MARAD 2003

U.S. Department of Transportation
Maritime Administration

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To Congress and Our Partners, Customers, and Employees

Capt. William G. Schubert
Maritime Administrator

The Maritime Administration (MARAD) is the Department of Transportation's lead agency in all matters relating to waterborne transportation, both domestic and international. This Annual Report outlines an active year for MARAD, and shows how well it met its strategic objectives, and how they align with the strategic objectives of the Department of Transportation.

MARAD plays an important role in national security in assuring sufficient sealift capability and a vital merchant marine. This report outlines the success of the Ready Reserve Force fleet, which is owned and maintained by MARAD, and of the sealift programs involving the U.S.-flag commercial fleet. The report also shows the success of MARAD's programs and initiatives for training and tracking merchant mariners.

MARAD's role in commercial mobility is to promote and facilitate a United States maritime transportation system, and this Annual Report outlines the agency's work in developing Short Sea Shipping, and promoting the use of waterborne transportation to alleviate congestion in the overall transportation system. MARAD's efforts in this area emphasize the development of active industry-government cooperatives and partnerships, and this report summarizes some of this work.

MARAD directly supports the Department of Transportation's Global Connectivity strategic objective through its international activities, operation of the Cargo Preference program, development of better techniques for cargo handling, and efforts to improve intermodal efficiency. MARAD's role in environmental stewardship includes the responsible disposal of obsolete ships, development of technologies to treat ballast water, examination of new means to reduce air emissions from marine sources, and the use of environmentally sound management techniques at its fleet sites and at the U.S. Merchant Marine Academy.

This report also outlines how MARAD has advanced the President's Management Agenda, by developing detailed strategic plans, integrating business strategies, conducting competitive sourcing, and expanding electronic government.

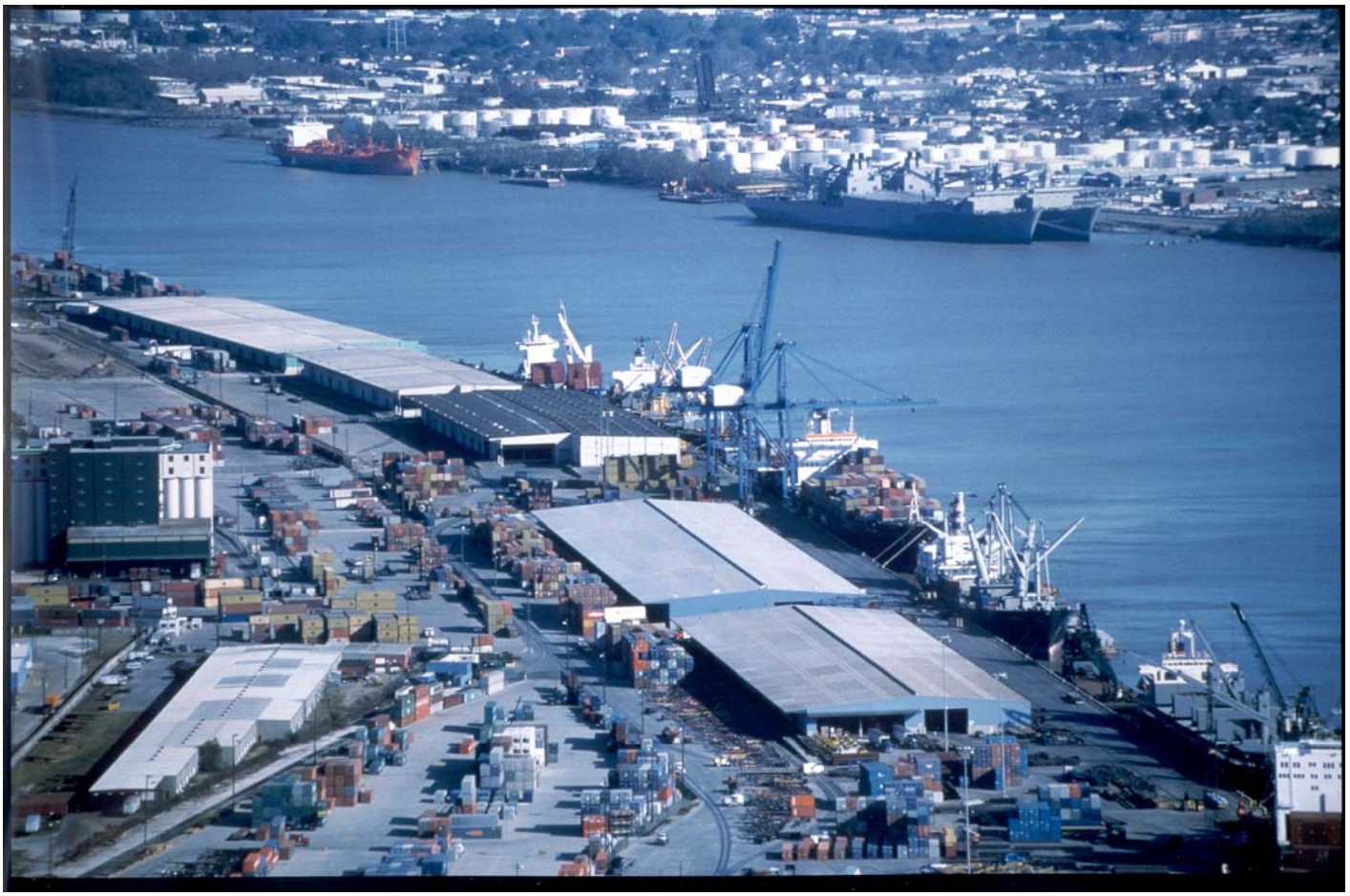
MARAD is unusual among government agencies in that it has an advocacy role for industry, specifically the maritime industry. Therefore, we have included in this report short summaries of important aspects of the U.S. and global maritime industries to put MARAD's activities in context. Also, while MARAD has no discrete budget to promote the Department's safety strategic objective, there are several instances where its programs do serve to promote safety: notably the training of municipal firefighters in its fire school, the safety training afforded the workers at our fleet sites, and our development of specialized training under the Maritime Transportation Security Act.

This Annual Report for the Maritime Administration for Fiscal Year 2003, which ended September 30, 2003, is submitted to Congress in accordance with Section 208 of the Merchant Marine Act of 1936, as amended.

Captain William G. Schubert
Maritime Administrator

Mission of the U.S. Maritime Administration

To strengthen the U.S. maritime transportation system - including infrastructure, industry and labor - to meet the economic and security needs of the Nation.



Industry Overview

The U.S. marine transportation industry serves the needs of both foreign and domestic commerce. It comprises companies that carry freight or passengers on the open seas or inland waterways, offer towing services, charter vessels, operate canals and terminals, and develop offshore oil resources.

In 2002, the last year for which data is available, U.S. waterborne commerce amounted to 2.1 billion metric tons. International commerce accounted for 56 percent of the total, up from 52 percent 5 years earlier. The increase is due largely to a 10 percent increase in petroleum imports, and a 13 percent decline in coastwise petroleum shipments. Oil and other primary commodities (coal, chemicals, crude materials and farm products) accounted for 90 percent of U.S. waterborne commerce (Exhibit 1). Trade in manufactured goods accounted for only 10 percent of U.S. waterborne commerce in 2002, but such trade has doubled in absolute terms over the last 10 years. Imports accounted for virtually all of the increase.

As of year-end 2002, there were about 48,000 vessels active in U.S. foreign and domestic trades. Of these, 6,114 were oceangoing vessels (10,000+ DWT). In addition to the oceangoing fleets, there were 216 (47 U.S-flag) bulk vessels active in U.S. Great Lakes trades, and about 41,590 smaller U.S.-flag vessels: tugs, barges, offshore supply vessels, and ferries, active in U.S. inland and coastal trades.

Of the 6,114 oceangoing vessels active in U.S. trades, 485 were owned by U.S. companies. Of these, 221 were registered under the U.S.-flag. Forty-seven of the 221 U.S.-flag vessels were employed exclusively in U.S. foreign trades as participants in the Maritime Security Program with the balance employed primarily in U.S. domestic and/or cargo preference trades. In 2002, the U.S.-flag oceangoing fleet carried only 2 percent of U.S. foreign trade.

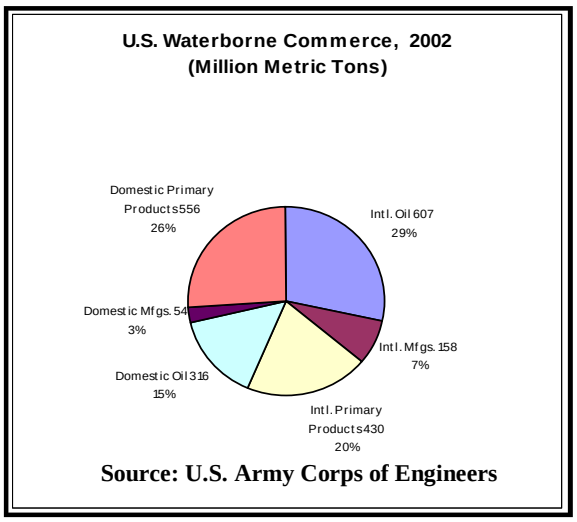


Exhibit 1

At the end of 2002, the value of the U.S. owned fleet (capital stock) was about $49 billion with an average age of 17 years. Average fleet age should fall over the next 5 years with the attrition and/or replacement of 25+ year-old vessels. U.S. companies have ordered a significant number of new vessels from domestic and foreign shipyards. These include: twelve double-hull crude carriers (six for U.S. coastal trades); eleven double-hull product carriers for U.S. foreign trades; thirteen double-hull ATB's (articulated tug/tank barge units) which will replace aging product tankers in U.S. coastal trades; eleven bulk carriers for U.S. foreign trades; twelve high-speed ferries, and fifty-five offshore service vessels.

As of year-end 2002, 58 percent, or 187 vessels of the U.S.-owned tanker fleet were equipped with double-hulls. Assuming new double-hull tank vessels replace existing single-hull vessels, 70 percent of the U.S.-

owned tanker fleet will have double-hulls by year-end 2005.

Investments in new vessels are being driven by customer needs and many are tied to long term customer commitments. Such arrangements integrate marine transportation into production and distribution processes, improve service to the customers and stabilize carriers' earnings.

The recent volatility in U. S. payments for marine transportation earnings (payments) can be traced largely to the impact of changes in oil prices on oil stocks and the demand for tank vessel services (Exhibit 2). In 2000 and 2001, oil companies rebuilt depleted stocks, contributing to a surge in petroleum trades and tank-vessel earnings. From 1999 to 2001, average spot earnings for tankers increased from $12,000 per day to $28,000 per day. By 2002, average earnings had fallen to $16,000 per day.

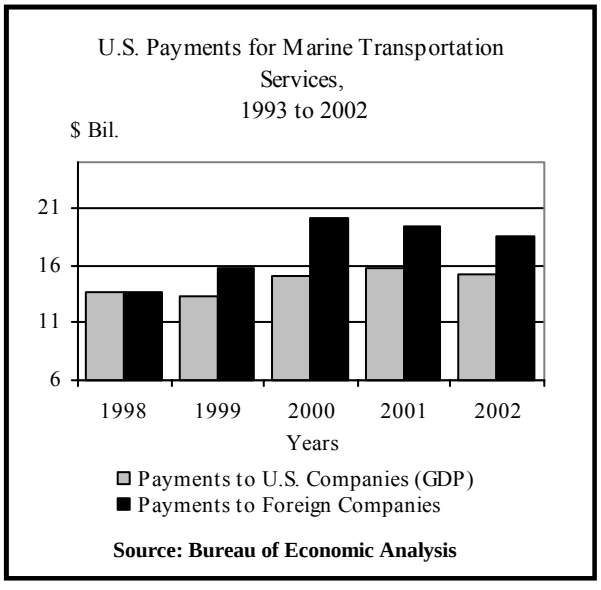


Exhibit 2

In 2002, payments to U.S. companies for marine transportation services, the industry's contribution to Gross Domestic Product (GDP), amounted to $15.2 billion. To generate the 2002 GDP, the industry employed about 52 thousand workers.

In contrast, payments to foreign companies for ocean transportation services in U.S. foreign trade (a factor in the Balance of Payments) amounted to $18.6 billion in 2002. The growth of these payments over the last 5 years has been about three times the growth of payments to U.S. companies, reflecting the increasing share of foreign trade in U.S. waterborne commerce.

National Security

The Maritime Administration's Ready Reserve Force Ship Cape Orlando sails through San Francisco Bay on its return from Operation Iraqi Freedom

Department of Transportation Strategic Objective: Security.
Balance homeland and national security transportation requirements with the mobility needs of the Nation for personal travel and commerce.

Maritime Administration Strategic Objective: National Security.
Assure that sufficient sealift capability and intermodal transportation infrastructure exist to support vital homeland and national security interests.

Sealift Support for Operation Enduring Freedom / Operation Iraqi Freedom

Photo courtesy Stars & Stripes
*The Ready Reserve Force Ship **Cape Victory** offloads its military cargo in Kuwait, March 2003.*

Maritime Administration programs played an important role in assuring sufficient sealift and port/ intermodal capacity to support national security interests during the conflict in Iraq. Eighty-four percent of cargo moved in Operation Iraqi Freedom, approximately 16.9 million square feet, was carried aboard U.S.-flag vessels and moved through eleven of the fourteen strategic ports. Over 7,600 mariners sailed aboard various ships in support of the effort, including almost 3,900 commercial mariners, and nearly 3,800 civil service mariners. This successful execution was made possible by close cooperation among MARAD, ship managers, maritime labor unions, the National Port Readiness Network (NPRN) signatories, and the Military Sealift Command. Thirty-five of the participating vessels were commercial ships enrolled in MARAD's Maritime Security Program. Forty vessels were from the Ready Reserve Force, which alone carried nearly 22 percent of the military cargo for Operation Iraqi Freedom.

The Ready Reserve Force (RRF) is MARAD's premier, government-owned, sealift readiness program. The RRF is a fleet of militarily useful ships, maintained in a reserve status in the event that the Department of Defense needs these ships to support the rapid, massive movement of military supplies and troops for a military exercise or large-scale conflict. The ships are activated for such use by the Department of Defense, and they are managed by commercial companies and crewed by civilian merchant mariners. Most of the ships activated for Operation Iraqi Freedom were kept in reduced operating status, with partial crews keeping the ships repaired and ready for activation.

Four RRF ships were already serving with the Afloat Prepositioning Program. Activations of other RRF ships began in October of 2002, and reached a peak in January of 2003, when 27 ships were activated during a two-week period. All of the ships kept in a reduced operating status were activated within their readiness timeline. Two ships had to be put on an adjusted timeline; these two had been kept without any crew members on board and were in shipyards undergoing major machinery overhauls when activated. Although they did not meet their readiness timelines, those two ships also loaded military materiel at strategic ports and sailed toward the Eastern Mediterranean meeting the operational requirements.

Most of the activated RRF ships were initially deployed to the Eastern Mediterranean. When it became apparent that Turkey would not allow these ships to discharge in its ports, the vessels began transiting the Suez Canal in late March 2003, and discharged their cargo in Kuwait. Most of the vessels were activated for a single voyage and returned to their outport location or Reserve Fleet sites upon final cargo discharge. However, several of the vessels were slated for additional voyages. By the end of Fiscal Year 2003, seven RRF ships were still on active duty.

More information on the activations of RRF ships for Operation Iraqi Freedom is available at www.marad.dot.gov/programs/rrf.html.

The 1,400 Merchant Mariners who served on the RRF ships were all volunteers for this mission. All crew members received smallpox and anthrax inoculations, with excellent support of the Military Sealift Command's headquarters medical teams and full cooperation from U.S. maritime unions. Mariners were also trained in various force protection measures including the use of chemical, biological, and radiological detection protective equipment. As the ships returned to the United States, MARAD issued Merchant Marine Expeditionary Medal Certificates to 7,684 commercial and civil service mariners who participated in OIF. Each returning RRF ship was welcomed with a ceremony in which the medals were presented to the officers and crew.

A Department of Transportation (DOT) performance measure and goal for most of MARAD's national security activities in FY 2003 was the availability of 94 percent of Department of Defense (DOD) required shipping capacity, complete with crews, within mobilization guidelines. The actual result was 96 percent. The increase was due to the improved availability of a greater percentage of ships from the RRF.

Strategic Mobility
FY 2003 Performance Measure
Availability of Department of Defense-required shipping within timelines
Goal: 94 percent
Actual result: 96 percent
GOAL EXCEEDED

Ready Reserve Force
FY 2003 Performance Measures
On-time activation
Goal: 100 percent
Actual result: 100 percent
GOAL MET

Ships fully capable while under Military Sealift Command operational control
Goal: 90 percent
Actual Result: 98.5 percent
GOAL EXCEEDED

The RRF's exemplary activation record is due to its sound and systematic conditioning program. While ship managers are responsible for the overall material condition and readiness of the assigned ship, the RRF program requires regular sea trials as well as dock trials and drydockings. During FY 2003, MARAD conducted 18 sea trials, most of which were 72 hours long. Sea trials not only prove the condition of the ship,

but also provide a training opportunity for the merchant mariner crews and permit RRF management companies to observe crew performance.

Turbo Activations are a rigorous test of ship readiness. Turbo Activations are initiated by the Department of Defense without prior notice or planning. In FY 2003, there were four separate Turbo Activations involving seven RRF vessels. All of these were completed successfully within the vessels' assigned readiness status. A list of recent Turbo Activations and their results is available at www.marad.dot.gov/programs/rrf.html.

National Defense Reserve Fleet (NDRF)

MARAD owns and maintains the National Defense Reserve Fleet (NDRF), which contains vessels that can be activated to support cargo movement requirements during national emergencies. The RRF is one component of the NDRF; other ships may be operated infrequently, and many are prepared for long-term storage in a preserved condition. The NDRF program was started after World War II when the Merchant Ships Sales Act of 1946 was enacted. As of September 30, 2003, there were 297 vessels in the NDRF, of which 68 were in the RRF, 72 in long-term storage (retention), and 132 ready for disposal or being prepared for disposal (non-retention). An additional 25 vessels, owned by other government agencies, were also maintained at NDRF facilities on a cost-reimbursable basis. There are three anchorages where most of the vessels are maintained. As of September 30, 2003, the James River Reserve Fleet at Fort Eustis, VA, held 93 ships; the Beaumont Reserve Fleet at Beaumont, TX, held 43, and the Suisun Bay Reserve Fleet, at Benicia, CA, held 92.

A short history of the NDRF, and a table showing numbers of ships each year throughout its history, may be found at www.marad.dot.gov/programs/rrf.html.

Maritime Heritage

MARAD is authorized to provide obsolete parts and equipment from NDRF ships to help preserve the operational or historical character of U.S. memorial ships. Long-term loans of historical artifacts for public display are also made available to worthy organizations. In the past, special legislation allowed donation of vessels for specific historical purposes. This year a request was made to Congress, in the 2004 DOD authorization bill, to authorized memorial groups interested in obtaining ships to apply directly to MARAD. This will replace the current practice of specialized legislation for donations.

Training Availability

NDRF vessels are made available to various groups for training purposes. For example, ships in the Reserve Fleet anchorages have been used for Vessel Boarding Search and Seizure training that involves law enforcement and ship interdiction exercises by the Navy, Marines, and Coast Guard. In FY 2003, the anchored NDRF vessels supported 14 training events for 27 days involving 1,922 individuals. RRF vessels were utilized as training platforms for a variety of organizations such as USCG Marine Safety Office and Naval Cargo Handling Battalions. In FY 2002, NDRF ships supported 70 training events for 119 days involving 2,503 individuals.

Information on Installations and Logistics for the NDRF Real Property is located at www.marad.dot.gov/programs/rrf.html.

Voluntary Intermodal Sealift Agreement (VISA)

The Voluntary Intermodal Sealift Agreement (VISA) program is the DOD's principal commercial sealift readiness program. It provides DOD with assured access to commercial intermodal capacity to move ammunition and sustainment cargo. This capacity can also supplement U.S. Government-owned/controlled/chartered capacity used for initial deployment or "surge" of unit equipment.

The objective of the program is to maximize DOD's access to the multibillion-dollar, state-of-the-art, U.S. commercial intermodal transportation system to serve America in peace and war while minimizing disruption to commercial operations. VISA has three activation stages. Each stage adds additional capacity commitments. VISA activation is time-phased to streamline the availability of capacity to coincide with DOD requirements.

An important element of the VISA program is the Joint Planning Advisory Group (JPAG). During JPAG meetings, Government, industry and maritime labor identify and discuss DOD's requirements, recommend concepts of operations to meet requirements, test and exercise program arrangements, and comply with antitrust requirements for pooling/teaming arrangements. In FY 2003 MARAD and the U.S. Transportation Command held JPAG meetings in December, January, and April. At these meetings, participants were briefed on a variety of topics including the VISA activation process, manpower and sealift requirements and Force Protection issues that might be necessary to support efforts in Operation Iraqi Freedom (OIF). As a result of these meetings Government and industry were well prepared to support U.S. troops in Iraq.

Although DOD did not activate VISA for OIF, there was substantial participation of VISA carriers (on an individual charter basis) in moving equipment and supplies to support this effort. Eleven (11) VISA ships were chartered by the Military Sealift Command, and 37 VISA ships provided liner service to the Military Traffic Management Command. Over 76 percent of the Maritime Security Program fleet (35 vessels) participated.

More than 75 percent of available militarily useful capacity is committed to the VISA program. VISA companies commit specific vessel capacity, intermodal equipment, and management services. As a condition for receiving Government financial support, Maritime Security Program (MSP) participants are required to enroll 100 percent of their MSP vessel capacity and a comparable mix of intermodal resources and services to the VISA program. All VISA participants receive priority consideration for the award of DOD peacetime cargoes. As of September 30, 2003, there were 56 VISA participants. VISA participants are listed at www.marad.dot.gov/programs/rrf.html

Maritime Security Program (MSP)

The Maritime Security Program (MSP) is a subset of the VISA program. While all VISA participants commit specific vessel capacity, intermodal equipment, and management services, only those which are also in MSP are required to enroll 100 percent of their capacity, plus a comparable mix of intermodal resources and services. In other words, VISA participants commit part of their capacity to be available; those which are also MSP participants must commit all.

More than 75 percent of available military useful dry-cargo capacity in the U.S.-flag commercial fleet is committed to the VISA program. Of that, more than 70 percent is provided by MSP.

The MSP program was established under the Maritime Security Act of 1996, and provides approximately $100 million in funding annually for up to 47 vessels to partially offset higher operating costs under U.S. registry.

The program helps the United States retain an active U.S.-flag merchant fleet comprising modern, efficient, and militarily useful commercial dry cargo vessels that can support national security requirements and maintain a competitive U.S.-flag presence in international commerce. Over 115,000 20-foot equivalent units (TEUs) and one million square feet of capacity committed for DOD use. As of September 30, 2003, 12 MSP carriers were receiving MSP payments for 47 vessels. A complete list of MSP vessels and operators is available at www.marad.dot.gov/programs/rrf.html.

The MSP fleet employs a labor base of skilled and loyal American seafarers who are available to crew the U.S. Government-owned strategic sealift fleet, as well as the U.S. commercial fleet, both in peace and war. The MSP payments to modern ocean car-riers allows MARAD/ DOD to have ready access to a robust maritime presence valued at more than $9 billion.

During FY 2003, the MSP fleet was upgraded through the substitution of six modern and efficient vessels for six older vessels. Most of the replacement vessels were larger, resulting in net capacity increase of 7,000 TEUs.

An important element of the MSP is the reflagging of new and more efficient vessels to U.S. registry. A total of 18 modern commercial liner vessels, average age less than four years old, have been reflagged to U.S. registry and are currently participating in the MSP. In addition, four other vessels (less than three years old) that previously flew foreign flags converted to U.S.-flag vessels. These re-flagging applications received U.S. Coast Guard expedited approval based on MARAD's determination that the vessels would be eligible for the MSP.

A MARAD FY 2003 performance measure and goal for the combined VISA/MSP programs was the availability of 165,000 Twenty-foot Equivalent Units (TEUs) of commercial sealift capacity for DOD use in times of emergency. The actual FY 2003 result was 174,584 TEUs. This amount represents the aggregate cargo capacity for all ships enrolled in the VISA program, including all ships enrolled in MSP.

War Risk Insurance

MARAD administers the standby emergency War Risk Insurance Program. The program encourages the continued flow of U.S. foreign commerce during periods when commercial insurance cannot be obtained on reasonable terms and conditions. It protects vessel operators and seafarers against losses resulting from war or warlike actions.

VISA/MSP
FY 2003 Performance Measure
Goal: 165,000 TEUs for DOD use in time of emergency
Actual result: 174,500 TEUs
GOAL EXCEEDED

As of September 30, 2003, the War Risk Revolving Fund (fund) asset total was approximately $37,600,000. The fund earned $1,800,000 in investment income. Program expenses for FY 2003 totaled $46,500.

As of September 30, 2003, there were 364 binders on vessels and barges providing eligibility for hull, protection and indemnity, and second seamen's war risk insurance. No binders related to MARAD's standby war risk cargo insurance and builder's risk insurance programs have been issued. All binders are effective for 30 days following an automatic termination of commercial insurance.

Statutory authority covering the Title XII War Risk Insurance Program was extended 5 years, to June 30, 2005 by Public Law 106-65. As a result of the terrorist activities of September 11th, 2001, MARAD activated the Title XII program at the request of the Department of Defense. MARAD has written war risk insurance on 6 vessels in conjunction with Operation Enduring Freedom, and on 98 in conjunction with Operation Iraqi Freedom. MARAD issued over 290 policies covering over $9 billion in values and limits since the post-9/11 activation.

Port Readiness

Fourteen commercial ports are designated as strategic ports by DOD and the National Shipping Authority, which is the national defense arm of MARAD.

MARAD has an extensive program to facilitate the availability of port facilities and services, one which ensures the movement of military forces securely and efficiently through the U.S.

During OIF, 11 of the 14 strategic commercial ports handled deployment military cargo. A DOT transportation system in a way that minimizes disruption to commercial operations.

FY 2003 performance measure and goal for MARAD's strategic port readiness activities was the availability of militarily preferred facilities at 92 percent of the strategic ports on 48 hours notice. The actual result was 86 percent, as two ports could not meet the criteria.

PORT SECURITY

MARAD's port security activities directly support the DOT objective of balancing homeland and national security transportation requirements with the mobility needs of the Nation for personal travel and commerce.

Maritime Transportation Security Act

The Maritime Transportation Security Act of 2002 (MTSA) created new statutory requirements for MARAD in port security:

- Assisting the U.S. Coast Guard (USCG) in conducting foreign port assessments;
- Designing and conducting foreign port training to address deficiencies identified in foreign port assessments;
- Developing standards and curricula to train and certify maritime security professionals;
- Administering a grant program, currently funded by the Transportation Security Administration, to enhance U.S. port and facility security to implement Area Maritime Transportation Security Plans; and
- Updating MARAD's Port Security National Planning Guide.

In April 2003, the Secretary of Transportation delegated to the Maritime Administrator the authority to implement Section 109 of

the MTSA. Section 109 requires the Secretary, not later than six months after the date of enactment, to develop standards and curricula to allow for the training and certification of maritime security professionals.

MTSA– Specialized Training

At the request of the Maritime Administrator, the U.S. Merchant Marine Academy (USMMA) developed the standards and curriculum and prepared a Report to Congress, as required by MTSA. The report, Maritime Security Act of 2002: Section 109 Implementation, A Report to Congress contains standards and curricula for U.S. maritime security training. The report is available on the MARAD web site at: http://www.marad.dot.gov/publications/security.htm.

As a result of the USMMA's work in preparing this report, the International Maritime Organization (IMO) gave the United States the responsibility for development of the highly respected IMO model courses for Ship Security Officer, Company Security Officer, and Port Facility Security Officer under the provisions of the International Ship and Port Facility Security Code.

This project, undertaken by the USMMA jointly with the Government of India's Directorate General of Shipping, was completed on September 2, 2003. The model courses were published in September, 2003 by the IMO for use by training providers, carriers, and others worldwide. Additional information is available on the IMO web site at: http://www.imo.org/Newsroom/mainframe.asp?topic_id=753&doc_id=2661.

The development of a national system of certification and course approval for the education and training of U.S. maritime security personnel is being led by MARAD, in coordination with the Coast Guard, as part of MARAD's responsibility under Section 109 of the MTSA.

MTSA– International Conventions

MTSA, the new security amendments to the International Convention for the Safety of Life at Sea 1974 (SOLAS), and its complementary International Ship and Port Facility Security Code (ISPS) strengthen and add additional protective layers of defense to U.S. port security. MTSA is designed to protect the nation's ports and waterways from a terrorist attack and requires area maritime security committees, and security plans for facilities and vessels that may be involved in a transportation security incident. ISPS is the first multilateral ship and port security standard ever created. Implementation is scheduled for 2004, and requires all nations to develop port and ship security plans.

During FY 2003, MARAD aggressively supported development of the new maritime security initiative to improve seafarer identification. In particular, agency senior staff worked intensively on a “fast track” initiative by the International Labor Organization (ILO) for a new convention on seafarer identity documents. This new convention was adopted in Geneva at the International Labor Conference in June 2003. It replaces ILO’s Seafarers’ Identity Convention, 1958 (ILO 108), and there are expectations it will be ratified by the national governments, particularly those concerned with shipping. Biometric standards for international seafarer credentialing are included.

Port Security Grants

MARAD has played a key role in the startup and administration of the Port Security Grants. More than $336 million has been

awarded through FY 2003 for competitive grants to critical national seaports to finance the cost of enhancing facility and operational security. The first round of Port Security Grants, which MARAD administered, was announced in FY 2002, awarding $92 million for 143 projects.

A second round of Port Security Grants was announced on January 14, 2003. This round was similar to the initial round of grants, but with the Transportation Security Administration (TSA) administering the grant program with substantial support from MARAD. Over $996 million in grant requests were received, containing 1,112 security projects. On June 12, 2003, Secretary of Homeland Security Tom Ridge announced the distribution of $169 million in Port Security Grants (Round 2) for 392 projects. An additional 84 projects from the Port Security Grant application pool were funded with $75 million made available through the Office of Domestic Preparedness.

The third round of Port Security Grants was announced on July 21, 2003, based on the seaport security provisions contained in the FY 2002 Supplemental Appropriation, which appropriated $104 million for grants. The grant announcement generated over $987 million in grant requests, containing 1,042 port security projects. Grants awarded in the third round totaled $179 million.

MARAD organized a unique grant program with a web-based system to manage proposals, beginning with the first round and continuing through the third. Using this system, applicants were able to submit their grant applications electronically. The system also allowed the entire evaluation process to be conducted on the web. The evaluation process electronically linked all five MARAD region offices and 47 USCG Captain-of-the-Port offices with MARAD, USCG, and TSA headquarters staffs. MARAD regional offices worked with regional offices of the other agencies in performing the field-level evaluations of grant applications. Even after the grants are awarded, the web-based system continues to play a key role in monitoring and administering each grant's progress.

NATO Planning Board for Ocean Shipping (PBOS) Participation

MARAD is the focal point for the U.S. participation in the work of the North Atlantic Treaty Organization (NATO) Planning Board for Ocean Shipping (PBOS). PBOS develops and maintains plans for civil shipping support to the Alliance in crisis and war, including advice to NATO military authorities on the planning and execution of NATO military deployments, and serves as the NATO focal point for advice and assistance on the protection of civilian maritime assets against acts of terrorism.

In FY 2003, PBOS developed proposals for a NATO Hub System for utilization of commercial vessels for strategic sealift and a PBOS Market Advisory Panel to facilitate the military's access to information on the commercial shipping market.

PBOS, through the PBOS Secretary in Washington, DC, and in conjunction with its industry shipping experts, has assisted NATO military planners by providing information and advice on the availability and use of commercial shipping to support "real world" operations.

Foreign Transfers

Under Section 9 of the Shipping Act of 1916, as amended, MARAD approved the transfer of 32 ships of 1,000 gross tons and over to foreign ownership and/or registry during fiscal year 2003. Thirteen privately

owned vessels were sold for scrapping abroad.

MARAD's approval of the transfer of vessels 3,000 gross tons and over to foreign ownership and/or registry are subject to the terms and conditions of 46 CFR Part 221. As such, the vessels require MARAD approval for any subsequent transfer of ownership and/or registry and are required to remain available for U.S. Government requisitioning, if needed. At year's end, there were a total of 151 vessels subject to these terms, 32 of which were approved for subsequent transfer of ownership and/or registry during the year.

User charges for processing applications for foreign transfers and similar actions totaled $24,600 in this reporting period, including fees filed pursuant to contracts reflecting the terms and conditions stipulated in 46 CFR Part 221.

Details of activities under Section 9 of the Shipping Act, 1916, as amended, may be found at www.marad.dot.gov/programs.html.

MERCHANT MARINER AVAILABILITY

Mariner Availability

An essential component of ensuring sufficient sea lift is making sure there are enough qualified mariners available to sail the necessary ships. During the fiscal year, there was a significant strain placed upon the available U.S. pool of merchant mariners as the effort to crew the emergency shipping needed for OIF was successfully executed.

Under the provisions of the Maritime Security Act of 1996, merchant mariners have reemployment rights similar to those given military reservists. This was the first conflict in which those rights became an issue. MARAD granted certification for reemployment rights to two mariners, and processed inquiries from over 50 individuals and organizations.

MARAD also continued working with the U.S. Coast Guard, maritime labor unions, and industry to assess the effect of evolving Standards of Training, Certification, and Watchkeeping (STCW). These are now required certifications for mariners in international trade.

U. S. Merchant Mariner Tracking and Survey

MARAD continued the development of a U.S. Merchant Mariner Tracking System. This new system will allow MARAD and its partners to maintain accurate and up-to-date information on mariner qualifications and will enhance our ability to crew the Government's vessels in the critically short timeframes required during an activation. An Internet-based component will allow mariners to update contact information in a timely manner.

The 2002 Mariner Survey was a follow-up to the first survey of merchant mariners conducted during 2001. The 2001 Mariner Survey was a concentrated effort to get feedback on key readiness issues. The major focus of the 2002 survey effort was to update and expand information on key readiness and training issues. Of those who completed the survey, findings show that the majority of mariners:

- Would volunteer for a national defense mission;
- Are working in the industry and sailing or at tempting to sail on ocean-going vessels;
- Are planning to serve at sea in the future, and have or intend to obtain a Standards

of Training Certification and Watch-keeping STCW 95 certificate; and
- Would be willing to serve three or more tours and could report in nine days or less.

Merchant Marine Reserve

The Merchant Marine Reserve (MMR), U.S. Naval Reserve, program consists of Naval Reserve officers who are also licensed merchant marine officers. MMR members have a unique relationship with MARAD because of its defense-related responsibilities. Members of the MMR program provided critical support during OIF. Reservists served standing watch in the Crisis Management Centers, training over 1,400 individuals in Chemical, Biological, and Radiological Defense, as Port Representatives, and assisting with the activation of the Ready Reserve Force.

MARAD is also pursuing the establishment of a civilian mariner reserve program. Such a program would alleviate potential shortages and provide a means to assure access to mariners in the event of a national emergency. The projected program would use the existing structure of the U .S. Maritime Service (USMS). Members would be activated for two weeks of training each year on government vessels.

Mariner Availability

FY 2003 Performance Measures
Availability of mariners required to crew commercial / sealift ships in time of emergency
Goal: 100 percent
Actual result: 105 percent
GOAL EXCEEDED

Mariner Employment: Great Lakes

The Great Lakes Region Office continues to produce and update a "U.S. Great Lakes Merchant Seaman Employment Fact Sheet" to serve both U.S. vessel fleets and potential mariners. It provides a specific listing of companies conducting direct hiring and unions representing mariners in the Great Lakes waterway system. Company and union web sites along with a supplemental directory of Great Lakes informational web sites are included to aid present and potential mariners. This information is posted on the MARAD web site, www.marad.dot.gov/programs/rrf.html.

Maritime Training and Education

MARAD vigorously supports maritime training and education through the U.S. Merchant Marine Academy, its support of six state maritime academies, and several outreach and continuing education programs.

U.S. Merchant Marine Academy (USMMA)

MARAD operates the U.S. Merchant Marine Academy at Kings Point, NY, to educate young men and women for service in the American merchant marine, in the U.S. Armed Forces, and in the Nation's intermodal transportation system.

Graduates receive Bachelor of Science degrees and U.S. Coast Guard (USCG) licenses as deck or engineering officers, and commissions in the U.S. Naval Reserve or another uniformed service. MARAD owns and operates USMMA's primary training ship.

As a key component of our national security effort, Academy graduates incur an eight-year U.S. Naval Reserve commitment

(unless they are accepted in another uniformed service) that obligates them to serve in time of war or national emergency. The critical maritime skills developed with their military training significantly increases our Nation's defense readiness.

Academy graduates are required to obtain a merchant marine officer's license in order to graduate from the Academy, and to maintain the license for at least six years. The graduates are also committed to a five-year maritime employment service obligation. This maritime service obligation may be satisfied in the merchant marine as an officer aboard U.S. merchant ships, or in shoreside maritime or intermodal transportation industry positions if afloat employment is not available, and with the permission of the Maritime Administrator. Active military duty in the U.S. Armed Forces or service with the National Oceanic and Atmospheric Administration also satisfies the obligation.

The Class of 2003, which graduated on June 23, 2003, comprised 110 third mates and 90 third assistant engineers. The 22 women graduates in 2003 brought to 457 the total number of female graduates since the first co-educational graduating class in 1978. Within three months after graduation, about 65 percent of the 173 graduates had obtained employment in the maritime and transportation industry, afloat and ashore, or were serving on active military duty. That percentage in creases to nearly 95 percent within six months after graduation.

Deferred graduates totaled 25 and two graduates were foreign students. More information may be obtained at www.usmma.edu.

Global Maritime Transportation School

Specialized Graduate-level courses for industry, government, and defense professionals are available at the Global Maritime Transportation School (GMATS), located on the Kings Point campus, USMMA. One course offered by GMATS is MARAD's National Sealift Training Program, which 44 senior deck and engineer officers completed in FY 2003. The purpose of the program is to improve U.S.-flag strategic sealift support capability, improve maritime security, and reduce vulnerability to piracy and hostage threats. The course of study integrates communications, maritime security, and sealift readiness training, drawing from lessons

Swearing-in at the U.S. Merchant Marine Academy at Kings Point, New York

learned from the September 2001 attack on the World Trade Center and from Operations Desert Shield/Desert Storm, Uphold Democracy, and Restore Hope.

State Maritime Schools/Schoolship Program

MARAD provides assistance to six State maritime academies to train merchant marine officers pursuant to the Maritime Education and Training Act of 1980. They are:

- California Maritime Academy, Vallejo, CA;
- Great Lakes Maritime Academy, Traverse City, MI;
- Maine Maritime Academy, Castine, ME;
- Massachusetts Maritime Academy, Buzzards Bay, MA;
- State University of New York Maritime College, Fort Schuyler, NY; and
- Texas Maritime Academy, Galveston, TX.

State maritime academy cadets who participate in the Student Incentive Payment Program receive $3,000 annually, for a maximum of four years with satisfactory performance, to offset school costs.

Participating cadets have these obligations:

- To complete the academy's course of instruction;
- To graduate from the State academy, cadets must pass the USCG examination for a license as an officer in the U.S. merchant marine, and
- Maintain that license for at least six years from the date of graduation;
- To apply for and accept, if offered, an appointment as a commissioned officer in an armed force reserve component, and serve for at least six years from the date of graduation; and
- To maintain employment in the maritime industry for at least three years from the date of graduation.

MARAD provides training vessels to all six State maritime academies for use in at-sea training and as seagoing laboratories. The vessels provide cadets practical knowledge of the operations on board vessels, and are part of MARAD's assistance to the academies to train highly qualified licensed officers.

The Massachusetts Maritime Academy received the most recently commissioned MARAD training vessel, the Training Ship *Enterprise*, in May 2003. This ship, the former *Cape Bon,* was converted at MARAD expense. It arrived at the Academy's Buzzard's Bay campus in April, 2003, and was formally commissioned on National Maritime Day, May 22, 2003.

The Texas Maritime Academy and its training ship made news during FY 2003. See MARAD Update article on page 19.

Maritime Education and Training Outreach

MARAD developed an initiative with primary schools, secondary schools and pre-undergraduate programs to support increased interest in careers afloat and in shipyard employment. This project aggressively promotes primary and secondary student interest in maritime careers.

For example, MARAD is actively participating with the U.S. Navy's Military Sealift Command, maritime industry partners and regional and local school districts to add maritime careers and training to middle and high school programs. The Mar Vista program in San Diego, CA, has been particularly successful, and provides an excellent model for other schools to emulate; nearly thirty of their pilot program graduates have

taken permanent high seas jobs. Another similar project was recently started by the Philadelphia School District and is called the Maritime Academy Charter High School.

Ship Operations Cooperative Program

MARAD leads the Ship Operations Cooperative Program (SOCP) an industry-government partnership that addresses issues affecting the maritime industry. One issue it addressed in FY 2003 is the lack of awareness among young people about employment and career opportunities in the maritime industry. The MARAD/SOCP Mariner Recruitment Working Group embarked on a campaign to raise awareness, producing print and electronic promotional material, and participating in a variety of forums to disseminate information about maritime career paths, educational institutions, and potential resources in order to attract young people to the maritime industry; especially to afloat positions.

The Working Group produced a brochure titled "A Future with Adventure", and a 30-second Public Service Announcement titled "A Career Afloat," which won the American Advertising Federation's "Addy" award as Best PSA. SOCP also launched a newly designed web page titled "A Career Afloat: Gateway to the Future," and co-sponsored, with the Propeller Club of the United States, the Adopt-A-Ship project (targeting 5th - 8th grade students), and initiated discussions with the public and private sector on mariner and shipyard apprentice programs.

Research, Development, and Demonstration

While MARAD receives no direct funding for research and development, its expertise makes it desirable as a strategic partner for other federal, state, and local government agencies and portions of the private sector. MARAD maintained and expanded its position in the area of National Security by assisting the Department of Defense (DOD) through the professional naval architectural and marine engineering services it rendered to the Navy in connection with the DOD-funded National Shipbuilding Research Program/Advanced Shipbuilding Enterprise. Using DOD funds, MARAD allocated substantial time to the DOD-funded Integrated Computerized Deployment System (ICODES) on behalf of the Military Traffic Management Command, the U.S. Army, U.S. Navy, and U.S. Marine Corps. MARAD worked closely with an office of the Chief of Naval Operations, and the Office of Naval Research Laboratory at Carderock, Maryland, in developing concepts for fast sealift and littoral combat ships.

Fire Training Center

The Maritime Administration (MARAD) provides training in fighting ship, barge, and dockside fires to a range of personnel who may have to deal with such fires. MARAD offers basic and advanced firefighting through its fire school in Swanton, Ohio. In FY 2003, the MARAD Fire Training Center trained over 450 of students in these courses. Combined basic/advanced training – 282

(149 Coast Guard and 133 merchant mariners) STCW basic training – 51
Municipal (includes port security outreach, local municipal fire fighters, and Toledo-Lucas County Port Authority Police and Fire Team) – 131

In August 2003, instructors from the MARAD Fire Training Center traveled to Duluth, Minnesota, to educate local municipal fire departments in the proper response to a portside fire aboard ship. The training is an initiative by MARAD to increase awareness of landside responders to the important and unique differences of fighting a shipboard fire. Nearly 80 municipal fire responders from departments in Duluth, Two Harbors, and Superior, Wisconsin, attended the program over a three-day period. A morning session indoctrinated fire fighters to the special considerations and hazards of quelling a shipboard fire at a municipal dock.

Boarding and walk-through of the Great Lakes freighter the *John Sherwin,* provided a realistic view of a vessel's various components and the ship's own fire suppression system.

Training on the TEXAS CLIPPER II Heroic Rescue at Sea, Surprise Visit by Former President George Bush, and Appearances on National Television

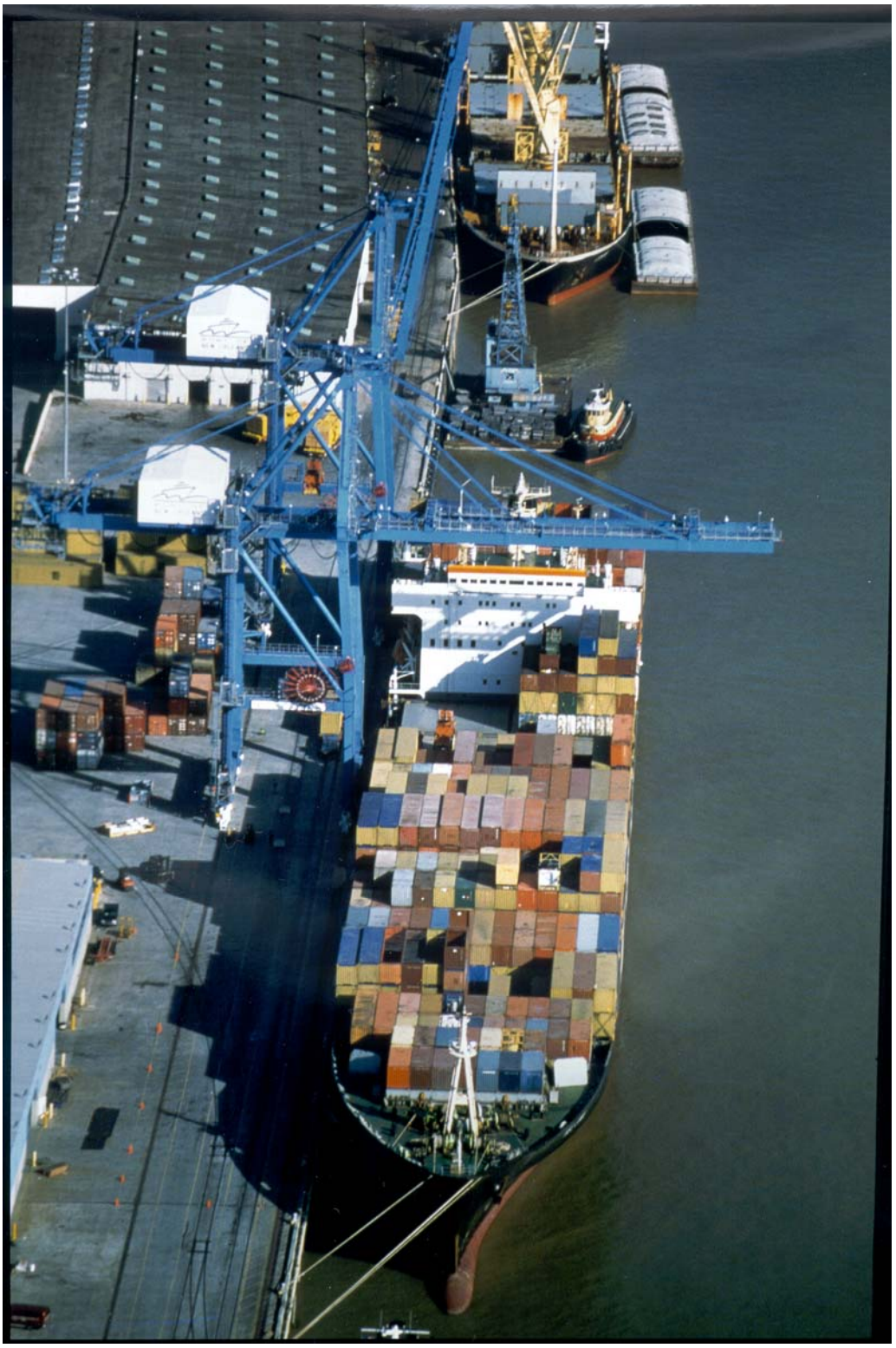
While on their annual summer training voyage this year, the cadets and crew of the TEXAS CLIPPER II, Texas Maritime Academy's 394-foot training ship operated by Texas A&M University at Galveston and owned by the Maritime Administration, received more than a learning experience; they actually participated in a lifesaving rescue at sea.

On Sunday, June 1, the TEXAS CLIPPER II received a radio call from the U.S. Coast Guard that a sailing vessel was in distress. The TEXAS CLIPPER II was approximately 30 miles south of the sailing vessel, "Joy," a 30-foot sailboat crewed by three Charleston, SC, college students. The "Joy" was disabled and adrift in 10- to 12-foot seas and gale force winds. The men on the "Joy" had activated their global positioning radio beacon, causing an alert to sound in the U.S. Coast Guard Rescue Coordination Center in Miami, FL. The U.S. Coast Guard then requested the crew of the TEXAS CLIPPER II to divert from their trip to Boston, MA, to rescue the three men. The crew responded enthusiastically and rescued the three who survived their misadventure in good condition.

If the successful rescue at sea wasn't enough action for the cadets and crew of the TEXAS CLIPPER II this summer, former President George Bush made a surprise visit aboard the training vessel when it passed off the coast of Maine on June 16. The TEXAS CLIPPER II made history that day as the first U.S. training ship ever to have a former President of the United States aboard.

On Monday, July 14, when the TEXAS CLIPPER II was in New York City, cadets appeared on NBC's *Today*, ABC's *Good Morning America*, and CBS's *The Early Show*.

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 results 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 deepwater 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 inte grated "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 update 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 regasify 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 eligible 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.

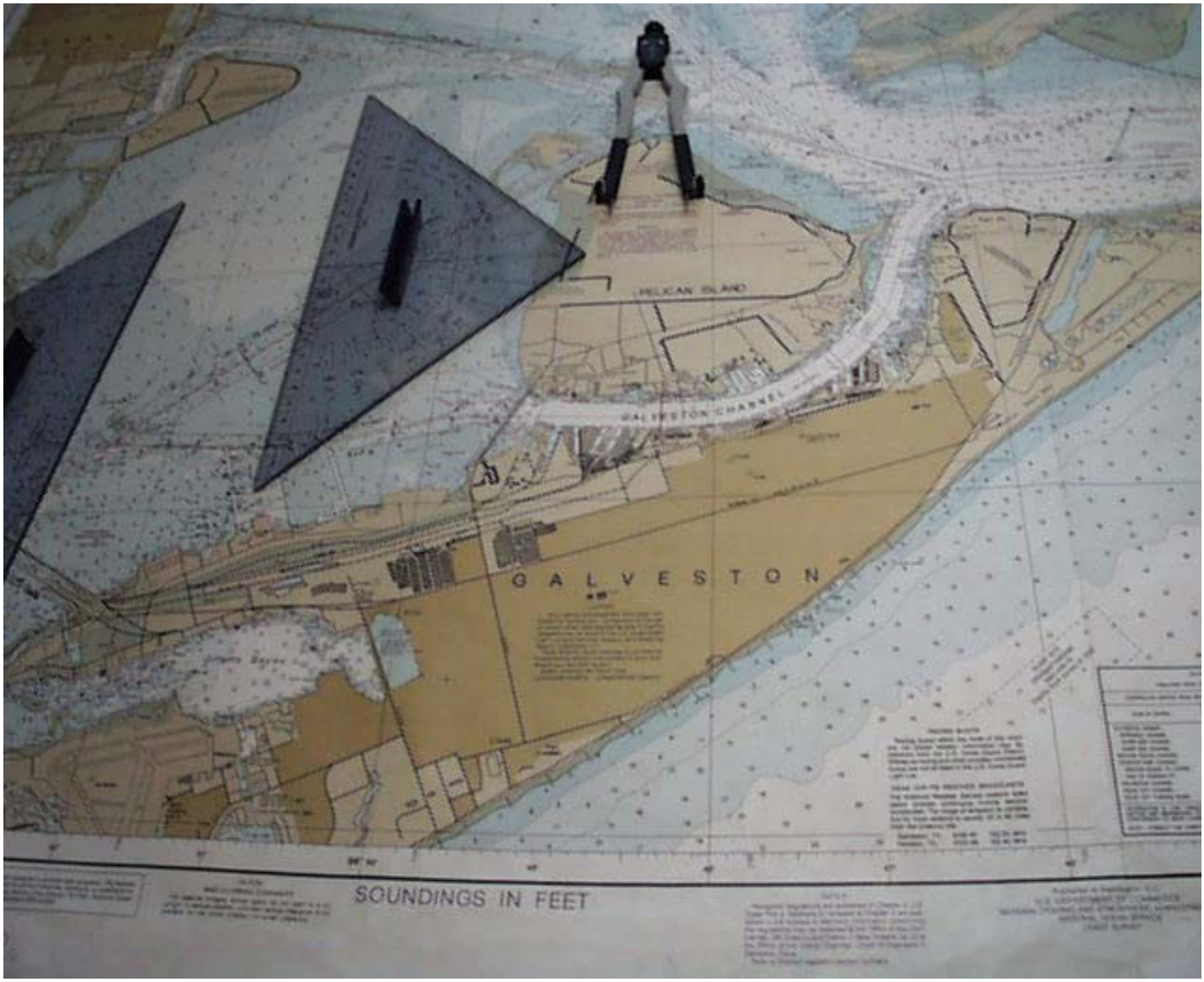
One aspect of this compliance is to assure that the American marine insurance market has the opportunity to compete for placement of marine insurance on these vessels. MARAD approved marine hull and machinery insurance during FY 03, with 37 percent being placed in the American market and 63 percent being 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.

Global Connectivity

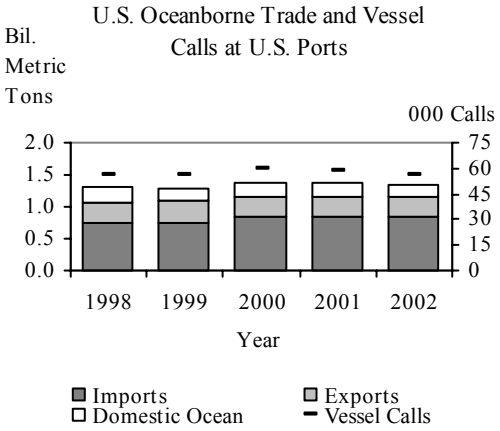


Department of Transportation Strategic Objective: Global Connectivity. Facilitate a more efficient domestic and global transportation system that enables economic growth and development.

" 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.

Environmental Stewardship

The *Marine Fiddler* is towed from the James River Reserve Fleet for disposal at Bay Bridge Enterprises in Chesapeake, Virginia, under the terms of a contract reached in Fiscal Year 2003.

Department of Transportation Strategic Objective: Environmental Stewardship: Promote transportation solutions that enhance communities and protect the natural and built environment.

Maritime Administration Strategic Objective: Environment
Promote maritime and intermodal transportation solutions that enhance environmental stewardship.

SHIP DISPOSAL

The Maritime Administration (MARAD) serves as the U.S. government's disposal agent for obsolete merchant-type vessels of 1,500 gross tons or more, as well as for non-combatant ships that have served in military operations. In recent years, the options for domestic scrapping and disposal have been limited. Disposal by overseas scrapping was halted in 1994 due to the presence of hazardous substances such as asbestos and polychlorinated biphenyls (PCBs) on the ships. As a result, the backlog of ships in the National Defense Reserve Fleet (NDRF) awaiting disposal had increased to over 130 vessels by the beginning of Fiscal Year (FY) 2003.

In FY 2003, MARAD's Ship Disposal Program received a direct appropriation for the first time. A FY 2003 performance measure and goal for the Ship Disposal Program was the removal of four (4) obsolete, non-retention vessels from MARAD's NDRF sites. The actual number of vessels removed from the NDRF in 2003 was two; however, contracts were awarded for the disposal of 26 vessels in FY 2003. Most of the vessel removals resulting from the FY 2003 contract awards will take place in FY 2004.

A contract for 13 of the 26 ships awarded involved the export of ships for recycling in the United Kingdom (UK). This contract was challenged in a United States District Court by two environmental groups -- the Basel Action Network (BAN) and the Sierra Club. The challenge resulted in a temporary restraining order which allows the export of only four of the 13 ships, pending a full hearing scheduled to take place in FY 2004. This challenge has delayed the removal of nine high priority ships from the fleet site, and the ultimate ruling may have negative impact on MARAD's Ship Disposal Program -- the ability to expedite the removal of aging high priority ships from fleet anchorages which are considered environmentally sensitive.

Despite the legal challenges and domestic industry opposition to the export of obsolete ships, an aggressive program pursuing all feasible disposal oppositions continued in 2003. The 26 vessels awarded for disposal in 2003 are the most awarded since 1993, which reverses a trend of growth in the number of obsolete ships in MARAD's custody. MARAD's actions in 2003 have laid the foundation for cost-effective accelerated ship disposal through interagency initiatives. For the first time since 1994, the industry has responded to requests for innovative proposals and the export of obsolete ships.

Excluding the 26 ships involved in the FY 2003 contract awards, there is an existing backlog of 105 obsolete vessels awaiting disposal in MARAD's three fleet sites, with approximately 45 additional vessels projected to be added to MARAD's fleets over the next three years.

Also, in FY 2003, MARAD continued to pursue several initiatives to focus on cost-effective and environmentally sensitive disposal alternatives to domestic scrapping for obsolete vessels in the NDRF. Two initiatives involve multi-agency workgroups exploring the establishment of responsible measures/procedures that hopefully will lead to the export of ships for foreign recycling, and the development of national best-management practices for preparing ships for use as artificial reefs.

MARAD's Vessel Artificial Reefing Initiative, established in February 2002, is working with the Environmental Protection Agency and numerous other stakeholder agencies to develop best-management

practices, which are expected to be completed in FY 2004. MARAD is also working with Basel Convention countries, the International Maritime Organization, and the International Labor Organization to develop a worldwide program for environmentally responsible and sustainable ship disposal.

FEATURE: Surviving Hurricane Isabel

The environmental challenges involved in the custody of obsolete ships can be enormous. Ships awaiting disposal are exposed to the forces of nature, and are thus vulnerable to damage or deterioration, which may in turn result in a spill of fuel oil or other environmentally threatening substance.

Few forces of nature are more powerful than a hurricane, and hurricanes and tropical storms pose an enormous threat to vulnerable ships. In September, 1999, Tropical Storm Floyd caused two thirds of the roughly 100 vessels moored at MARAD's James River Reserve Fleet (JRRF) to break their moorings and drag anchors. More than 65 MARAD vessels were scattered across the James River anchorage. *(See Figure 1)*

Figure 1

James River Reserve Fleet after Hurricane Floyd , 1999.

Figure 2

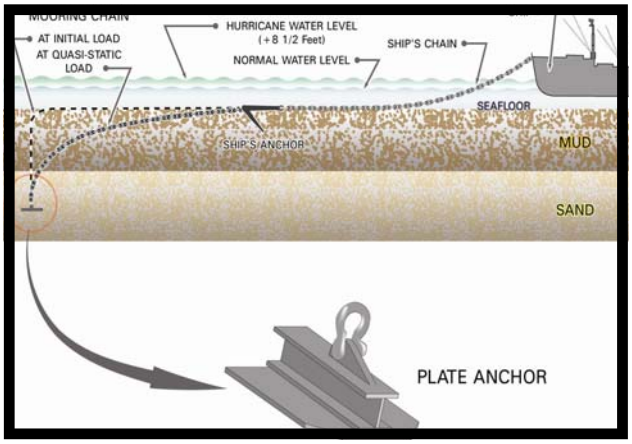


Figure 3

Although no oil leaked and no vessels were sunk in the main shipping channel as a result of Tropical Storm Floyd, MARAD saw the havoc Floyd wrought as a clear warning that environmental protective measures had to be instituted.

Since 1999, MARAD has worked with the U.S. Coast Guard and the Commonwealth of Virginia to put a detailed emergency response plan in place, and to improve the anchor system holding the ships in place. The challenge to any anchor system is that the bottom of the James River is composed of primarily loose silt and mud. Traditional ships' anchors, such as those of ships at the

JRRF, were designed primarily for anchoring ships in sand or gravel which generate a higher holding power. As a result of research, MARAD entered into a multi-year interagency support agreement with the Naval Facilities and Engineering Command (NAVFAC) to design and install a high holding power "plate anchor" system at the JRRF to better withstand future hurricanes. *(See Figures 1-3)*

The new plate anchor system underwent a serious test on September 18, 2003, when Hurricane Isabel roared up the James River. Winds were estimated in excess of 85 MPH with an accompanying storm surge of more than 6 feet. This powerful storm caused widespread damage and flooding across the entire Hampton Roads area. A group of JRRF employees remained on station during the storm; in fact, several spent the night on a tugboat on the river. They provided instant assessments to the Region Office, which passed them on to MARAD headquarters.

The plate anchor system held firm. While there were several breaks of mooring wires, and several ships shifted positions within their nests, there was not the widespread disruption to the anchorage seen during Tropical Storm Floyd, which was a less powerful storm. There was no oil spilled, nor was there blockage of the shipping channel as a result of Hurricane Isabel.

There was significant flooding of the shoreside facilities, damage to the main pier and to the electrical power supply system, but the possible dangers to navigation and the environment were successfully avoided.

Ready Reserve Force (RRF) Environmental Program

Although the "public vessel status" of the Ready Reserve Force (RRF) exempts the ships from compliance with the Oil Pollution Act of 1990, MARAD takes its environmental stewardship role seriously, and maintains a United States Coast Guard approved Vessel Response Plan for all RRF tankers and a Shipboard Oil Pollution Emergency Plan for all RRF non-tankers. In addition, MARAD also maintains an Emergency Response Plan and Tactical Response Plan at the three National Defense Reserve Fleet (NDRF) sites.

MARAD pursues a very aggressive oil spill prevention and containment policy. This policy requires oil spill containment booms at all outport sites to be in place around each individual RRF vessel or nest of vessels whenever physically possible or otherwise positioned adjacent to the vessel and readily deployable if an oil spill occurs. MARAD has oil spill kits aboard all its vessels, although such kits are required only on tankers.

MARAD carries on a very proactive marine oil spill training program that includes a 24 hour "Initial Responder" training course that is mandatory for all staff appointed Qualified Individuals and the senior licensed ROS RRF crew members (Chief Mate, Chief Engineer and 1st Assistant Engineer). Soon we will provide the follow-up annual 8 hour refresher training to those who have been certified in the 24 hour training curriculum so that they continue to maintain their certification. The training is in complete compliance with OSHA statutory certification requirements.

Environment and Marine Transportation

As maritime trade expands and increases the strain on the land transportation system, so will the potential impacts that maritime transportation has on the environment.

There are two particularly critical environmental impacts associated with the Marine Transportation System: one is the combination of air emissions and energy consumption, and the other is the introduction of aquatic nuisance species, particularly in ballast water.

Air Emissions and Clean Energy. To address air pollutant emissions from marine vessels, MARAD has continued partnerships with governmental agencies, academia, and industry that have focused on fostering research and applying emission reduction technologies.

In 2003, MARAD initiated two research projects supported through the Department of Transportation's Center for Climate Change and Environmental Forecasting, to develop a current vessel emission inventory and assess large diesel engine retrofit emission reduction technologies. In addition, MARAD procured a Geographic Information System (GIS) that will ultimately provide detailed, applied spatial analyses of emission concerns and scenarios related to short sea shipping and landside congestion.

Aquatic Nuisance Species. Invasive species introductions are increasing both in frequency and in the extent of damage they cause to the Nation's marine transportation system, the human and natural environment, and the nation's economy.

MARAD has addressed this complex issue by developing the Federal Ballast Water Demonstration Project (FedBal), which involves several Federal and private stakeholders that provide a seamless process to test and develop ballast water treatment systems. This three-phased approach is being designed to move technology testing from the lab to stationary ships and ultimately to commercially operating vessels.

In FY 2003 two ballast water treatment technologies were tested aboard MARAD vessels, with both receiving funding from the MARAD, National Oceanic Atmospheric Administration, and the United States Fish and Wildlife Service. The technologies consist of a system that uses a combination of filtration and frequency sonic contact reactor with ozone injection. The test phase was successfully completed in late October and the system is expected to be tested onboard a commercial vessel with the assistance of the Ship Operating Cooperative Program (SOCP) participants.

The second system, which combines filtration, ultraviolet radiation, and biocides completed the second phase of testing onboard a MARAD ship in December. The University of Maryland and its partner Hyde Marine are expected to move to commercial vessel tests with a private company in FY 2004.

Marine Transportation Industry Outreach. MARAD continues to publish its quarterly *Report on Port and Shipping Safety and Environmental Protection* (reports 66-69 during FY 2003). These reports summarize activities at the international and national levels concerning safety and environmental protection matters related to ports and shipping. Of particular importance are the summaries of activities of the IMO. Report copies can be found at the following Internet addresses: http://www.marad.dot.gov, http://www.marad.dot.gov/nmrec, and http://www.marad.dot.gov.

Shipbuilding and the Environment. MARAD assures that its Title XI loan guarantee projects for building ships and improving shipyards are in compliance with applicable environmental requirements. Moreover, MARAD has made significant strides in establishing itself as a leading and coordinating force in research, development and

demonstration in the critical areas of environmentally efficient marine propulsion systems. This important work has been carried on by significant funding and in-kind contributions from at least three dozen other partners from the federal, state and local governments, private sector and academia. In addition, MARAD is represented on the interagency DOT team exploring the potential of hydrogen as an alternative, clean fuel. Through these activities, MARAD is the recognized leader in the investigation, demonstration and promotion of energy efficient, propulsion systems.

Dredging. MARAD addresses dredging and dredged-material-management issues related to impacts to national ports and harbors through active participation on the National Dredging Team (NDT) and Regional Dredging Teams. The new Action Agenda for the NDT focuses on four main areas: beneficial uses of dredged material, sediment management, emerging issues, and strengthening regional teams. Federal agencies participating on the NDT are the Army Corps of Engineers, the Environmental Protection Agency, the National Oceanic and Atmospheric Administration, MARAD, the Fish and Wildlife Service, and the Coast Guard.

Environmental Stewardship. MARAD continues to protect the environment by ensuring that its facilities, ships, and programs are in compliance with environmental laws, regulations, orders, and treaties. This is accomplished by conducting internal environmental compliance audits of facilities and ships that enable the Agency to take significant steps toward improving facility and vessel environmental compliance, while enhancing environmental stewardship in our communities. Since 1992, MARAD has conducted two separate rounds of multi-media environmental compliance audits.

Deficiencies identified in the audits were budgeted and corrected. MARAD continued conducting of environmental audits with a third round of that began in FY 1999 and was completed in FY 2002. There were no deficiencies found at any of the MARAD facilities.

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As a result of these reviews, MARAD has dramatically increased facility compliance and its environmental stewardship initiatives. In all fleet facilities, the amounts of toxic chemicals were below EPA reporting thresholds. MARAD successfully completed several key environmental projects including aboveground and underground storage tank removal.

The MARAD-operated USMMA has dramatically increased its use of environmentally friendly landscaping in an effort to reduce runoff into the Long Island Sound. MARAD is actively reducing the use of selected hazardous substances at all facilities each year, so that by December 31, 2006, there will be an overall reduction of 50 percent.

This year, MARAD launched the pilot phase of a multi-year program to develop and integrate a robust environmental management system into its programs and activities. The pilot phase of the project will focus on MARAD fleet sites and EMS training for appropriate agency personnel. At the conclusion

of the pilot phase of the project, MARAD will expand the application of EMS through other agency programs.

The Maritime Administration's Sir Ernest Shackleton Leadership Award

Organizational Excellence

Department of Transportation and Maritime Administration Objective:

Organizational Excellence. Advance the President's Management Agenda

New Maritime Administration (MARAD) Strategic Plan for 2003 - 2008. In September 2003, MARAD completed development of a new strategic plan covering the years 2003-2008. This strategic plan specifically spells out MARAD's mission, its expected achievements, and the strategies and actions that the agency will pursue in fulfilling our public mandate into people. The new plan is available on line at the MARAD web site http://www.marad.dot.gov.

PRESIDENTS' MANAGEMENT AGENDA

Budget and Performance Integration Initiative

MARAD continues to make progress in implementing the President's budget and performance integration initiative. In keeping with direction from the Department of Transportation (DOT) and the Office of Management and Budget, during FY 2003 MARAD produced an integrated performance budget request for FY 2005. FY 2003 also marked the first year that MARAD developed a budget request as a component of DOT's appropriation bill. Although MARAD has been an operating administration of DOT for more than 22 years, MARAD's budget request previously was included in the Commerce, Justice, State and the Judiciary Appropriation Act. With the creation of the Department of Homeland Security in FY 2003, Congress shifted the jurisdiction for MARAD's budget request to the new Transportation, Treasury, and Independent Agencies Subcommittee of the House Appropriations Committee.

MARAD conducted annual and quarterly performance reviews of programs during FY 2003. The focus of the 2003 reviews was the development of 34 potential new performance measures. Use of these new measures will strengthen MARAD's performance discussions in budget requests and also help to demonstrate the link between MARAD's programs and the achievement of its strategic objectives and outcomes. MARAD also began to explore creation of efficiency measures due to the impending use of the Office of Management and Budget's Program Assessment Rating Tool in the FY 2006 budget process.

MARAD began a managerial cost accounting effort in 2003. This effort is designed to tie our accounting data to our resource requests and performance results. The effort is scheduled for completion by July 2004.

Integrating Business Strategies and Contracts

During FY 2003, MARAD continued developing business strategies and contracts that support the accomplishment of its missions and the President's Management Agenda. Major accomplishments during the year include the following:

- Provided key contracting support for the activation of 40 surge sealift vessels of the Ready Reserve Force (RRF) in direct support of Operations Enduring Freedom and Iraqi Freedom and the war on terror ism;
- Designed and deployed an upgraded version of the all-electronic, web-based E-grant system that MARAD pioneered in 2002 to facilitate its award of 77 grants totaling $92 million to secure the Nation's port facilities. The Transportation Security Administration accepted responsibility for the updated system in early 2003, and used it to award 199 additional grants totaling $170 million in June, 2003;
- Completed a major Office of Management and Budget Circular A-76 cost-

comparison study of approximately 195 full-time positions at the three National Defense Reserve Fleet sites. The study represents the biggest block of commercial-type work in MARAD's job inventory and gives MARAD a "green" status under the President's competitive-sourcing scorecard. The process culminated on September 10, 2003, with the selection of the government's Most Efficient Organization (MEO) offer, which meant those functions would not be outsourced.

- Negotiated and awarded seven contracts to scrap 25 environmentally at-risk vessels. These contracts represent a significant step toward meeting congressional mandates and achieving one of DOT's high priorities – responsible disposal of obsolete vessels;
- Awarded, using electronic commerce methods, over $419 million through more than 3,200 separate contract actions, in direct support of the President's E-Government initiative;
- Entered into an innovative business partnership with the Port of Anchorage, Alaska, to complete a major renovation of that port over 10 years; and
- Continued the effective, ongoing administration of major contracts, including but not limited to, operation and maintenance of the RRF, logistics support to the RRF, information technology support for the agency, and food service, janitorial service and sewage treatment at the U. S. Merchant Marine Academy.

Human Capital

MARAD's employment totaled 855 at the end of FY 2003. In 2003, MARAD hired a total of 30 employees; 60 percent of the new hires were females and 30 percent were minority employees. There were 27 retirements alone in FY 2003.

During the fiscal year, MARAD developed a number of initiatives which supported the President's Management Agenda's Human Capital Goal. The agency has developed an external recruitment, leadership planning, and succession planning strategy to increase the participation of minorities, women, and persons with disabilities in managerial and executive ranks.

Two Career Opportunities Training Agreement Program (COTA), formerly Upward Mobility, positions were established. No positions were advertised under MARAD's Career Enhancement Program or the Department's Rotational Assignment Program.

Sixty-two applications were approved for tuition assistance through the MARAD Tuition Assistance Program.

MARAD employees received the following awards: three received the Secretary's Silver Medal, one received the Excellence Award, one received the EEO/Affirmative Action Award, and one received the Volunteerism/ Community Service Award. In addition, 18 MARAD employees, as a group, received the Secretary's Team Award and 183 MARAD employees received the Partnering for Excellence Award. Fourteen employees received the Maritime Administrator's Bronze Medal Award, and one employee received MARAD's EEO Award in recognition of and appreciation for contributions made toward the furtherance of Equal Employment Opportunity.

MARAD's one-year pilot of its restructured Mentoring Program, Working to Achieve Your Vision of Excellence and Success (WAVES) was a success. Twenty-six students graduated and there is enthusiastic support for this mentoring program. The program is continuing with another class of eight students.

MARAD also developed two internal employee communications tools--the quarterly newsletter *TIDES (Tips and Ideas on Diversity and EEO Strategies*), the monthly newsletter "*EBBs EEO Bits and Bites*", and "*It All Begins With You*", a program that encourages employees to share their ideas and suggestions for improving the organization and encourage cultural changes.

Expanded Electronic Government

This year MARAD's information technology focus has been on information systems security (INFOSEC) and Enterprise Architecture (EA). Several upgrades have been made to the network that afford MARAD greater protection against hackers, viruses, and other security breaches. All MARAD sites have intrusion detection and prevention capabilities, including firewall and spyware protection.

MARAD also performed risk assessments and certification and accreditation work on major systems that will continue into the next year. All MARAD employees have received information systems security training. MARAD has worked closely with the

Office of the Secretary of Transportation (OST) to implement a Continuity of Operations Plan (COOP) for critical information technology functions, including e-mail and Ready Reserve Force (RRF) applications.

An enterprise architecture document was produced that outlines MARAD's current business and technical environments with recommendations for progressing toward a more integrated and productivity enhancing architecture. The integrated architecture will eliminate functionality and data redundancy in information technology systems while increasing user productivity and management access to data for decision making.

MARAD has also upgraded many information technology services, including increased dial-in speed and Internet access, and is working with OST to migrate to their Virtual Private Network (VPN) solution to provide greater access from off-site locations. Additionally, Section 508 of the Americans with Disabilities Act compliance features were implemented on the top twenty web sites.

Ready Reserve Force (RRF) offices also worked toward updating and improving information technology systems that support the RRF program. Plans begun in earlier fiscal years have created an Information Technology Program Management Office, which has developed a detailed plan and initial schedule milestones to see the modernization project through to full operational capability.

Employee Safety

MARAD maintains an active program intended to provide a safe and healthy workplace for all employees; in FY 2003, MARAD continued to up date this program. Full-time safety and occupational health specialists are assigned to each National Defense Reserve Fleet site and to the U.S. Merchant Marine Academy.

Monthly occupational safety and health inspections are conducted at each work place and identifiable hazards are promptly remedied. Employees have received updated and upgraded Emergency Medical Technician training and instruction in the safe handling of possible hazards, such as flammable liquids, electrical power, and bloodborne pathogens.

MARAD continues its Action Plan for the prevention of asbestos exposures, and continues its safety and health incentives program to lower the injury/illness lost-time

accident rates at the fleet sites. James River Reserve Fleet was the most recent winner of MARAD's Safety Trophy.

Monitoring of Graduate Service Obligations

Graduates of the United States Merchant Marine Academy and Student Incentive Payment recipients graduating from the State Maritime Schools are required to serve in the maritime industry or in the armed services. MARAD has the responsibility for monitoring graduate service obligations. In the past, the compliance reports were manually generated .

In FY 2003, MARAD designed, tested, and implemented use of the Maritime Service Compliance System (MSCS). The new system provides an effective and efficient paperless, web-based system with a user-friendly interface that allows graduates convenience in submitting these annual reports or update personal information on-line. The MSCS also provides a greatly improved tool for monitoring of graduate obligation compliance and supports achievement of the e-government initiative in the President's Management Agenda.

Research, Technology, Demonstration, and Deployment (RTDD) Initiative

MARAD, recognizing the need for more attention to maritime research and innovation, announced a new research focus, unveiling the RTDD web site (http://www.marad.dot.gov/Research) on March 4, 2003. Aimed at encouraging and coordinating research and innovation in the U.S. maritime industry the new effort is based on the recent 2002 report to Congress entitled *Maritime Research and Technology Development* (http://www.marad.dot.gov/publications). That study found that the investment in maritime industry research by the various U.S. Government agencies and industry entities is very low when compared with investments in the other modes of transportation.

An internal coordinating committee was created to support the RTDD effort. Early focus was placed on bringing all components of the industry, academia, and other transportation partners together to share ideas, developments, and assessments of research needs and priorities. The website is a starting point for facilitating collaborative interaction and it is believed that synergistic partnerships can energize the industry. MARAD began to reach out to industry and other government organizations to identify research needs and opportunities and work out common interests and priorities. Initial discussions have taken place through MARAD's several active research Cooperatives and with research working groups of the National Academies' Transportation Research Board (TRB), the Marine Board, some individual organizations, and the Society of Naval Architects and Marine Engineers. An intranet site is under development to assist with better sharing of information and coordination of MARAD research activities.

Customer Satisfaction

All major MARAD programs are evaluated on a three-year cycle, using three forms developed by the MARAD Customer Satisfaction Committee:

- The Customer Service Questionnaire, a mechanisim to evaluate perceptions of how MARAD conducts business, which is mailed out periodically.
- The Program Performance Survey, which identifies areas for improvement in program service or product delivery and to monitor the overall level of customer satisfaction. This survey is sent to

customers of major MARAD programs.
- The Conference/Exhibit Survey form, which is used to evaluate MARAD's performance at MARAD-sponsored and co-sponsored conferences and exhibits in which MARAD participates. It is distributed at such conferences.

Information using these three surveys has been analyzed and included in The *Maritime Administration Customer Satisfaction Report - August 2003* report, which has been prepared for publication and is currently available on MARAD's web site (http://www.marad.dot.gov) under the customer service link.

Fifty-two percent of the respondents rated MARAD above average or excellent in meeting their needs. Forty-six percent interact with MARAD two times or less a month. Thirty-one percent have been customers of MARAD 10 years or less, while 12 percent have interacted with us more than 30 years. Thirty-seven percent cited MARAD as their primary supplier for maritime information and support.

On specific comparison factors to other entities with which they interact, 41 percent rated MARAD better, while only 7 percent rated the agency worse. They responded positively about friendliness (52 percent), professionalism (50 percent), and willingness to work with them (48 percent).

Four areas needing improvement were responsiveness (12 percent), timeliness (8 percent) completeness (8 percent), and willingness to work with customers (8 percent). However, 87 percent stated they would recommend MARAD, and all that responded indicated they would use MARAD services again.

Legal Services and Agency Decisions

Freedom of Information Act (FOIA). MARAD began the fiscal year with 88 carryover Freedom of Information Act ("FOIA") requests for access to records, and received 183 new requests. One hundred eighty-nine FOIA requests were processed during the fiscal year. Eighty-two requests were pending at year's end. There were no FOIA appeals from initial decisions.

Environmental Issues. The most significant set of environmental issues arose from the scrapping of obsolete vessels. Congress provided MARAD with funding for dismantling and recycling of vessels and also created a pilot program allowing MARAD to export some of these vessels for dismantling and recycling. Pursuant to this authority, MARAD entered into a contract for the dismantling and recycling of some of these vessels by an environmentally responsible contractor in the United Kingdom.

Litigation ensued in both the United States and the United Kingdom. Four of the NDRF vessels were allowed to proceed to the United Kingdom. Further hearings were set for the spring of 2004 on the remaining vessels governed by the U.K. contract.

AUDITS

In FY 2003 the Department of Transportation's (DOT's) Office of Inspector General (OIG) and the General Accounting Office (GAO) started audit work or submitted principal final reports on MARAD activities as follows:

OIG

"Financial Statements FY 2003 – DOT" (Work Underway – Project No. 03F3016F000, Notification Letter Dated: November 13, 2002) File 10-311

"Use of Contract Audit Services – DOT" (Work Underway – Project No. 03F3009F000, Notification Letter Dated: February 4, 2003) File 10-312

"Rulemaking Tracking System – DOT" (Work Underway – Project No. 03F3013F000, Notification Letter Dated: March 3, 2003) File 10-313

"Inactive Obligations in DOT" (Work Underway – Project No. 03F3021F000, Notification Letter Dated: April 10, 2003) File 10-314

"Policy and Procedures for Locating Federal Facilities in Rural Areas" (Final OIG Audit Report #SC-2003-088, Dated: September 26, 2003) File 10-316

"Computer Security of Delphi Financial Management System" (Final OIG Audit Report #FI-2003-094, Dated: September 30, 2003) File 10-317

"Information Security Program – DOT" (Final OIG Audit Report #FI-2003-086, Dated: September 25, 2003) File 10-318

GAO

"CIVIL PENALTIES: Agencies Unable to Fully Adjust Penalties for Inflation Under Current Law" (Final GAO Report #GAO-03-409, Dated: March 14, 2003) File 11-392

"ELECTRONIC GOVERNMENT: Progress in Promoting Adoption of Smart Card Technology" (Final GAO Report #GAO-03-144, Dated: January 3, 2003) File 11-395

"MARITIME ADMINISTRATION: Weaknesses Identified in Management of the Title XI Loan Guarantee Program" (Final GAO Report #GAO-03-657, Dated: June 30, 2003) File 11-396

"PERFORMANCE AND ACCOUNTABILITY: Reported Agency Actions and Plans to Address 2001 Management Challenges and Program Risk"(Final GAO Report #GAO-03-225, Dated: October 31, 2002) File 11-397

"BUILDING SECURITY: Security Responsibilities for Federally Owned and Leased Facilities"(Final GAO Report #GAO-03-8, Dated: October 31, 2002) File 11-402

"Options for Enhancing Freight Transportation" (Work Underway – Job Code 544058 - Notification Letter Dated: October 18, 2002) File 11-403

"Enterprise Architecture Maturity" (Work Underway – Job Code 310248 - Notification Letter Dated: October 31, 2002) File 11-404

"FREEDOM OF INFORMATION ACT: Agency Views on Changes Resulting from New Administration Policy" (Final GAO Report #GAO-03-981, Dated: September 3, 2003) File 11-405

"Alaska Native Village Flooding"(Work Underway – Job Code 360300 - Notification Letter Dated: January 14, 2003) File 11-406

"Innovative Financing and Private Investment in Surface Transportation Projects" (Work Underway – Job Code 544063 - Notification Letter Dated: January 17, 2003) File 11-407

"Major Management Challenges and Program Risk" (Final GAO Report #GAO-03-108, Dated: January 30, 2003) File 11-408

"TRANSPORTATION SECURITY: Federal Action Needed to Help Address Security Challenges" (Final GAO Report #GAO-03-843, Dated: June 30, 2003) File 11-409

"10 Year GPRA Retrospective" (Work Underway – Job Code 450181 - Notification Letter Dated: March 21, 2003) File 11-410

"Purchase Card Management" (Work Underway – Job Code 120232 - Notification Letter Dated: January 8, 2003) File 11-411

"Selected E-Government Collaboration Efforts" (Work Underway – Job Code 310359 - Notification Letter Dated: May 7, 2003) File 11-413

"Information Technology (IT) Training Practices of Federal Agencies" (Work Underway – Job Code 310446 - Notification Letter Dated: May 15, 2003) File 11-414

"Propane Price Volatility" (Work Underway – Job Code 360217 - Notification Letter Dated: June 12, 2003) File 11-415

"Federal Data Mining" (Work Underway – Job Code 310366 - Notification Letter Dated: May 23, 2003) File 11-416

"Issues in Intermodal Transportation System Development" (Engagement Code CA001 - Notification Letter Dated: June 20, 2003) File 11-418

"Implementation of the Maritime Transportation Security Act of 2002" (Work Underway – Job Code 440226 - Notification Letter Dated: July 26, 2003) File 11-419

"Department of Energy's Laboratory-Directed R&D Program" (Work Underway – Job Code 360368 - Notification Letter Dated: August 4, 2003) File 11-420

"The Passenger Vessel Services Act" (Work Underway – Job Code 544080 - Notification Letter Dated: August 4, 2003) File 11-421 Letter Dated: September 9, 2003) File 11-422

"Transportation Security R&D Questionnaire" (Work Underway – Job Code 540068 - Notification Fication Letter Dated: September 9, 2003) File 11-422.

Report to Congress

The Department of Defense Authorization Act for 2001, Public Law 106-398, contains the following section on a report to be submitted to the Congress.

SEC. 3506.

REPORTING OF ADMINISTERED AND OVERSIGHT FUNDS.

The Maritime Administration, in its annual report to the Congress under section 208 of the Merchant Marine Act, 1936 (46 U.S.C. App. 1118), and in its annual budget estimate submitted to the Congress, shall state separately the amount, source, intended use, and nature of any funds (other than funds appropriated to the Administration or to the Secretary of Transportation for use by the Administration) administered, or subject to oversight, by the Administration.

The Maritime Administration (MARAD) receives funding from other Federal agencies primarily through reimbursable agreements. Funding from outside MARAD is placed in four accounts.

The largest reimbursement to MARAD is transferred by the Department of the Navy for MARAD's operation, maintenance and management of the National Defense Reserve Fleet (NDRF) Ready Reserve Force (RRF). Most of this funding is placed in the Vessel Operations Revolving Fund (VORF) account. This account covers all non-salary costs associated with maintaining the RRF/NDRF. In 2003, the Department of the Navy transferred $20 million for disposal of obsolete vessels in VORF. Funds in the amount of $225 million for the deployment and operation of Operation Iraqi Freedom were also transferred to VORF.

The funds transferred into the Operations and Training account come from approximately 40 reimbursable agreements from other Federal agencies for a variety of purposes. The largest ongoing reimbursable tran action into this account comes from the Navy and provides funding for the salary and administrative support costs for the RRF and the NDRF maintenance personnel.

The funds deposited into the Special Studies Account originate from the sale of customized data products to the public. These customized data products are generated from the MARAD/U.S. Army Corps of Engineers U.S. Foreign Waterborne Transportation Statistics. The specialized data products consist of U.S. trade, vessel, cargo and related data and include economic analyses and in-depth market assessments of the major marine industry segments. MARAD charges customers a fee to recover the cost of producing these special reports and studies.

The funds deposited into the Gifts and Bequests account are provided by the U.S. Merchant Marine Academy Alumni Association. The Association provides donated funds to assist the Academy, the regiment of Midshipmen and faculty in meeting the mission of the Academy. The funds support the music, arts, morale, athletics, and chapel programs.

The report that begins on the following page includes actual reimbursement authority for FY 2003, and reimbursement authority through the first quarter of FY 2004.

Report to Congress
Funds Administered by the Maritime Administration
Not Appropriated to the Maritime Administration
Fiscal Year 2003

Funds are Credited in Vessel Operating Revolving Fund (VORF)

Fund Source	Intended Use	Amount
U.S. Department of the Navy (Anacostia Annex)	CHESAPEAKE Operation, quarterly funding, war bonus/overhaul.	$8,622,850
U.S. Department of the Navy (Anacostia Annex)	GOPHER STATE, Iraqi Freedom Operation	$8,704,750
U.S. Department of the Navy (Anacostia Annex)	PETERSBURG operation hire/misc./security	$10,480,620
U.S. Department of the Navy (Anacostia Annex)	CAPE JACOB, fouth quarter funding, security	$13,396,598
U.S. Department of the Navy (Anacostia Annex)	CAPE HENRY, emergency sustainment	$2,005,000
U.S. Department of the Navy (Anacostia Annex)	Continuation of no notice activation-TURBO 02-04	$428,000
U.S. Department of the Navy (Anacostia Annex)	CAPE GIBSON or CAPE GIRARDEAU - Cart rig team training	$2,500
U.S. Department of the Navy (Anacostia Annex)	National Defense Sealift Fund for activation/deacti-vation of CAPE JOHNSON AND CAPE JOHN	$700,000
U.S. Department of the Navy (Anacostia Annex)	National Defense Sealift Fund for operation of CAPE JOHN and CAPE JOHNSON	$4,460,000
U.S. Department of the Navy (Anacostia Annex)	CAPE GIBSON, Operation Iraqi Freedom	$878,735
U.S. Department of the Navy (Anacostia Annex)	CAPE JACOBS dry docking	$300,000
U.S. Department of the Navy (Anacostia Annex)	Equipment installations and upgrades for TAVB	$170,000
U.S. Department of the Navy (Anacostia Annex)	Support of travel costs incurred by MARAD personnel for semi-annual condition inspection	$4,100
U.S. Department of the Navy (Anacostia Annex)	GOPHER STATE, deactivation/drydock	$4,000,000
U.S. Department of the Navy (Anacostia Annex)	USS GEM STATE for training	$6,000
U.S. Department of the Navy (Anacostia Annex)	RRF/NDRF operating and maintenance costs	$198,269,186
U.S. Department of the Navy (Anacostia Annex)	CAPE JOHNSON (cleaning of holds)	$5,140
U.S. Department of the Navy (Anacostia Annex)	CAPE WRIGHT (fireside & waterside)	$10,500
U.S. Department of the Navy (Anacostia Annex)	CAPE GIRARDEAU (fuel/normal wear and tear/clean-up)	$2,500
U.S. Department of the Navy	CAPE TRINITY, activation/deactivation	$300,000

Report to Congress
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U.S. Department of the Navy (Anacostia Annex)	CAPE TAYLOR, activation/deactivation	300,000
U.S. Department of the Navy (Anacostia Annex)	CAPE TEXAS, activation/deactivation	300,000
U.S. Department of the Navy (Anacostia Annex)	CAPE KNOX, activation/deactivation	300,000
U.S. Department of the Navy (Anacostia Annex)	CAPE KENNEDY, activation/deactivation	300,000
U.S. Department of the Navy (Anacostia Annex)	CAPE VICTORY, activation/deactivation	300,000
U.S. Department of the Navy (Anacostia Annex)	CAPE VINCENT, activation/deactivation	300,000
U.S. Department of the Navy (Anacostia Annex)	CAPE DOMINGO, activation/deactivation	275,000
U.S. Department of the Navy (Anacostia Annex)	CAPE DOUGLAS, activation/deactivation	275,000
U.S. Department of the Navy (Anacostia Annex)	CAPE DIAMOND, activation/deactivation	275,000
U.S. Department of the Navy (Anacostia Annex)	CAPE DECISION, activation/deactivation	275,000
U.S. Department of the Navy (Anacostia Annex)	CAPE JOHNSON, activation(charter hire)	6,138,000
U.S. Department of the Navy (Anacostia Annex)	CAPE JOHN (charter hire/port charges)	7,474,000
U.S. Department of the Navy (Anacostia Annex)	TAVB reefers, Containers & USMC office and medical equipment	80,000
U.S. Department of the Navy (Anacostia Annex)	CAPE CURTIS, activation	5,229,037.45
U.S. Department of the Navy (Anacostia Annex)	CAPE WRIGHT, activation	6,245,009.7
U.S. Department of the Navy (Anacostia Annex)	CAPE RISE, activation/deactivation	300,000
U.S. Department of the Navy (Anacostia Annex)	CAPE RACE, activation/deactivation	300,000
U.S. Department of the Navy (Anacostia Annex)	CAPE EDMONT, activation	275,000
Naval Sea Systems	Quarterly support for NDRF inactive fleet	50,500

Command (NAVSEA)	maintenance	
NAVSEA	US Navy Sealift R&D Technology Demo test support	$340,000
NAVSEA	USNS BEAVER STATE engineering review	$10,000
NAVSEA	Funds earmarked for disposal of obsolete NDRF ships	$20,000,000
NAVSEA	FLICKERTAIL STATE/CORNHUSKER STATE, R&D Technology demo test	$400,000
U.S. Navy-COMNAVELSF	Naval Reserve training onboard CAPE GIBSON	$1,551
COMNAVELSF	Training aboard CAPE GIRARDEAU	$2,500
COMNAVELSF	To utilize the GEM STATE for training	$700
COMNAVELSF	Training aboard CAPE GIRARDEAU	$5,000
COMNAVELSF	Training aboard CAPE GIRARDEAU	$2,500
COMNAVELSF	Delmar exercises to utilize FLICKERTAIL STATE for cargo handling training	$11,400
COMNAVELSF	Training aboard CAPE GIRARDEAU	$2,500
COMNAVELSF	Training aboard CAPE ALEXANDER	$2,500
U.S. Army	Training aboard RRF vessel	$1,250
U.S. Army	1176th TB for use of CAPE WASHINGTON for training	$1,250
U.S. Army, HECSA	Annual custody of Sturgis at the James River Reserve Fleet	$2,000
Military Sealift Command (MSC)	Chemical, Biological, & Radiological-Defense (CBR-D) Officer Training	$46,000
MSC	Removal of two steering gear hydraulic pumps from EX-WABASH	$325
MSC	Maintenance of EX-MOUNT HOOD/ EX-ROANOKE/EX-WABASH	$700
MSC	Cart Rig Team training aboard SS CAPE GIRARDEAU	$2,500

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MSC	Training aboard CAPE GIRARDEAU	3,500
MSC	USNS KILAUEA, to support Berthing and utilities	60,000
MSC	TURBO 03-04 Activation	8,770,503
MSC	Training aboard CAPE GIRARDEAU	2,500
MSC	Training on CAPE GIRARDEAU	2,500
MSC	Removal and crating of items from the EX-USS MOUNT HOOD	173
Navy Engineering Logistics Office (NELO)	Operation & maintence of a Maritime training vessel	450,475
NELO	Repairs on a Maritime training vessel	1,465,000
Total Vessel Operating Revolving Fund		**313,325,353.2**

Report to Congress
Funds Administered by the Maritime Administration
Not Appropriated to the Maritime Administration
Fiscal Year 2003

Funds are Credited to Operations and Training (O&T)Office

Fund Source	Intended Use	Amount
Naval Sea Systems Command(NAVSEA)	Salary support costs for the Inactive Fleet Maintenance	$799,500
NAVSEA	Program Management Support	$30,000
NAVSEA	Salary support for R&D Technology Demo test	$10,000
U.S. Marine Corps	Upkeep for training aboard USNS PATRIOT STATE	$10,100
Bureau of Labor Statistics (BLS)	Monthly import and trade data	$2,500
Bureau of Economic Analysis (BEA)	Waterborne Import & import statistics in calculating US trade	$18,000
Department of the Navy Anacostia Annex	Salary support costs from the National Defense Sealift Fund for operation of CAPE JOHN/JOHNSON	$100,000
DOT/RSPA	A project to be conducted under auspices of the Center for Climate Change & Environmental Forecasting	$38,000
Military Sealift Command (MSC)	Steering gear hydraulic pumps removal from EX-WABASH	$7,600
MSC	Contribution to ship structure committee	$80,000
MSC	Maintenance of EX-Mt HOOD/WABASH/ ROANOKE	$44,300
MSC	Removal and crating of items from the EX-USS MOUNT HOOD	$10,775
MSC	Removal and crating of items from the EX-USS MOUNT HOOD	$5,627
Space & Naval Warfare System Command	Ship Tracking and Routing System (STARS)	$150,000
U.S. Department of Commerce, NOAA	Ship Operations Cooperative Program (SOCP) membership dues	$5,000
National Oceanic Atmospheric Administration (NOAA)	Joint Ballast Water Project	$290,000
DOD-U.S. Transportation Command	Support cooperative advanced logistics R&D CCDOTT management	$100,000
United States Coast Guard (USCG)	Develop and maintain an electronic grants system for the Port Security Program	$252,000
USCG	Administrative support services for Internat'l standards org. technical advisory group (TAG)	$60,000
USCG	Mooring and retention of USCG vessels at SBRF	$11,000

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Funds Administered by the Maritime Administration
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United State Coast Guard (USCG)	SOCP membership dues	$5,000
National Science Foundation (NSF)	Tech. support in connection with a new Antarctic Research Vessel/other related services as required	$174,500
National Data Buoy Center	Buoy Storage	$2,744
Military Traffic Managemt Command (MTMC)	Support of ICODES Project	$175,000
MTMC	Regional Agile Port Intermodal Distribution (RAPID) System	$2,000,000
DoD-Office of Economic Adjustment	Port of Achorage Intermodal Expansion	$5,000,000
U.S. Corps of Engineering	Meeting of the Interamerican Committee on Ports Organization of American States in Merida, Mexico	$2,500
U.S. Corps of Engineering	Foreign Waterborne (regular import/export cargo/ vessel movements)	$368,000
U.S. Army, HECSA	Support of STURGIS at the James River Reserve Fleet	$23,000
CIA	Provision of services, etc from Lloyds Maritime Intelligence Unit	$354,617
U.S. Department of the Navy (Anacostia Annex)	Salary support costs for RRF/NDRF	$37,702,814
MARAD	Title XI operating costs	$4,099,181
DOT/OST	Information technical support services-OST Civil Rights	$6,000
Total Operations and Training (O&T)		**51,937, 758**

Report to Congress
Funds Administered by the Maritime Administration
Not Appropriated to the Maritime Administration
Fiscal Year 2003

Fund Source		Intended Use	Amount
Gifts and Bequests Trust Fund (GF)			
GF	USMMA		3,339,025
Total Gifts and Bequests Trust Fund (GF)			**$3,339,025**
Global Maritime and Transportation			6,093,740
	USMMA Global Maritime & Transportation (GMATS) Program (Non-appropriated) from tuition paid by trainees	The mission of the U.S. Merchant Marine Academy is to offer leading-edge education and training to maritime and transportation professionals. The GMATS program is a non-appropriated fund instrumentality" (NAFI) of the U.S. Merchant Marine Academy generating funds through meal and lodging fees	
Total Global Maritime and			**$6,093,740**
Special Studies, Services, and Projects Trust Fund (SSSP)			70,604
	U.S. Department of the Army Corp of Engineers (USACE)	The other flow of funds into MARAD that does not involve reimbursable agreements comes from the sale of data and data products, primarily from the MARAD/USACE United States Foreign Waterborne Statistics (USFWTS)	
Total Special Studies, Services, and Projects Trust Fund (SSSP)			**$70,604**

Report to Congress
Funds Administered by the Maritime Administration
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Fiscal Year 2003

Summary 2003

Summary 2003

Total Vessel Operating Revolving Fund	**$313,325,353**
Total Operations & Training	**$51,937,758**
Total Gifts and Bequests	**$3,339,025**
Total GMATS	**$6,093,740**
Total Special Studies, Services, and Projects	**$70,604**
Total FY 2003 Funding Authority	**$374,695,876**

This is the total funding authority received/accepted through fiscal year 2003, and cannot exceed the estimated offsetting collections apportioned by the Office of Management and Budget.

Report to Congress
Funds Administered by the Maritime Administration
Not Appropriated to the Maritime Administration
1st Quarter, Fiscal Year 2003

Special Studies, Services, and Projects Trust Fund (SSSP)

Account Funds are Credited to	Fund Source	Intended Use	Amount
Gifts and Bequests Trust Fund (GF)			
GF	USMMA (1/4 of 2003 actual)		$616,563
Total Gifts and Bequests Trust Fund (GF)			**$616,563**
Global Maritime and Transportation School (GMATS)			1,729,625
GMATS	USMMA Global Maritime & Transportation (GMATS) Program (Non-appropriated) from tuition paid by trainees	The mission of the U.S. Merchant Marine Academy GMATS is to offer leading-edge education and training maritime and transportation professionals. The GMATS program is a non-appropriated fund instrumentality (NAFI) of the U.S. merchant Marine Academy funds through tuition, meal and lodging fees. (1/4 of 2003 actual)	
Total Global Maritime and Transportation School (GMATS)			**$1,729,625**
*This amount was derived from the Income Statements provided by the GMATS program. figures have not been audited by an accounting firm			
Special Studies, Services, and Projects Trust Fund			17,651
SSSP	U.S. Department of the Army Corp of Engineers (USACE)	The other flow of funds into MARAD does not involve reimbursable agreements comes from the sale of data and data products, primarily from the MARAD/USACE produced United States Foreign Waterborne Statistics (USFWTS) program. (1/4 of 2003 actual)	
Total Special Studies, Services, and (SSSP) Projects Trust Fund			**$17,651**

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1st Quarter, Fiscal Year 2003

Summary 2004

Total Vessel Operating Revolving Fund	**$204,151,920**
Total Operations & Training	**$29,921,232**
Total Gifts and Bequests	**$616,563**
Total GMATS	**$1,729,625**
Total Special Studies, Services, and	**$17,651**
Total FY 2004 Funding Authority	**$236,419,340**

This is the total funding authority received/accepted through Quarter 1 of fiscal year 2004, and cannot exceed the estimated offsetting collections apportioned by the Office of Management and Budget.

Report to Congress
Funds Administered by the Maritime Administration
Not Appropriated to the Maritime Administration
1st Quarter, Fiscal Year 2003

Funds are Credited to Vessel Operating Revolving Fund (VORF)

Fund Source	Intended Use	Amount
U.S. Department of the Navy (Anacostia Annex)	CAPE GIBSON, additional funding for continued Operation Iraqi Freedom (OIF)	$1,242,000
U.S. Department of the Navy (Anacostia Annex)	1st qtr. - CHESAPEAKE charter hire/port expense/ misc. expense/security/cochin port	$2,226,730
U.S. Department of the Navy (Anacostia Annex)	1st qtr. - PETERSBURG charter hire/port expense/ misc. expense/security	$2,154,630
U.S. Department of the Navy (Anacostia Annex)	1st quarter - CAPE JACOB port expense	$2,137,710
U.S. Department of the Navy (Anacostia Annex)	RRF/NDRF operating and maintenance costs	$195,220,000
U.S. Department of the Navy (Anacostia Annex)	CAPE JACOB (IFO 180)	$286,650
Military Sealift Command (MSC)	CAPE GIRARDEAU Yard and Stay Team Training	$2,500
MSC	Cart Rig Team training onboard CAPE GIRARDEAU	$2,500
U.S. Army, HECSA	STURGIS-custody at the James River Reserve Fleet	$3,500
Naval Personnel Developmt. Command (NPDC)	USS PIGEON overhaul	$2,300
U. S. Navy COMNAVELSF	Training aboard CAPE GIRARDEAU	$2,500
U. S. Navy COMNAVELSF	Training on the CAPE GIRARDEAU and GEM	$8,500
NELO	STATE, DEL MONTE, Operations & Maintenance of a Maritime training Vessel	$560,000
Naval Sea System Command (NAVSEA)	CHESAPEAKE-O&M, N funds for OPDS/OUB alternations	$250,000
NAVSEA	EX-STANDLEY (CG-32) rig for tow	$49,400
USCG	Semi-Annual inspection/repairs to existing Cathodic Protection System on the STATE OF MAINE	$2,000
USCG	PLANETREE and IRIS annual custody costs	$1,000
Total Vessel Operating Revolving Fund (VORF)		**$204,151,920**

Report to Congress
Funds Administered by the Maritime Administration
Not Appropriated to the Maritime Administration
1st Quarter, Fiscal Year 2003

Funds are Credited to Operations and Training (O&T)

Fund Source	Intended Use	Amount
Naval Sea Systems Command (NAVSEA)	Support of required shipboard maintenance of INACTIVE vessels in NDRF	$198,750
NAVSEA	Provide Program Management support	$30,000
II Marine Expeditionary Force (MEF)	To upkeep VBSS ship, USNS PATRIOT STATE for training	$38,100
U.S. Department of Commerce, NOAA	Transfer funds to SOCP for membership including projects and activities implementation	$5,000
U.S. Army, HECSA	STURGIS-custody at the James River Reserve Fleet	$29,060
National Science Foundation	Support in connection with a new Antartic Research Vessel & other related services as required	$150,000
Naval Personnel Developmt Command (NPDC)	USS PIGEON overhaul	$3,675
National Data Buoy Center	Buoy storage at Suisun Bay Reserve Fleet (SBRF)	$4,873
Military Traffic Managemt. Command (MTMC)	Continue ship characteristics data in support of the Inte-grate Computerized Deployment System (ICODES)	$300,000
Defense Logistic Agency HQ	Evaluations & assessment of projects that demonstrate military related Agile Port Technologies	$25,000
U.S. Department of the Navy (Anacostia Annex)	Salary support costs for ships activated during Operation Iraqi Freedom	$29,100,000
USCG	Conducting inspection/repairs to existing Cathodic Protection System on the STATE OF MAINE	$4,150
USCG	Annual custody costs for vessels PLANETREE and IRIS	$32,624
Total Operations and Training (O&T)		**$29,921,232**

Table 14: ODS ACCRUALS AND OUTLAYS BY SHIPPING LINES--JANUARY 1, 1937, TO SEPTEMBER 30, 2003

	Accruals			Outlays	
Net Accrued	LINES	ODS	Recapture	Net Accrual	ODS Accural Liability
Aeron Marine Shipping	$26,079,663	$0	$26,079,663	$26,079,663	$0
American Banner Lines [1]	2,626,512	0	2,626,512	2,626,512	0
American Diamond Lines [1]	185,802	28,492	157,310	157,310	0
American Export Lines, Ltd. [2]	693,821,868	10,700,587	683,121,281	683,121,281	0
American Mail Lines [3]	158,340,739	7,424,902	150,915,837	150,915,837	0
American Maritime Transport	10,813,074	0	10,813,074	10,813,074	0
American President Lines[3]	1,786,443,341	17,676,493	1,768,766,848	1,765.329,763	3,437,085
American Shipping Co.	21,220,420	0	21,220,420	21,220,420	0
American Steamship Co.	76,462	0	76,462	76,462	0
Aquarius Marine Co.	55,288,862	0	54,288,862	54,288,862	0
Aries Marine Shipping	25,291,415	0	25,291,415	25,291,415	0
Asco-Falcon II	587,268	0	587,268	587,268	0
Atlantic & Caribbean S/N [1]	63,209	45,496	17,713	17,713	0
Atlas Marine Co.	62,479,364	0	62,479,364	62,479,364	0
Baltimore Steamship [1]	416,269	0	416,269	416,269	0
Bloomfield Steamship [1]	15,588,085	2,613,688	12,974,397	12,974,397	0
Brookville Shipping, Inc.	6,143,827	0	6,143,827	6,143,827	0
Chestnut Shipping Co.	97,348,830	0	97,348,830	97,348,830	0
Delta Steamship Lines	575,053,817	8,185,313	566,868,504	566,868,504	0
Ecological Shipping Co.	4,968,943	0	4,968,943	4,968,943	0
Equity Carriers, Inc.	1,497,110	0	1,497,110	1,497,110	0
Farrell Lines Incorporated	775,439,460	1,855,375	773,584,085	771,858,948	1,725,137
First American Bulk Carriers Corp.	58,257,325	0	58,257,325	55,030,812	3,226,513
Gulf & South American Steamship	34,471,780	5,226,214	29,245,566	29,245,566	0
Lachmar	16,148,899	0	16,148,899	16,148,899	0
Lykes Bros. Steamship Co., Inc.	2,192,182,207	52,050,598	2,140,131,609	2,136,714,228	3,417,381
Margate Shipping Co.	144,603.929	0	144,603,929	144,603,929	0
Moore-McCormack Bulk Transport	137,384,014	0	137,384,014	137,384,014	0
Moore-McCormack Lines [8]	734,212,876	17,762,445	716,450,431	716,450,431	0
N.Y. & Cuba Mail Steamship	8,090,108	1,207,331	6,882,777	6,882,777	0
Ocean Carriers	45,994,825	0	45,994,825	45,994,825	0
Ocean Chemical Carriers, Inc.	31,323,821	0	31,323,821	31,323,821	0
Ocean Chemical Transport, Inc.	34,092,353	0	34,092,353	34,092,353	0
Oceanic Steamship[5]	113,947,681	1,171,756	112,775,925	112,775,925	0
Pacific Argentina Brazil Line [1]	7,963,936	270,701	7,693,235	7,693,235	0
Pacific Far East Line [6]	283,693,959	23,479,204	260,214,755	260,214,755	0
Pacific Shipping Inc.	18,840,400	0	18,840,400	18,840,400	0
Prudential Lines[4]	641,647,708	24,223,564	617,424,144	617,424,144	0
Prudential Steamship [1]	26,352,954	1,680,796	24,672,158	24,672,158	0
Sea Shipping	25,819,800	2,429,102	23,390,698	23,390,698	0
Seabulk Transmarine I & II, Inc.	35,845,320	0	35,845,320	35,845,320	0
South Atlantic Steamship[1]	96,374	84,692	11,682	11,682	0
States Steamship	231,997,100	5,110,997	226,886,103	226,886,103	0
United States Lines[7]	750,518,013	54,958,689	695,559,324	695,559,324	0
Vulcan Carriers	29,847,656	0	29,847,656	29,847,915	0
Waterman Steamship Corp.	462,755,673	0	462,755,673	460,289,472	2,466,201
Worth Oil Transport	17,428,314	0	17,428,314	17,428,314	0
Total Regular ODS	$10,402,302,117	$238,186,435	$10,164,115,682	$10,147,607,097	$14,272,317
Soviet Grain Programs [9]	$147,132,626	$0	$147,132,626	$147,132,626	$0
Total ODS	**$10,549,434,743**	**$238,186,435**	**$10,311,248,838**	**$10,,295,857,547**	**$14,272,317**

[1] No longer subsidized or combined with other subsidized lines..
[2] AEL was acquired by Farrell Lines, March 29, 1978.
[3] APL merged its operations with AML's October 10, 1973.
[4] Changed from Prudential-Grace Lines, Inc., August 1, 1974.
[5] Purchased by Lykes Bros. Steamship Co., Inc.
[6] Went into receivership August 2, 1978
[7] Ceased to be subsidized in November 1970, returned as a subsidizedcarrier in January 1981.
[8] Purchased by United States Lines, Inc. October 1983.
[9] No longer operative.
[10] Farrell Lines merged its operations with Argonaut, December 20, 1994.

U.S. DEPARTMENT OF TRANSPORTATION--Maritime Administration

Exhibit 1. Statement of Financial Condition
September 30, 2002 and September 30, 2003
(Dollars in Thousands)

	September 30	
ASSETS	**2002**	**2003**
Selected Current Assets		
Funded Balances with Treasury:		
Budget Funds	$751,596	$ 618,293
Deposit Funds	10	10
	751,606	618,303
Federal Security Holdings	276,291	188,965
Accounts Receivable:		
Government Agencies	181,156	137,740
The Public		32
	181,156	137,772
Advances To:		
Government Agencies		
The Public		
Total Selected Current Assets	**$ 1,209,053**	**$945,040**
Loans Receivable:		
Repayment in Dollars	470,325	433,183
Allowances (-)	(381,570)	(353,496
	88,755	79,687
Real Property and Equipment:		
Land	3,962	3,962
Structures and Facilities	54,548	68,306
Equipment, Vessels, Inventory	300,089	1,095,783
Leasehold Improvements	0	0
	358,599	1,168,051
Total Other Assets	**$447,354**	**$1,247,738**
Total Assets	**$1,656,407**	**$2,192,778**

The notes to Financial Statements are an integral part of this statement.

U.S. DEPARTMENT OF TRANSPORTATION--Maritime Administration

Exhibit 1. Statement of Financial Condition
September 30, 2002 and September 30, 2003

LIABILITIES	**September 30 2002**	**2003**
Selected Current Liabilities (Note 2)		
Accounts Payable (Including Funded Accrued Liabilities):		
Government Agencies	$ 428,582	$ 254,526
The Public	278,870	42,031
	707,452	296,557
Accrued Liabilities for Loan Guaranteed	383,993	292,740
Unfunded Liabilities:		
Environmental Liabilities	372,500	722,500
Other Liabilities	21,605	238,402
Federal Employee's Benefits Payable	17,389	22,689
	411,494	983,591
Total Selected Current Liabilities	1,502,939	1,572,888
Deposit Fund Liabilities	0	
Debt issued under borrowing Authority:		
Borrowing from Treasury	0	0
Other Liabilities:		
Vessel Trade-in Allowance and Other Accrued Liabilities	0	0
Future Funding (ODS Contract Authority)		
Total Liabilities	**$ 1,502,939**	**$ 1,572,888**
Government Equity		
Unexpended Budget Authority:		
Unobligated	256,084	279,843
Undelivered Orders	239,660	273,638
	495,744	553,481
Unfinanced Budget Authority (-)		
Unfilled Customer Orders	(114,362)	(128,149)
Contract Authority		
	(114,362)	(128,149)
Invested Capital	(227,914)	194,558
Total Government Equity	**$153,468**	**$619,890**
Total Liabilities and Government Equity	**$1,656,407**	**$2,192,778**

U.S. DEPARTMENT OF TRANSPORTATION--Maritime Administration

Exhibit 2. Statement of Operations
(Dollars in Thousands)

	Years Ended September 30	
	2002	**2003**
OPERATIONS OF THE MARITIME ADMINISTRATION		
Net Costs of Operating Activities		
Reserve Fleet Programs:		
Maintenance and Preservation	$ 4,412	$ 3,229
Direct Subsidies and National Defense Costs:		
Operating-Differential	5,088	1,118
Ocean Freight Differential	54,331	114,033
Title XI Credit Reform Program And Financing Fund	130,280	(31,086)
Maritime Security Program	96,192	97,053
Ship Disposal Program		252
Administrative (includes Financial Assistance to State Maritime Schools, School ships, Student Incentive	89,286	89,730
Other Operating Income Net of Expenes	362,672	430,468
Net Cost of Maritime Administration	**$742,261**	**$704,797**
Operations of Revolving Funds (-Income):		
Vessel Operations Revolving Fund	(319,946)	(4,902)
War Risk Revolving Fund	(1,958)	(1,721)
Construction Differential Fund	(1,884)	(2,223)
Federal Ship Financing Fund	(384)	(418)
Gifts and Bequests	(97)	629
Special Studies	(3)	(3)
	(324,272)	(8.638)
Net Cost of Combined Operations	**$417,989**	**$696,159**

The notes to Financial Statements are an integral part of this statement.

U.S. DEPARTMENT OF TRANSPORTATION - MARITIME ADMINISTRATION

Notes to Financial Statements
September 30, 2003 and September 30, 2002

1. The preceding financial statements include combining assets, liabilities, income, and expenses of the Maritime Administration (MARAD); the Vessel Operations Revolving Fund, the War-Risk Insurance Revolving Fund, and the Federal Ship Financing Fund, Programs of the Federal Credit Reform Act of 1990 and other appropriations. Fiscal Year 2003 & 2002 financial information is based on MARAD's FY 2003 & 2002 audited financial statements required by the Chief Financial Officer Act.

2. Contingent liabilities for Title XI guaranteed loans aggregated $3.9 billion as of September 30, 2003.

3. There were no conditional liabilities for pre-launching War-Risk Builder's Insurance on September 30, 2003.

4. The Federal Ship Financing Fund incurred no defaults during FY 2003.

5. The Title XI Credit Reform Program incurred no defaults during FY 2003.

6. Real Property and Equipment are reported net of allowances for FY 2003. Due to the changes to the federal accounting standards issued by the Federal Accounting Standard Advisory Board (FASAB), MARAD's national defense properties (e.g., vessels supporting Navy) are reported as properties on the FY 2003 balance sheet instead of expenses in FY 2002.

Appendix I: MARITIME SUBSIDY OUTLAYS--1937-2003

Fiscal Year	CDS	Reconstruction CDS	Total CDS	ODS	Total ODS and CDS
1936-1955	$248,320,942*	$ 3,286,888	$ 251,607,830	$ 341,109,987	$ 592,717,817
1956-1960	129,806,005	34,881,409	164,687,414	644,115,146	808,802,560
1961	100,145,654	1,215,432	101,361,086	150,142,575	251,503,661
1962	134,552,647	4,160,591	138,713,238	181,918,756	320,631,994
1963	89,235,895	4,181,314	93,417,209	220,676,685	314,093,894
1964	76,608,323	1,665,087	78,273,410	203,036,844	281,310,254
1965	86,096,872	38,138	86,135,010	213,334,409	299,469,419
1966	69,446,510	2,571,566	72,018,076	186,628,357	258,646,433
1967	80,155,452	932,114	81,087,566	175,631,860	256,719,426
1968	95,989,586	96,707	96,086,293	200,129,670	296,215,963
1969	93,952,849	57,329	94,010,178	194,702,569	288,712,747
1970	73,528,904	21,723,343	95,252,247	205,731,711	300,983,958
1971	107,637,353	27,450,968	135,088,321	268,021,097	403,109,418
1972	111,950,403	29,748,076	141,698,479	235,666,830	377,365,310
1973	168,183,937	17,384,604	185,568,541	226,710,926	412,279,467
1974	185,060,501	13,844,951	198,905,452	257,919,080	456,824,532
1975	237,895,092	1,900,571	239,795,663	243,152,340	482,948,003
1976**	233,826,424	9,886,024	243,712,448	386,433,994	630,146,442
1977	203,479,571	15,052,072	218,531,643	343,875,521	562,407,164
1978	148,690,842	7,318,705	156,009,547	303,193,575	459,203,122
1979	198,518,437	2,258,492	200,776,929	300,521,683	501,298,612
1980	262,727,122	23,527,444	265,079,866	341,368,236	606,448,102
1981	196,446,214	11,666,978	208,113,192	334,853,670	542,966,862
1982	140,774,519	43,710,698	184,485,217	400,689,713	585,174,930
1983	76,991,138	7,519,881	84,511,019	368,194,331	452,705,350
1984	13,694,523	-0-	13,694,523	384,259,674	397,954,197
1985	4,692,013	-0-	4,692,013	351,730,642	356,422,655
1986	(416,673)	-0-	(416,673)	287,760,640	287,343,867
1987	420,700	-0-	420,700	227,426,103	227,846,803
1988	1,236,379	-0-	1,236,679	230,188,400	231,425,079
1989	-0-	-0-	-0-	212,294,812	212,294,812
1990	-0-	-0-	-0-	230,971,797	230,971,797
1991	-0-	-0-	-0-	217,574,038	217,574,038
1992	-0-	-0-	-0-	215,650,854	215,650,854
1993	-0-	-0-	-0-	215,506,822	215,506,822
1994	-0-	-0-	-0-	212,972,929	212,972,929
1995	-0-	-0-	-0-	199,966,581	199,966,381
1996	-0-	-0-	-0-	164,687,965	164,687,965
1997	-0-	-0-	-0-	121,556,425	121,556,425
1998	-0-	-0-	-0-	36,671,731	36,671,731
1999	-0-	-0-	-0-	16,948,560	16,948,560
2000	-0-	-0-	-0-	9,998,665	9,998,665
2001	-0-	-0-	-0-	7,872,861	7,872,861
2002	-0-	-0-	-0-	2,941,329	2,941,329
2003	-0-	-0-	-0-	1,118,134	1,118,134
Total	**$3,569,648,434**	**$264,904,682**	**$3,834,553,116**	**$10,175,858,527**	**$14,010,411,643**

* Includes $131.5 million CDS adjustments covering the World War II period, $105.8 million equivalent to CDS allowances which were made in connection with the Mariner Ship Construction Program, and $10.8 million for CDS in fiscal years 1954 to 1955.
** Includes totals for FY 1976 and the Transition Quarter ending September 30, 1976.

National Maritime Day, 2003
By the President of the United States of America
A Proclamation

Today, as in the past, America depends on our maritime services to help ensure our security, promote our prosperity, and advance the universal hope of freedom. We honor the service and proud history of our merchant mariners and also recognize their important contributions in strengthening our economy.
For generations, merchant marines and commercial sailors have assisted in the defense of our Nation. Most recently, more than 5,000 merchant mariners supported Operations Enduring Freedom and Iraqi Freedom by serving aboard 157 ships moving essential supplies to our troops. As they continue to support our troops in the ongoing war on terror, their mission continues to be dangerous and difficult, and remains vital to our efforts to defend the peace.

We also remember the vital role the Merchant Marine has played in past conflicts. More than 6,000 merchant mariners lost their lives during World War II, and more than 700 U.S. merchant ships were lost. Even before the United States declared war, merchant mariners were making perilous runs to Europe with desperately needed supplies. President Franklin Roosevelt, the first President to issue a proclamation honoring merchant mariners, wrote of their role during wartime: "They have delivered the goods when and where needed in every theater of operations and across every ocean in the biggest, the most difficult and dangerous transportation job ever undertaken." We are grateful for the contributions and sacrifices of America's merchant mariners before and after World War II, in Korea, Vietnam, the Persian Gulf, and around the world today.

In addition to their efforts to support our troops, merchant marines play a vital role in moving the goods that we produce around the United States and throughout the world. Their work provides jobs and economic benefits to our country, and strengthens our economy. By operating as the eyes and ears of America at sea, they also help protect our homeland.

In recognition of the importance of the U.S. Merchant Marine, the Congress, by joint resolution approved on May 20, 1933, as amended, has designated May 22 of each year as "National Maritime Day," and has authorized and requested that the President issue an annual proclamation calling for its appropriate observance.

NOW, THEREFORE, I, GEORGE W. BUSH, President of the United States of America, do hereby proclaim May 22, 2003, as National Maritime Day. I call upon the people of the United States to celebrate this observance and to display the flag of the United States at their homes and in their communities. I also request that all ships sailing under the American flag dress ship on that day.

IN WITNESS WHEREOF, I have hereunto set my hand this twenty-first day of May, in the year of our Lord two thousand three, and of the Independence of the United States of America the two hundred and twenty-seventh.

GEORGE W. BUSH

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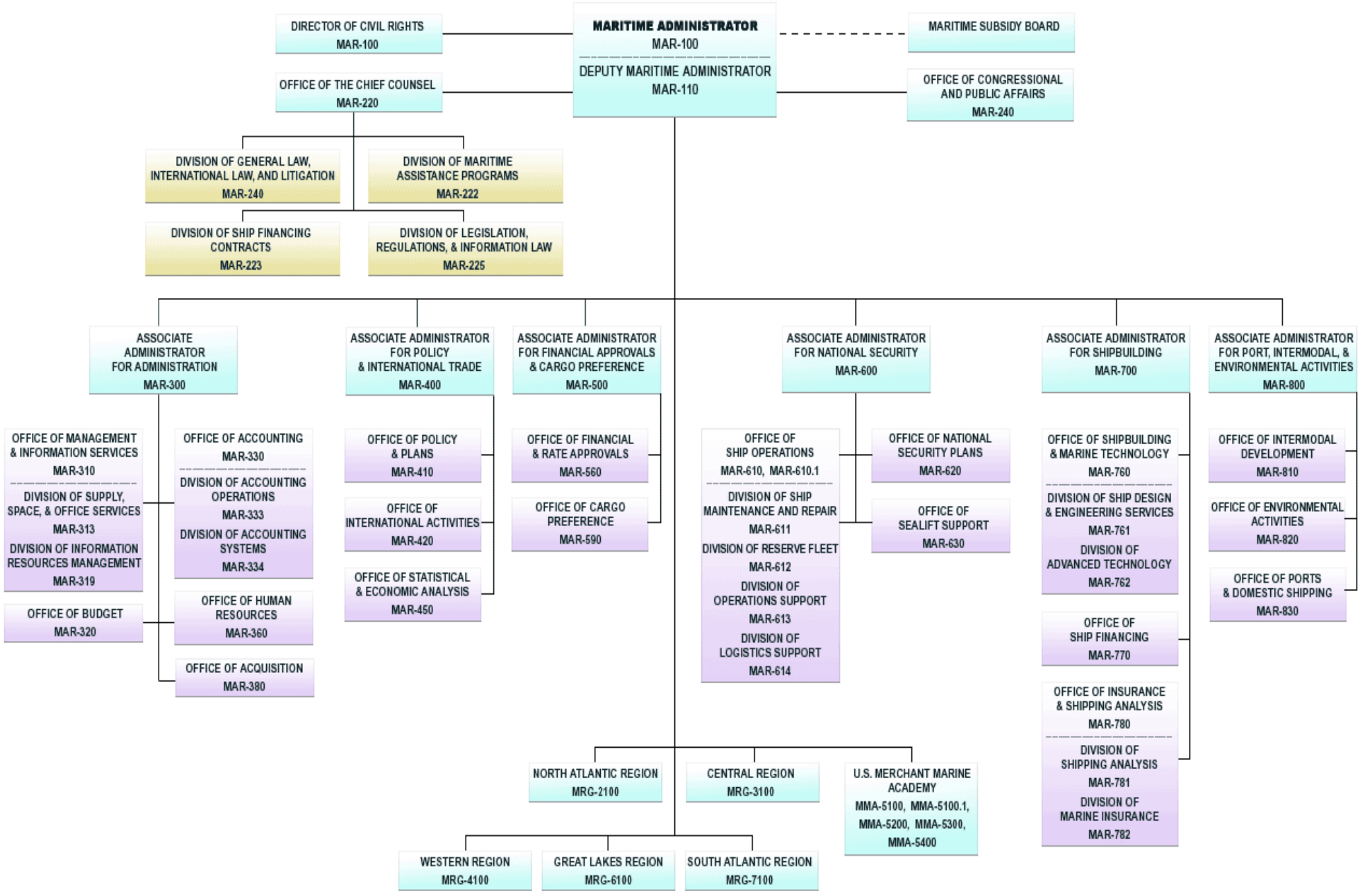
MARITIME ADMINISTRATION ORGANIZATION CHART



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