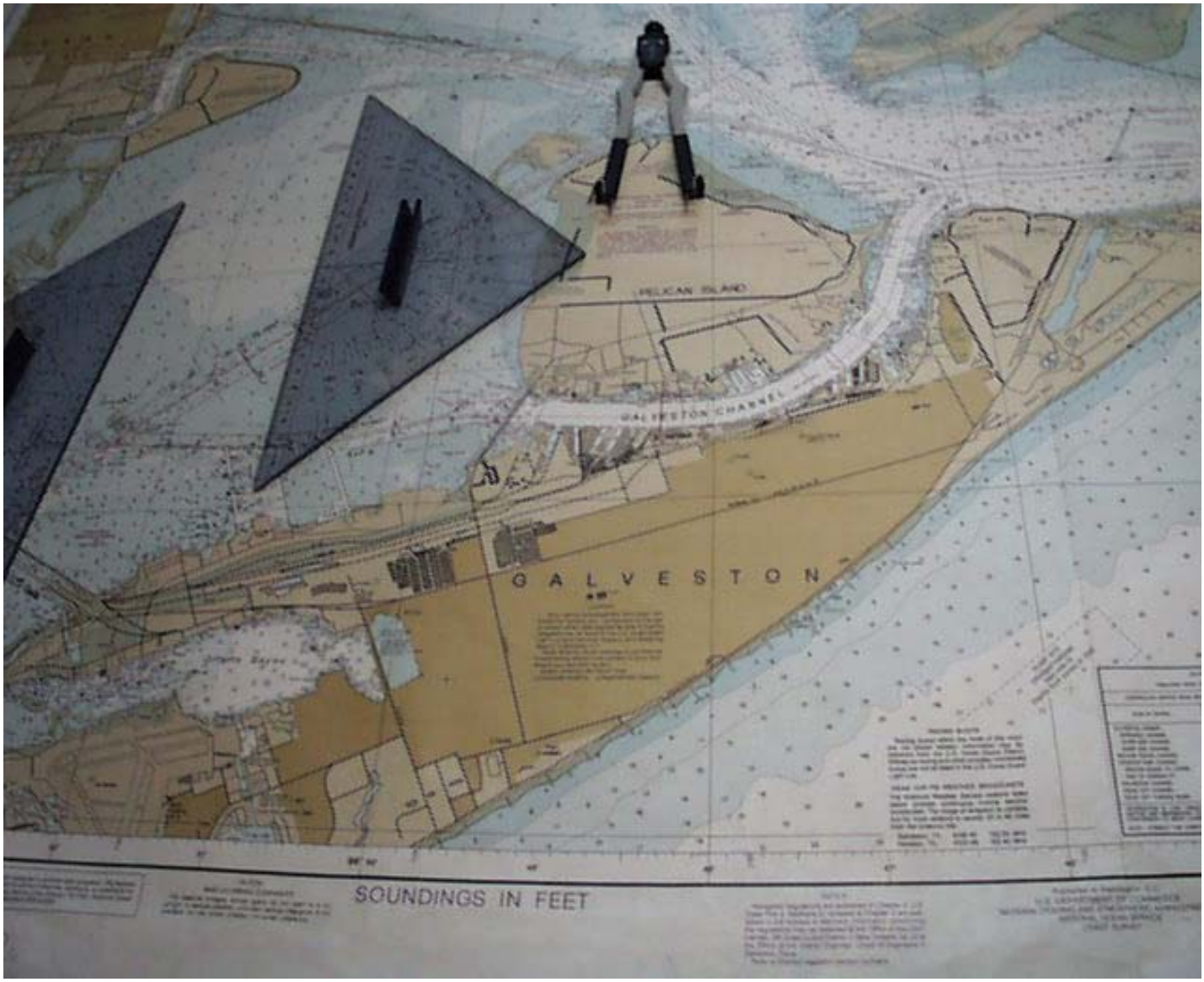
Global Connectivity

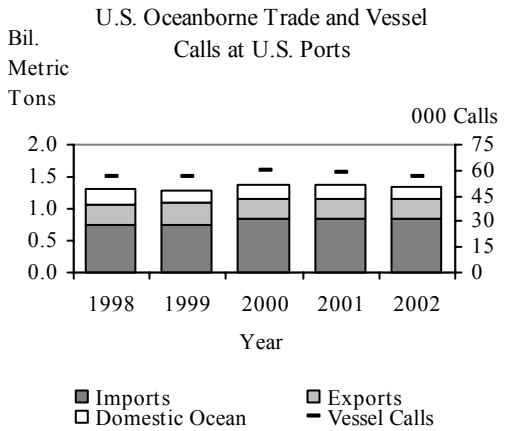


Department of Transportation Strategic Objective: Global Connectivity. Facilitate a more efficient domestic and global transportation system that enables economic growth and development.

" Such therefore are the advantages of water carriage, it is natural that the first improvements of art and industry should be made where this convenience opens the whole world for a market to the produce of every sort of labor."

Adam Smith
'Enquiry Into The Wealth of Nations' 1776

Exhibit 1



Sources: MARAD, Vessel Calls at U.S. Ports; 2002; U.S. Army Corps of Engineers, Waterborne Commerce of the United States

In 2002, U.S. oceanborne trade: imports, exports and domestic ocean shipments, amounted to 1.3 billion metric tons, down slightly from the year before (Exhibit 1). Recent changes of petroleum stocks in the trade were due largely to the depletion (1999) and their rebuilding (2000-2001) .

From 1998 to 2002 the import share of U.S. oceanborne trade rose from 57 percent to 62 percent while the domestic share, which is reserved for U.S.-flag vessels, fell from 18 percent to 15 percent. The change in composition was due largely to substitution of imports for domestic shipments in the petroleum trades (See Waterborne Commerce of the United States at http://www.iwr.usace.army.mil/ndc for detailed U.S. oceanborne commerce data). Over this period, petroleum imports increased by 10 percent (52 million metric tons) while domestic ocean shipments fell by 15 percent (21 million metric tons).

In 2002, 6,114 oceangoing vessels or 44 percent of the active world fleet were employed in U.S. oceanborne trades. These vessels, made 56,596 calls at U.S. ports, or 10 percent of worldwide port calls. Both trade volumes and vessel calls measure ocean transportation services. Of the U.S. port calls, 31 percent were by tankers, 30 percent were by containerships, 20 percent were by dry bulk carriers and 10 percent were by ro-ro (roll-on/roll-off) vessels (See *Vessel Calls at U.S. Ports, 2002* at http://www.marad.dot.gov/marad_statistics for active fleets and detailed U.S. port call data).

*Tankers***.** From 1998 to 2002, tanker calls at U.S. ports increased by 3 percent. In 2002, 58 percent (10,045) of the tanker calls at U.S. ports were by double hull tankers, up from 37 percent (6,255) 4 years earlier. For the period 1998 to 2002, double-hull tanker calls increased by 61 percent while single-hull tanker calls declined by 31 percent.

*Containerships***.** As larger containerships enter the U.S. trade, the average number of calls per containership continues to fall. In terms of TEU's (twenty-foot equivalent units), the average size of containerships (per call) increased by 21 percent to 3,020 TEU's. From 1998 to 2002, containership calls at U.S. ports increased by 8 percent.

*Dry Bulk Carriers***.** A 42 percent decline in U.S. coal exports contributed to a 12 percent decline in dry bulk vessel calls at U.S. ports since 1998. The primary impact was on South Atlantic ports which had a 34 percent decline in dry bulk calls.

Ro-Ro's/Vehicle Carriers. From 1998 to 2002, ro-ro calls at U.S. ports increased by 33 percent. Vehicle carriers accounted for about 85 percent of the increase, reflecting a 52 percent increase in U.S. vehicle imports, and a movement to just-in-time delivery schedules which require higher call frequencies.

*Capacity***.** Vessel capacity calling at U.S. ports (calls x vessel DWT) increased by 6 percent from 1998 to 2002. Over this period the number of calls increased by only 1 percent, but average vessel size (per call) increased by 5 percent. Average vessel size increased for all vessel types with the largest increases for containerships (16 percent) and double-hull tankers (10 percent).

In 2002, the average size (per call) of commercial vessels calling at U.S. ports was 17 percent larger than vessels calling at all ports worldwide. Containerships, ro-ro vessels and tankers in U.S. trades were 33 percent, 17 percent and 6 percent larger than their worldwide counterparts. The difference was due largely to a scarcity of U.S. feeder and short-sea services. These services, which use smaller vessels than line-haul services, are common in intra-European and intra-Asia trades.

Dry bulk carriers calling at U.S. ports were 12 percent smaller than those calling at all ports worldwide. Grains, which are generally shipped on smaller vessels than other major bulk cargoes (coal and ores), accounted for 53 percent of U.S. major bulk trades, compared to only 20 percent of worldwide major bulk trades.

*U.S.-flag***.** In 2002, U.S.-flag vessels carried 16 percent (219 million metric tons) of U.S. oceanborne trade, including imports, exports, and domestic ocean shipments. This was down from 19 percent (252 million metric tons) in 1998. The domestic ocean trades accounted for 31 of the 33 million metric ton decline.

In 2002, 221 U.S.-flag vessels were active in U.S. oceanborne trades, down from 256 vessels in 1998. These vessels accounted for 7,513 U.S. port calls, down from 8,650 calls four years earlier. The decline was primarily in the tanker and containership segments as 25+ year old domestic vessels were removed from service.

FINANCIAL APPROVALS

To promote and facilitate a U.S. maritime transportation system that improves the efficient movement of goods, MARAD provides financial and cost analyses and advice, internally and externally.

This is a broad function that ranges from financial reviews of MARAD program applicants, analyses of U.S. and foreign-flag vessels operation to internal management control reviews. For example, MARAD can provide the daily operating cost report for a U.S. flag vessel, showing what it costs to operate a ship under the U.S. flag. Some of this information is available on request to members of the public; more is available to members of Congress and other government entities. As another example, MARAD also provides cost analysis to the General Accounting Office on the basis for the Maritime Security Program (MSP), and does its own analyses of applicants for marine hull insurance and for MSP operators.

MARAD also completed an extensive study of the crewing on foreign-flag vessels entering U.S. ports.

The study *Foreign-Flag Crewing Practices* was published and distributed to interested persons and organizations worldwide. The study details the crew nationalities and sizes

of the various cargo-carrying vessels types serving the U.S. markets. Over 10,000 crew lists from more than 3,700 vessels calling at selected U.S. ports during 2000 were analyzed for the study. The report highlights the small number of national crews and the high concentration of crews from low-cost crewing centers on vessels calling at U.S. ports.

CARGO PREFERENCE

Due to higher U.S. construction, maintenance, environmental, and safety standards, it almost always costs more to operate U.S.-flag vessels than it does to operate foreign-flag ships. There is limited direct U.S. government assistance through the Maritime Security Program (MSP) to help support the U.S. liner fleet. The primary form of assistance to all U.S.-flag vessel types (liner, bulker, tanker) is provided under cargo preference laws.

Since 1904 the Congress has enacted a series of cargo preference laws to provide economic incentives to U. S.-flag shipowners. The cargo subsidies offset the higher operating costs and help to keep their ships under U.S. registry. Those laws require exporters and importers to use U.S.-flag vessels to transport any government-impelled ocean-borne cargoes. MARAD is tasked with ensuring that cargo preference compliance is achieved by Federal Government agencies and their contractors. Major programs include humanitarian aid shipments provided by the U.S. Department of Agriculture (USDA) and U.S. Agency for International Development (AID); Iraqi humanitarian relief; commodities financed by the Export-Import Bank (Eximbank); and other civilian agencies such as Foreign Military Sales (FMS), and Department of Defense (DOD) cargoes shipped on commercial ocean carriers. Information on cargo preference laws and regulations may be viewed at http://www.marad.dot.gov/offices/cargo_pref.html.

MARAD is also charged with promoting the use of U.S.-flag vessels by monitoring bilateral agreements, and identifying discriminatory or potentially discriminatory trade practices against U.S.-flag vessels. To promote the use of U.S.-flag vessels, MARAD in FY 2003 developed a new web site, http://www.marad.dot.gov/usflag. The information on this web site makes it easier for exporters, importers, and government agencies to find U.S.-flag ships to transport cargo to or from foreign nations.

MARAD's Office of Cargo Preference monitors compliance with laws set forth in the following statutes:

- The Cargo Preference Act of 1954;
- The Military Cargo Preference Act of 1904;
- The Maritime Security Act of 1996;
- Public Resolution 17 of the 73rd Congress; and
- P.L. 105-383, which deals with substandard vessels and their owners or operators.

MARAD is required to report to Congress on compliance with those laws. The Department of Transportation is responsible for financing certain activities outlined in the Food Security Act of 1985. MARAD also administers measures instituted by a "side letter" agreement involving the U.S. Agency for International Development (AID) and the Government of Israel, referred to as the Israeli Cash Transfer.

Cargo Preference Act of 1954 (P.L. 83-664), as amended, requires that at least 50 percent of the gross tonnage of all Government-impelled cargo be transported on privately owned, U.S.-flag commercial vessels

to the extent such vessels are available at fair and reasonable rates. In 1985, Congress raised the minimum requirement to 75 percent for certain agricultural cargoes, primarily U.S. food aid donations. Cargo transported under this act includes agricultural cargo, which is also governed by the Agricultural Act of 1949 and the Food for Progress Act of 1985.

Statistics for preference cargo in humanitarian food aid are kept on a Cargo Preference Year (CPY) basis. The 2002-2003 CPY ran from April 1, 2002-March 31, 2003. During that period, a total 5,385,835 metric tons of humanitarian food aid commodities were exported. More than 75 percent of this, or 4,061,512 metric tons, was transported on U.S.-flag vessels. This is a decrease in total tonnage from the 5,905,155 metric tons that was shipped during the 2001-2002 CPY. MARAD attributes this decrease to the drop in shipments for trade and development assistance. Wheat was the primary commodity shipped during the year. Liner type vessels transported 33.3 percent of the food aid cargoes. Tankers and bulk carriers carried 11.5 percent and 55.2 percent, respectively. Statistics for preference cargo, broken down by sections of the Agricultural Act of 1949, are available at http://www.marad.dot.gov/offices/CAPOS%20Reports.

During the 2002-2003 CPY, agricultural cargo preference laws generated 24,653,000 in revenue for U.S.-flag vessel owners. Furthermore, agricultural cargo preference laws employed a total of 113 U.S.-flag vessels. MARAD estimates these 113 vessels trading in agricultural cargoes created 14,238 merchant marine jobs and a larger amount of maritime and transportation-related jobs shoreside. These 113 U.S.-flag vessels carry agricultural, military, project, and commercial cargoes. MARAD estimates that most of the 113 participating vessels would probably not be U.S. flag without the revenues generated by cargo preference cargos.

The cargo preference laws result in meeting the National Security objective by assuring that sufficient sealift capability and intermodal transportation infrastructure exist to support vital homeland and national security interests. These laws meet this objective with the assured sealift capability and sustenance of 113 U.S.-flag vessels and an estimated 14,238 positions for U.S. merchant mariners that are vital to national security. All U.S.-flag vessels that carry preference cargoes participate in the Voluntary Intermodal Sealift Agreement (VISA) program, which was discussed in the National Security section of this report.

In accordance with President George W. Bush's Management Agenda for making government more focused on citizens and results, and to meet the public's growing demand, MARAD modified its humanitarian food aid web site to make information available on a weekly basis. The information, which appears at http://www.marad.dot.gov/offices/CAPOS%20Reports, shows all U.S. food aid shipped out of the United States, which program sponsored the shipment, to which country it went, and what type of vessel carried it. The site is part of the agency's ongoing electronic efforts to facilitate compliance with the cargo preference laws.

Strategic Petroleum Reserve. The Cargo Preference Act of 1954 contains a measure applying to the Strategic Petroleum Reserve. The Strategic Petroleum Reserve is the United States' emergency oil stockpile, and it is the largest emergency petroleum supply in the world. The reserve stores crude oil in underground salt caverns at four sites along the Gulf of Mexico. The program is

administered by the Department of Energy, which is required to transport at least 50 percent of the oil on U.S.-flag tankers. Compliance is monitored on a cumulative basis, and in CY 2003 the program ran at a deficit level of 43 percent. This is a smaller deficit than the CY 2002 level, which was 45 percent.

Defense Security Cooperation Agency. The Defense Security Cooperation Agency (DSCA) is the sponsoring agency in the Department of Defense for items purchased through Foreign Military Financing and grant transfers such as those under Section 516 of the Foreign Assistance Act of 1961, as amended. The Cargo Preference Act of 1954 requires that at least 50 percent of the oceanborne cargoes generated under these programs be transported in U.S.-flag vessels. However, DSCA's policy, which is consistent with its long-standing support for the U.S. merchant marine, is that 100 percent of such cargoes should be carried on U.S.-flag vessels.

The Military Cargo Preference Act of 1904 requires all items procured for or owned by U.S. military departments and defense agencies be carried exclusively (100 percent) on U.S.-flag vessels as long as capacity is available at reasonable rates. Program efforts concentrate on meetings and discussions aimed at meeting the Nation's defense needs while complying with U.S.-flag statute requirements.

The majority of military dry cargo is booked on commercial U.S.-flag vessels by the Surface Deployment and Distribution Command (SDDC). Rates and services provided by commercial ocean liner carriers constitute their transportation contracts with SDDC. The Military Sealift Command (MSC) negotiates charter fixtures for carriage on available commercial vessels when military cargo cannot be transported by liner vessel. Such circumstances are usually due to the physical nature of the cargo, or a cargo volume exceeding the liner capacity to be shipped as one lot. MARAD receives volume and revenue figures from SDDC and MSC that are incorporated into MARAD's annual cargo preference reports.

MARAD has also been receiving quarterly reports from SDDC on the movement of shipments of personal effects, plus other data on the movement of privately owned vehicles. However, cargo that is moved by DOD contractors using commercial corporate traffic departments or third party providers frequently moves without data being reported to either DOD or MARAD. Consequently the tonnage and revenue data from commercial sources may be less than complete. DOD and MARAD are working to correct this problem. DOD and MARAD are working to correct this problem via a negotiated Memorandum of Understanding (MOU) that will allow DOD to provide the ocean revenue and tonnage by vessel flag of registry to MARAD. DOD is working with its technical programmers to determine the best source and method of capturing and extracting such data.

Under DOD acquisition regulations, (DFARS clause 252.247-7023(b)(2)(ii)(B)) cargo preference does not apply to subcontractors providing commercial items when there is no value added and when ocean transportation is not the purpose of the contract. Therefore, there may be no requirement for tonnage or revenue to be reported for some DOD commercial shipments. There are three exceptions to the subcontractor rule: (1) the contractor does not add value to the items; (2) the items are commissary or exchange items transported outside the DTS under specified conditions; and (3) the items being shipped are in *direct* support of U.S. military contingency opera-

tions or exercises or forces deployed in humanitarian or peace-keeping operations. For instance, *contingency* operations in Afghanistan and Iraq, Operation Enduring Freedom and Operation Iraqi Freedom, are two examples of commercial items requiring carriage on board U.S.-flag ships. MARAD has made exceptions for commercial cargo a focal point with shippers to ensure adherence to cargo preference regulations. Further information can be obtained by contacting MARAD at 1-800-9US-FLAG or via email at cargo.marad@marad.dot.gov.

The Maritime Security Act of 1996 Section 17 of the 1996 Act permits Great Lakes ports to participate in the handling of P.L. 480 Title II humanitarian food aid packaged commodities awarded on a lowest landed cost basis without reference to vessel flag. The law allows these ports to act as bridge-ports, providing containerized loading and unloading services, even though the cargo may actually be put on a vessel at another U.S. port, and thus provides port intermodal operations during the winter months when the Great Lakes are closed to vessel traffic.

The implementation of this legislation has resulted in a significant augmentation of food aid cargo movements out of the Great Lakes ports. The primary beneficiaries are the Port of Chicago and to a lesser extent the Port of Milwaukee. For the 2002-2003 CPY, approximately 159,639 metric tons of food aid cargo transited via the Great Lakes ports. The first year of MSA Section 17 implementation was for the 1998-1999 CPY when approximately 30,327 metric tons of food aid cargo transited the Great Lakes ports. This intermodal movement of U.S. food aid is an altered revival of a previous program in the Great Lakes.

MARAD attributes this significant increase to the industry response to this legislation. Transportation organizations invested assets in the Great Lakes ports to meet the legislation's requirements. This resulted in the increased amounts of food aid transiting the region, which, in turn, strengthened the U.S. maritime transportation system including the infrastructure and industry in the Great Lakes.

Public Resolution (PR) 17 of the 73rd Congress requires that all cargoes generated by Eximbank, or a similar instrumentality of the government, be shipped on U.S.-flag vessels, unless a waiver is granted. Waiver procedure policy is set forth on MARAD's web site located at http://www.marad.dot.gov/cargo_pref.html. Also included on this site is a list of U.S.-flag carriers, U.S.-flag vessels, and U.S.-flag services. Requests for non-availability waivers for project cargoes have decreased since MARAD published revised policy procedures for granting waivers in the *Federal Register.* Another web site allows electronic paperless filing of reports about Eximbank cargoes (http://www.exim.gov/tools/claims/claim.htnk).

P.L. 105-383 established that substandard vessels and vessels operated by owners or charterers of substandard vessels are prohibited from the carriage of Government-impelled cargo for up to one year after such determination has been published electronically. The Secretary of Transportation has delegated enforcement authority to MARAD. A discussion of this issue is included on MARAD's cargo preference web site, including active links to the U.S. Coast Guard's listing of vessels, owners, and operators prohibited from carrying Government-impelled cargo. The easy availability of this information has resulted in increased industry awareness and use.

Detailed statistics on the shipping activities of Federal agencies, independent entities, and Government corporations may be viewed at http://www.marad.dot.gov/marad_statistics/index.html. Statistics are maintained on a calendar year (CY) or fiscal year (FY) or cargo preference year (CPY) basis, dependent upon program requirements.

Food Security Act of 1985 amended sections of the Merchant Marine Act of 1936 and established a minimum tonnage for agricultural products exported as government-impelled cargo, and established the Ocean Freight Differential Program.

Minimum Tonnage

The "minimum tonnage" for agricultural products required for FY 2003 was 4,868,485 metric tons. This minimum tonnage calculation was done as set out in 46 App. U.S.C. 1241g. The total for products subject to the act exceeded the "minimum tonnage" by 517,350 metric tons in FY 2003.

Ocean Freight Differential

The Food Security Act of 1985 increased the required percentage for U.S.-flag carriage from 50 to 75 percent of gross tonnage shipped for certain food aid programs. Ocean freight differential is the difference between the cost of shipping cargo on a U.S.-flag vessel as compared with shipping the same cargo on a foreign-flag vessel. The Department of Transportation is responsible for financing this ocean freight differential resulting from the application of the increased U.S.-flag portion. MARAD reimburses the U.S. Department of Agriculture (USDA) for its share of such costs above 50 percent of the gross tonnage, for ocean transportation only.

In FY 2003, USDA submitted to MARAD "incremental" invoices for fiscal years 1998, 1999, 2000, 2001, 2002, and 2003. The $113.4 million paid for those invoices is a larger sum than would usually be paid for OFD obligations in one year.

The Food Security Act of 1985 also requires additional ocean freight differential payments to be reimbursed by the Secretary of Transportation. This additional reimbursement has been termed "Excess 20%" and is applicable under the following conditions: if total obligations incurred by USDA for ocean freight and ocean freight differential on exports of agricultural commodities and products under certain agricultural programs exceed 20 percent of the value of the commodities exported under these programs, then MARAD must reimburse USDA for any excess. Some years there is no "Excess 20%".

The funds paid to USDA for ocean freight differential can be circulated back into the applicable programs. The U.S. Agency for International Development, for example, recirculates its receipts back into its Emergency and Private Assistance Program for procurement of additional commodities and freight.

Israeli Cash Transfer

Under a "side letter" agreement, the Government of Israel and AID have agreed that a portion of the bulk grain shipments generated by the Israeli Cash Transfer Program for fiscal year 2003 would be transported on U.S.-flag vessels. The agreement required that 444,444 tons of grain move on U.S.-flag vessels. MARAD's records indicate that for FY 2003 the full 444,444 tons were carried.

Since FY 1979, U.S.-flag vessels had received 800,000 tons annually regardless of the funding level, which ranged from $785 million to $1.2 billion. In 1999 the Governments of Israel and the United States signed an agreement reducing the $1.2 billion funding by $120 million per year until the funds reach zero. Half of the reduction is transferred to military purchases. Funding for the FY 2004 program again has been reduced, which will further reduce the U.S.-flag tonnage to approximately 333,000 tons.

FAIR AND REASONABLE GUIDELINE RATES

Under the Cargo Preference program, MARAD is responsible for providing shipper agencies with guidance on whether an offered rate is fair and reasonable. Ship operators filed vessel costs for 124 vessels with MARAD under this program. The total consisted of 54 ocean going self-propelled vessels, 32 oceangoing barges, and 38 tugboats. In FY 2003, MARAD calculated 254 fair and reasonable guideline rates for 2.9 million metric tons of Government-impelled cargoes.

MARAD and the cargo preference operators are increasing their use of electronic communications. Electronic communications assist us in providing more timely and accurate fair and reasonable guideline rate determinations. As a result in an increasing complex cargo movement environment, MARAD was able to maintain a 92 percent 24-hour turnaround time in FY 2003 for guideline rate determinations.

Fair and reasonable guideline rates serve as a ceiling on market freight rates in periods of high demand for US flag vessels. During FY 2003, the offered freight rate exceeded the fair and reasonable guideline rates and the ship operators lowered their offered freight rate to the fair and reasonable guideline rate on 51 occasions, saving the U.S. Government $7.3 million.

CARGO HANDLING COOPERATIVE PROGRAM (CHCP)

The MARAD-sponsored CHCP worked with the Center for the Commercial Deployment of Transportation Technology to complete its Seal Technology and Process (STP) Program in 2003. The goal of the STP Program is to increase freight transportation security, make trade through ports and across borders more efficient, and reduce port congestion. This program included review, selection, testing, and evaluation of radio frequency identification (RFID) seals for marine freight containers. The program was accomplished to support ongoing and proposed container security initiatives. The first step in the program was to review the RFID seal industry and determine which seals were commercially available. Four seals that are commercially available were selected for further evaluation and testing.

The initial testing involved laboratory work to determine baseline communication performance. The lab work included testing in free space and on a typical marine container. The seals were then tested in three different field environments: a container moving through a marine terminal gate, a container moving on an open highway, and attached to containers to simulate movement on railcars.

From these tests the CHCP was able to reach a number of conclusions:

- Seal technology is relatively mature and can be used to increase efficiency and security of intermodal freight systems now;
- There exists a wide variation of design features among available seals; and

- There are a number of trade-off issues.

The purpose of the Program was not to select a winner or loser seal technologies. The goal was to develop a technical baseline to assist government and industry stakeholders to select seal design parameters and functions for security, operations, and economic requirements. The testing provided performance data about existing design and how this may affect deployment of the devices. It was also found that although the technology can act as one layer of container security, the devices by themselves are only a partial solution in the problem of container security.

INTERNATIONAL AGREEMENTS AND INITIATIVES

Maritime Administrator Initials New Maritime Pact with China

During FY 2003, MARAD conducted extensive negotiations with Chinese authorities aimed at achieving a new bilateral maritime agreement. Topics discussed during the negotiations included branch offices, vessel agency, full service logistics operations, confidential service contracts and the Controlled Carrier Act. The new agreement was initialed during FY 2003. Once signed and implemented, it will accomplish key goals for both sides: U.S. companies will enjoy broad new rights in doing business in China, and MARAD will support petitions before the Federal Maritime Commission requesting improved flexibility, as controlled carriers, to change freight rates in U.S. trades. A separate Memorandum of Consultations describes steps that each side would take to implement the agreement and also addresses consular affairs matters involving crewmember visas and port entry requirements.

Contacts with Russia

During fiscal year 2003, MARAD met with officials from the Russian Ministry of Transport to exchange information on developments in maritime transport, including maritime safety and security; to review implementation of the U.S./Russia bilateral maritime agreement; to discuss prospects for cooperation in international organizations and student exchange and training at the U.S. Merchant Marine Academy at Kings Point, New York.

Organization for Economic Cooperation and Development (OECD)

The Maritime Administration chairs the Organization for Economic Cooperation and Development's (OECD) Maritime Transport Committee (MTC). The MTC is the only international forum that looks at the maritime sector from both policy and economic perspectives.

Following the events of September 11, 2001, the MTC identified key areas that would contribute to a secure transport network, without impeding the flow of trade or people, or placing unnecessary economic burdens on governments and industry. This resulted in the publishing of the MTC report "Security in Maritime Transport: Risk Factors and Economic Impact," in September 2003. The report explores the possible economic repercussions of a terrorist attack involving maritime transport as well as the cost implications of security measures.

Maritime Services in the World Trade Organization (WTO). During FY 2003, trade officials from over 140 countries met in an effort to complete the latest WTO trade negotiating round, known as the Doha

Round, by the January 5, 2005 deadline agreed to by trade ministers. The round began in November 2001, in Doha, Qatar. MARAD continued to provide technical support to the negotiations. However, during a ministerial meeting that was held in Cancun, Mexico, negotiators hit a fundamental impasse on agricultural supports and textiles.

Free Trade Agreement Negotiations. MARAD participated in negotiations led by the U.S Trade Representative (USTR) on a number of bilateral and regional free trade agreements. Free Trade Agreements (FTA's) with Chile and Singapore were signed by the President and approved by Congress during FY 2003. MARAD took an active involvement in on-going negotiations of FTA's with Australia and Morocco and the regional Central American Free Trade Agreement (CAFTA), which includes the countries of Cost Rica, El Sal-vador, Guatemala, Honduras, and Nicaragua. MARAD's chief objective in this process was to ensure that U.S. maritime laws and regulations are not adversely affected by these agreements.

DOT Africa Initiative. MARAD continues its assistance to the port sector in Nigeria. This is accomplished through the Office of the Secretary of Transportation with funding from the U.S. Agency for International Development and in conjunction with the World Bank. The principal focus in the port sector is on promoting the privatization of port operations with emphasis on the international container terminals. Toward this end, a visit by a group of Nigerian maritime officials to Vera Cruz, Mexico, is planned for the first quarter of 2004 so they may observe first hand the effect of privatization of container terminals in that port.

Other Activities. Representatives from the Global Maritime and Transportation School (GMATS), a continuing education center associated with the U.S. Merchant Marine Academy in Kings Point, NY, continued their efforts to train Cape Verde students at GMATS. The U.S. Department of State is reviewing GMATS' Cape Verde proposals in order to obtain government funding for the training program. Also, MARAD continued to assist the Government of Cape Verde in finding ways to expand its domestic passenger fleets, coast guard, and seafarer employment opportunities.

The Maritime Administration provided the administrative oversight on maritime transport to the Circumpolar Infrastructure Task Force (CITF) as a result of a FY 2002 U.S. Department of Transportation grant (FAA Contract DTDA04-01-C-20124). The CITF brings together government and industry experts to review transportation and communications issues of particular significance for circumpolar infrastructure. A key goal of the CITF is to identify opportunities for international cooperation to advance circumpolar infrastructure in aviation, maritime, land and telecommunication linkages.

INTERMODAL INITIATIVES

Agile Port Initiative. MARAD is undertaking the role of coordinator and catalyst for activities that review the physical design, business processes, and operational characteristics that will increase the velocity of cargo moving through ports or terminals compared to current practices. This exercise is termed Agile Port and is at the heart of how cargo will move in the future. As part of an active investigation into the potential application of the Agile Port concept, MARAD is looking at such cargoes as bulk,

break-bulk, and neo-bulk, in addition to containerized cargo. In order to complete a useful Agile Port design, MARAD will also look into the interface that Agile Port will have with current and future ship design and cargo handling technologies.

An Agile Port is made up of several components. Each of these components is essential to the overall movement of intermodal freight. The components include the marine terminal, an inland intermodal center, a connecting corridor, and a data management system. MARAD is working with several entities that are demonstrating elements of the system that will be used to test and demonstrate an entire Agile Port.

Fisheries. In 2003, MARAD is responsible for implementation of the American Fisheries Act of 1998. This legislation increased the level of U.S. citizen ownership and control required for a vessel to be eligible for documentation by the U.S. Coast Guard with a fishery endorsement. In addition, subsequent legislation set out the requirements for lenders to meet in order to perfect a first preferred mortgage on such vessels.

There is a universe of about 300 such vessels for which detailed information must be submitted by the vessel owner and analyzed by MARAD.

MARAD published a final rule on Requirements to Document U.S. Flag Fishing Industry Vessels of 100 Feet or Greater in Registered Length and to Hold a Preferred Mortgage on Such Vessels. Section 2202 of the Supplemental Appropriations Act, 2001, amended the American Fisheries Act (AFA). Section 2202 implemented new statutory requirements for the owners of Fishing Vessels, Fish Processing Vessels and Fish Tender Vessels of 100 feet or greater in registered length. It also amended the requirements to hold a Preferred Mortgage on such Fishing Industry Vessels, and made other minor amendments to the regulations to address issues that arose during the early stages of MARAD's implementation of the new AFA regulations.

The Great Lakes Waterways Management Forum. This is a U.S. and Canada cross-border organization. MARAD was a founding member of this group, which was created in 1999, and is composed of 26 government and private sector agencies and organizations. MARAD is a partner in the new Security Committee of the Forum. The security committee agreed on emergency contact numbers and printed this information on placards and magnets for posting on transiting vessels on the Lakes. Other committees consist of Outreach, Advanced Technology for Navigation, Communications, and Ballast Water.

International Maritime Labor Standards. Significant progress was made in FY 2003 toward creation of a single and coherent document, consolidating and updating the many maritime Conventions and Recommendations of the International Labor Organization (ILO) into a consensus-based standard targeted to attract wide ratification by governments. MARAD continued to work with two special ILO Working Groups that met three times during this period in Geneva, Switzerland. The meetings are tripartite in nature, which means equal participation by Governments, Shipowners, and Seafarers.

The structure of the proposed document is similar to the International Maritime Organization's 1978 Standards of Training, Certification and Watchkeeping, as amended in 1995 (STCW). STCW encompasses mandatory principles and standards, and non-mandatory guidance. A primary goal of this

initiative is that national administrations will be able to ratify the document with little or no change to domestic maritime labor mandates. ILO tripartite conferences to consider adoption are planned in 2004 and 2005.

MARAD Advisories

MARAD Advisories rapidly disseminate Department of Homeland Security information on Government policy, threat assessment levels to the U.S. flag fleet, safety issues pertaining to vessel operations, and other timely maritime matters. MARAD routinely issues advisories to ship operators and other U.S. maritime interests via Internet e-mail. MARAD Advisories are also published by the National Imagery and Mapping Agency (NIMA) in its weekly "Notice to Mariners." As of the publication date of this report, NIMA was scheduled to change its name to the National Geospatial-Intelligence Agency (NGA) early in FY 2004.

Depending on the importance of the MARAD Advisory, NGA will re-broadcast the Advisory directly to ships as a Broadcast Warning. MARAD also posts MARAD Advisories on its web site at www.marad.dot.gov/headlines/advisories, making them more accessible to the shipping industry and the public.

Operating-Differential Subsidy

MARAD is required by Congress to report on the disbursements under the Operating Differential Subsidy Program, which has been phased out except for small residual payments. All voyages under this program ceased with the termination of the final ODS contract on September 18, 2001. Final payments to operators were concluded during FY 2003.

The only outstanding ODS liabilities are related to possible subsidy claims under the ODS contracts for payments made for asbestos-related diseases incurred by seafarers when serving on subsidized vessels. The obligation of the government regarding such claims is not time restricted and when presented for payment, claims will be reviewed, audited, and satisfied as appropriate. During FY 2003, one payment of $80,858 was made.

Originally developed for use in the ODS program, a wage subsidy index is computed annually from data provided by the Bureau of Labor Statistics. It is now used as a measure of change in employment costs by various industry and business representatives to assist in forecasting cost trends in the industry.

SHIP OPERATIONS COOPERATIVE PROGRAM

MARAD leads the Ship Operations Cooperative Program (SOCP) which works to promote and facilitate a transportation system that improves the safe and efficient movement of goods and people. The SOCP is a cost-shared government/industry/labor partnership whose objective is to improve competitiveness, ship safety, productivity, profitability, training, environmental responsiveness, and quality of ship operations. Currently there are 45 members that include commercial ship owners/operators, government organizations, educational institutions, labor organizations, researchers, classification societies, and others.

With the implementation of the 1995 Amendments to the International Convention on the Standards of Training, Certification, and Watchkeeping (STCW), SOCP has focused on helping members to understand and meet STCW requirements. It is engaged

in a number of projects that assist member organizations in complying with the 1995 revisions. Projects have included the production of training videos, use of non-traditional training methods, evaluation of PC based training simulators, and the development of a training resources database.

SOCP has been involved in testing Alternate Watch Schedules (AWS), and the potential for diminished performance based on the traditional three-watch schedule. An SOCP member company volunteered its ship, and the Master and three deck officers to test AWS. At the conclusion of the test period, AWS benefits were identified and the participating company expressed a desire to continue using the system. Additionally, SOCP members have actively participated in a number of DOT conferences as they relate to safety, i.e. "Partnering for Transportation Safety: Operator Fatigue Management" and the "National Transportation Safety Conference." Most recently SOCP, in cooperation with the USCG, is working to coordinate crew endurance management training courses for personnel interested in its possible implementation.

Over the past few years, SOCP and MARAD have been working the mariner recruitment and retention issues. Results of this effort have been described in the National Security section of this report.

The SOCP produces a bi-monthly newsletter disseminated to the maritime industry and hosts a web site at http://www.socp.org that contains useful information for its members and the maritime industry.