



The Greatest Ships on the Great Lakes

2009 ANNUAL REPORT



Construction of the coffer dams that are Step I in building the second Poe-sized lock at Sault Ste. Marie, Michigan, is proceeding on schedule. Nearly 70 percent of LCA members' carrying capacity is restricted to the Poe Lock, so twinning that chamber will ensure the continued free flow of cargo on the Great Lakes. Photo courtesy U.S. Army Corps of Engineers, Detroit District.

Dear Friend of Great Lakes Shipping:

You will forgive me if I do not dwell on the economic trials of 2009. Suffice it to say that Great Lakes shipping, just like every other industry, struggled in 2009. The iron ore trade fell to its lowest level since 1938. LCA members saw their "float" dip 35 percent compared to 2008. In short, a difficult year. Perhaps the early opening of the Soo Locks in March 2010 means we're turning the corner.

Even though many cargo holds were empty in 2009, LCA's plate was full. The U.S. Coast Guard officially joined the ballast water debate with publication of its proposed regulations. The problem is the Coast Guard has not made that important distinction between introduction and spread. Our members' vessels never leave the Great Lakes, so have never introduced an exotic. LCA has pioneered best management practices that address the potential for our members' ballast to spread a non-indigenous species introduced by an oceangoing vessel, but since we do not represent the same threat, we should not be treated like salties.

Even when it comes to spread, ballast water is, according to the U.S. Geological Survey, only one of at least 65 vectors. Is there a real value in treating our members' ballast when so many other avenues remain wide open?

Equally important, the Coast Guard needs to recognize that while some ballast water systems coming on the market will supposedly be able to treat the ballast on oceangoing vessels, none of those systems will work on a laker. An oceangoing vessel might have 3 million gallons of ballast onboard and discharge it over a period of a day or more. The largest lakers take on 16.4 million gallons and pump it out in 12 hours or less. No ballast treatment system even envisions handling such a volume at such a high flow rate.

Here's another fact. If one were to take a system and ramp it up to handle lakers' requirements, the equipment would be so large that it could not fit on a vessel.

However, the most important consideration may be this: The Great Lakes are interconnected, so an aquatic nuisance species that has taken root can and will migrate independent of commercial navigation. The ruffe is proof positive of that. It is expanding its range along the southern shore of Lake Superior at the rate of about 25 miles per year. No ballast water treatment system or best management practice can change that. The Coast Guard must revise its proposed regulations to recognize the difference between introduction and spread and the differences between lakers and oceangoing vessels.

I am hopeful that workable federal regulations will be enacted. The Coast Guard does listen to its stakeholders. The transfer of the icebreaker PENOBSCOT BAY from the East Coast to the Lakes in December 2009 was in response to our concerns that the current lineup of icebreakers is inadequate to reliably meet the needs of commerce. The PENOBSCOT BAY was instrumental in clearing an ice jam in the Detroit River and then stayed to help break out the fleet in March and April of 2010. I hope this becomes standard operating procedure, at least until Canada bolsters its icebreaking forces and once again more fully shares the workload. Only two of the 11 icebreakers on the Lakes during the winter of 2009/2010 were Canadian. That ratio is all wrong when you realize there are 67 Canadian-flag lakers and 55 U.S.-flag lakers.

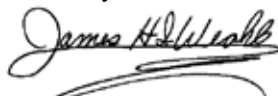
What most sticks out in your mind about the year 1986? If you work in Great Lakes shipping, it's that Congress authorized construction of a second Poe-sized lock at Sault Ste. Marie, Michigan, in the Water Resources Development Act of that year. Well, it took 23 years, but we actually started the physical process of building that lock in 2009. The picture on the cover of this report shows one of the coffer dams that precede construction of the lock proper. Many members of the Great Lakes delegation share the credit for this step forward, but all will agree that the Master's Salute goes to James L. Oberstar (D-MN). Time and time again, Rep. Oberstar cleared a hurdle that blocked the project. We still need to fund the lock itself, but there is finally no turning back.

Congressman Oberstar and his colleague Dave Obey (D-WI) made another major contribution to Great Lakes shipping in 2009 when they addressed an EPA vessel emissions regulation that could have forced the unnecessary retirement of some lakers and increased the cost of moving cargo on the Lakes. Thanks to their efforts, the fleet will be able to meet the needs of commerce without harming the environment.

While I promised not to dwell on the economic struggles of 2009, there is something that must be stressed. And that's this: Even when the economy is in a near free fall, cargo, and lots of it, needs to move on the Great Lakes. Despite all the problems last year, LCA's members still carried more than 66 million tons of cargo. That's why it's so important we continue to work on issues like ballast water, icebreaking resources, the second Poe-sized lock.... We've got to be ready for that rebound, because once America's economic engine is hitting on all cylinders again, that 66 million tons will almost double.

Thank you for your support.

Sincerely,



James H. I. Weakley
President





LCA OBJECTIVES FOR 2010 AND FUTURE YEARS

SOLVING THE DREDGING CRISIS, ONCE AND FOR ALL!

Years of inadequate funding for dredging ports and waterways have left an estimated 15 million cubic yards of sediment clogging the Lakes. The U.S. Army Corps of Engineers estimates it needs about \$180 million to restore the Great Lakes Navigation System to project dimensions (the depth and width to which Congress authorized the various ports and waterways).

The impacts of the dredging crisis are felt every day throughout America. LCA's members estimate that three of every four cargos they carry each year represent less than full loads. The amount of cargo that's left behind varies with the size of the vessel. When low water levels have amplified the lack of dredging, the largest vessels have forfeited as much as 12,000 tons, or 17 percent of their per-trip carrying capacity. Those "lightloads" not only shortchange American industry, they deny vessel operators the ability to offer their customers the most competitive freight rate.

The dredging crisis is man-made. The Harbor Maintenance Trust Fund ("HMTF"), the repository for a federal tax levied on waterborne commerce specifically to pay for dredging, has a surplus of nearly \$5 billion, and it's growing. Why? Because the HMTF collects about \$1.1 billion per year, but spends only about \$700 million.

Congress must pass H.R. 4844, legislation that requires the HMTF to spend as much as it takes in. The bill was co-sponsored by Michigan Congressman Bart Stupak (D). With adequate funding, the Corps can restore the Great Lakes Navigation System (and all the nation's deep draft ports and waterways) to project dimensions and allow waterborne commerce to achieve the efficiencies for which it was designed. Senator Carl Levin (D-MI) is expected to introduce the companion bill in the Senate.

FEDERAL REGULATION OF BALLAST WATER

The U.S. Coast Guard has proposed federal regulations to govern ballast water discharges in U.S. waters. The agency would require all vessels to meet the current IMO standard by 2016, and then raise the bar as technology advances.

The Coast Guard's approach errs in two important ways. First, it takes a one-size-fits-all approach, which means lakers are treated the same as oceangoing vessels, despite vast differences in operational requirements. Second, the proposal makes no distinction between introduction and spread.

There are ballast water systems coming on the market that appear capable of treating oceangoing vessels' discharges, but that's because a "saltie" might discharge 3 million gallons of ballast during a loading that can take days. The largest lakers pump out more than 16 million gallons of ballast and are under the loading rig for less than 12 hours. No ballast water system even envisions treating such a volume at that fast a pace (almost 80,000 gallons per minute). In fact, some marine engineers and naval architects have concluded there isn't enough physical space on a typical laker to fit a system ramped up to handle the vessel's volumes and flow rates.

The Coast Guard proposal also does not differentiate between introduction and spread, a critically important distinction on the Great Lakes. The Great Lakes are interconnected, so once an aquatic nuisance species takes root, it will spread independent of commercial navigation. The ruffe is a case in point. It is migrating along the southern shore of Lake Superior at a rate of about 25 miles per year.

Although no system exists that can handle lakers' operational requirements, LCA members have done some estimates on what a system might cost and project that outfitting all their vessels could cost nearly \$400 million. That's a lot of money to spend on vessels that never leave the Lakes and so have never introduced a non-indigenous species. In fact, it's so much money that some vessels may no longer be economically viable. Any loss of vessel carrying capacity will shift cargo to land-based modes of transportation, and trains and trucks burn more fuel and produce more emissions than ships and tug/barge units.

At a minimum, the Coast Guard must perform a "Practicability Review" to determine if systems will be available to treat lakers' ballast. Then, the Coast Guard must determine if the cost exceeds the benefits. Again, since the Lakes are interconnected, treating lakers' ballast might at best **delay** the otherwise inevitable spread of an exotic introduced by an oceangoing vessel. **IT'S FOR THAT EXACT REASON THE GREAT LAKES REGIONAL COLLABORATION RECOMMENDED TREATMENT SYSTEMS ON OCEANGOING VESSELS AND BEST MANAGEMENT PRACTICES ON LAKERS.** After all, ballast water is but one of (at least) 65 vectors for introduction and spread. Treating lakers' ballast will not stop future introductions, but the projected cost could well drive cargo off the Lakes.

Most, if not all, of the best management practices currently in place were developed by Lake Carriers' Association. LCA hopes to receive a federal grant from the EPA to study a possibly way to treat lakers' ballast under certain conditions. However, a blanket requirement to treat lakers' ballast cannot be met given the foreseeable state of technology, and the costs could well exceed the industry's financial capabilities.

BOOST ECONOMY AND NATIONAL SECURITY WITH SECOND POE-SIZED LOCK

The Water Resources Development Act of 2007 directs the Corps to build a second Poe-sized lock at Sault Ste. Marie, Michigan, at full federal expense. The "Soo Locks" connect Lake Superior to the lower Great Lakes and St. Lawrence Seaway and typically handle more than 80 million tons of cargo per year.

Twinning the Poe Lock is a perfect vehicle for energizing the region's economy. The \$580 million project is shovel ready, and would, over a decade, generate 1.5 million man hours. One economist likens the project to opening an auto manufacturing plant in one of the most distressed areas of the country.

The benefits will continue long after construction is complete. Since nearly 70 percent of U.S.-flag carrying capacity on the Lakes is restricted to the Poe Lock, a second chamber will ensure a failure of the Poe Lock does not bring Great Lakes shipping to a standstill. This means steel mills and power plants no longer need fear crippling disruptions in their supply chain should the Poe Lock fail. This means the U.S. military no longer needs fear a slowdown or cessation of steel production.

The need for a second Poe-sized lock was identified more than 20 years ago. The \$17 million Congress appropriated in 2008 allowed for construction of the coffer dams to begin in June 2009. If Congress will appropriate \$100 million or so this year, full-scale construction could be underway almost immediately. If the project is funded in small increments, the 10-year construction schedule will be extended and the overall cost will increase due to the inefficiencies inherent with incremental funding.

MORE U.S. AND CANADIAN COAST GUARD ICEBREAKERS NEEDED TO KEEP SHARED WATERWAY OPEN DURING ICE SEASON

The U.S. Coast Guard is charged with breaking ice on U.S. waterways to meet the needs of commerce. To accomplish this task on the Great Lakes, the Coast Guard has eight vessels with icebreaking capabilities. However, most of these vessels were built in the 1970s or earlier, and are now nearing the end of their productive lives. It is not uncommon for three, sometimes four, of the eight vessels to be unavailable because of mechanical problems.

Canada too tasks its Coast Guard with icebreaking. The country used to have seven icebreakers stationed on the Great Lakes, but now keeps only two such vessels in the region.

Shipping during the ice season (December 16-April 15) is critical to keeping America's and Canada's economic engines running. Customers on both sides of the border must minimize stockpiling costs, so vessels continue to operate even as the ice reaches a thickness of three or four feet. Cargo movement during the ice season typically tops 20 million tons, or 15 percent of the annual total.

Recognizing the shortcomings of its icebreaking assets, the U.S. Coast Guard transferred an ice-capable vessel, the PENOBSCOT BAY, to the Lakes this past winter. The vessel was instrumental in clearing an ice jam in the Detroit River in January 2010. This bolstering of the Lakes icebreaking fleet during the ice season should become routine.

For the long term, the Coast Guard should build a twin of its newest icebreaker, the MACKINAW, launched in 2006. The Lakes trade is so crucial to America's economic well-being that two heavy icebreakers are the minimum requirement. The House of Representatives has passed legislation (H.R. 3619) authorizing \$153 million to build the heavy icebreaker. Once the Senate passes its companion bill (S. 1024), construction could begin almost immediately and prompt a recall of laid-off shipyard workers.

Canada should re-evaluate its commitment to icebreaking on the Great Lakes. There are actually more Canadian lakers than American. Yet in the winter of 2009/2010, nine of the eleven icebreakers in the system were U.S. The U.S. sent its most powerful icebreaker to assist a grain cargo moving between two Canadian ports while a number of U.S.-flag lakers were beset in ice in the Detroit River. As a result, one American company had to cancel cargos totaling roughly 200,000 tons.

A Memorandum of Understanding between the U.S. and Canada spells out each country's responsibilities for icebreaking on the Lakes. The MOU is scheduled for renewal in 2010. The new MOU must ensure that Canada carries its fair share of the load. The U.S. Coast Guard, and hence, the American taxpayer, are shouldering too much of the burden.

THE JONES ACT

The Jones Act (Section 27, Merchant Marine Act, 1920) requires cargo moving between U.S. ports be carried in vessels that are U.S.-owned, -built, and -crewed. Although the law dates from 1920, foreign-flag vessels have been barred from domestic commerce since 1817.

Nationwide, the Jones Act fleet numbers nearly 40,000 vessels of all kinds. While the Lakes Jones Act fleet numbers only 65 or so large vessels, they are real workhorses, moving as much as 125 million tons of cargo per year when the economy is strong.

The ownership requirement ensures the U.S. maintains control over its domestic fleet. The build requirement supports the shipyards that are needed to build and maintain our Navy and Coast Guard. The crewing requirement means the U.S. has skilled and loyal seafarers to call on in times of war to ferry supplies to our troops throughout the globe.

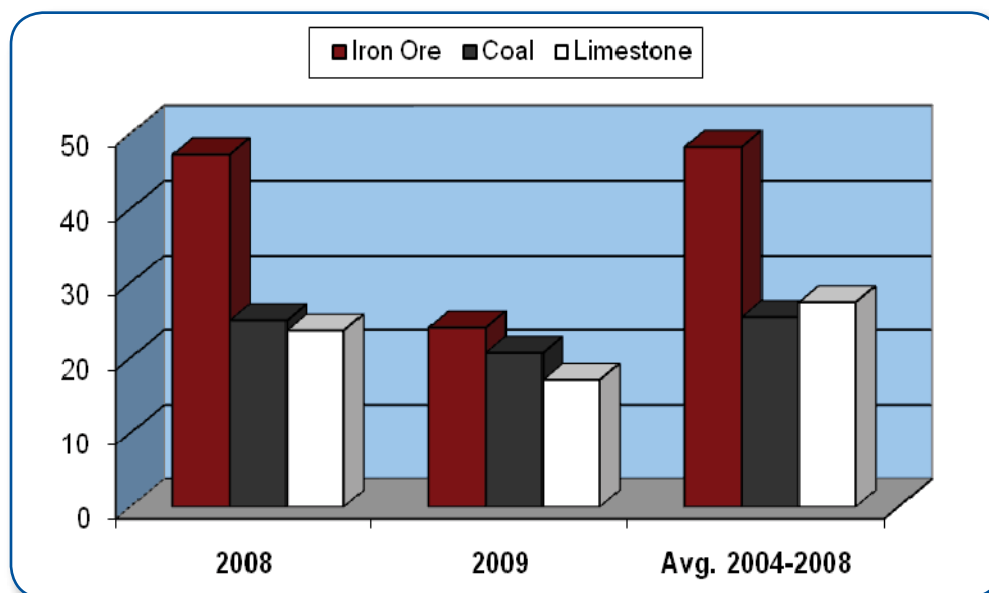
The level playing field promotes competition, and on the Great Lakes, has produced the world's largest fleet of self-unloading vessels.

Every Administration since 1920 has supported the Jones Act. As a candidate, Barack Obama declared, "America needs a strong and vibrant U.S.-flag Merchant Marine. That is why you ... can continue to count on me to support the Jones Act...." His Administration is no less committed to the Jones Act.



U.S.-FLAG SHIPMENTS OF IRON ORE, COAL, AND LIMESTONE

2008-2009 and 5-year average
(tons in millions)



MEMBER COMPANIES

AMERICAN STEAMSHIP COMPANY
ANDRIE, INC.
ARMSTRONG STEAMSHIP COMPANY
BELL STEAMSHIP COMPANY
CENTRAL MARINE LOGISTICS, INC.
GRAND RIVER NAVIGATION COMPANY, INC.
GREAT LAKES FLEET / KEY LAKES, INC.
INLAND LAKES MANAGEMENT, INC.
THE INTERLAKE STEAMSHIP COMPANY

KK INTEGRATED SHIPPING
LAKE MICHIGAN CARFERRY SERVICE
LAKES SHIPPING COMPANY
PERE MARQUETTE SHIPPING COMPANY
PORT CITY MARINE SERVICES
PORT CITY STEAMSHIP COMPANY
SOO MARINE SUPPLY, INC.
UPPER LAKES TOWING COMPANY, INC.
VANENKEVORT TUG & BARGE INC.

STAFF

James H. I. Weakley

President

440-333-9995 • weakley@lcaships.com

Glen G. Nekvasil

Vice President - Corporate Communications

440-333-9996 • nekvasil@lcaships.com

Suite 720
20325 Center Ridge Road
Rocky River, Ohio 44116-3508
www.lcaships.com