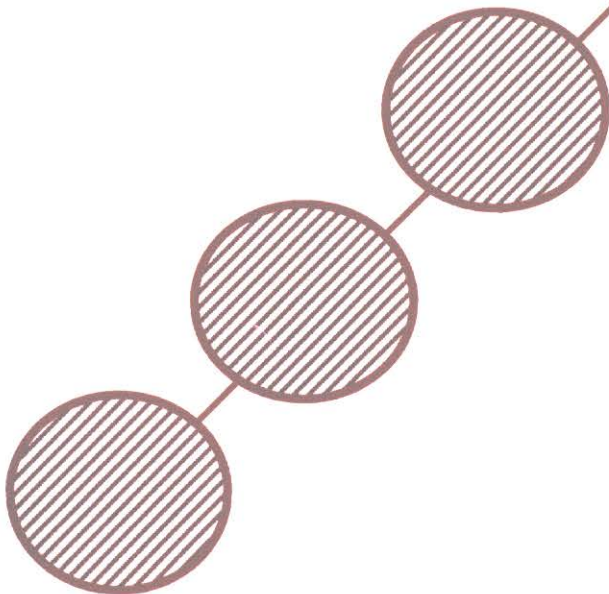


[MARAD 2003]



U.S. Department of Transportation
Maritime Administration

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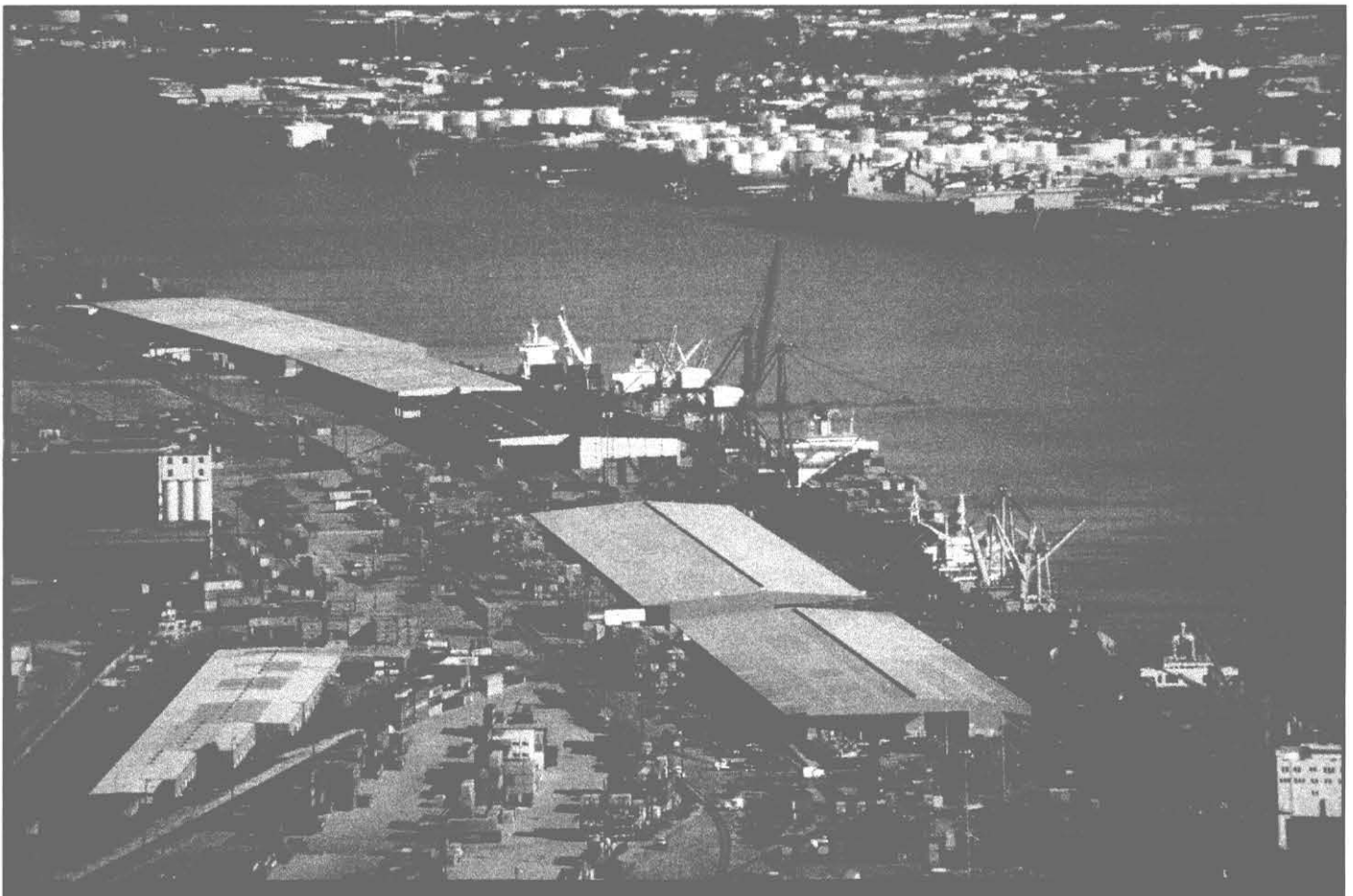
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This is Annual Report for the U.S. Maritime Administration (MARAD) for fiscal year 2003, which ended September 30, 2003. The report is submitted to Congress in accordance with Section 208 of the Merchant Marine Act of 1936, as amended.

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, 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). Manufactures trades accounted for only 10 percent of U.S. waterborne commerce in 2002, but have doubled 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, 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 in U.S. foreign trades (Maritime Security Program vessels) 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.

As of year-end 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

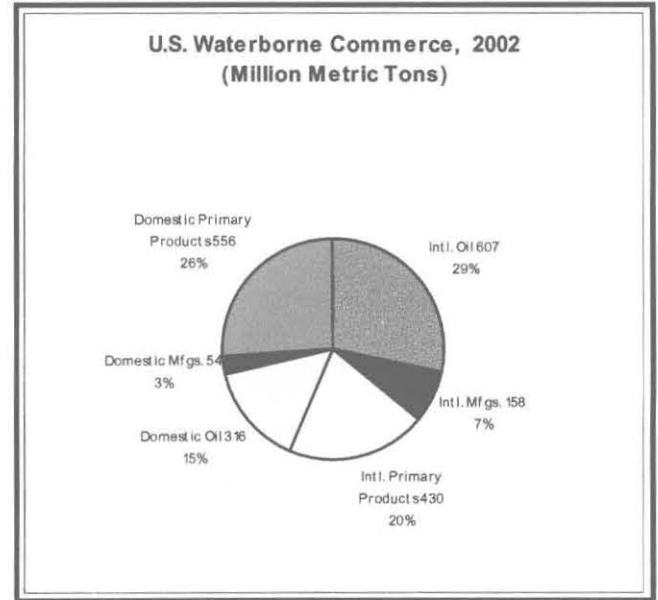


Exhibit 1

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 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.

In 2002, payments to U.S. companies for marine transportation services (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 amounted to \$18.6 billion in 2002. The growth of these payments over the last 5 years has been about three times that for payments to U.S. companies reflecting the increasing share of foreign trade in U.S. waterborne commerce.

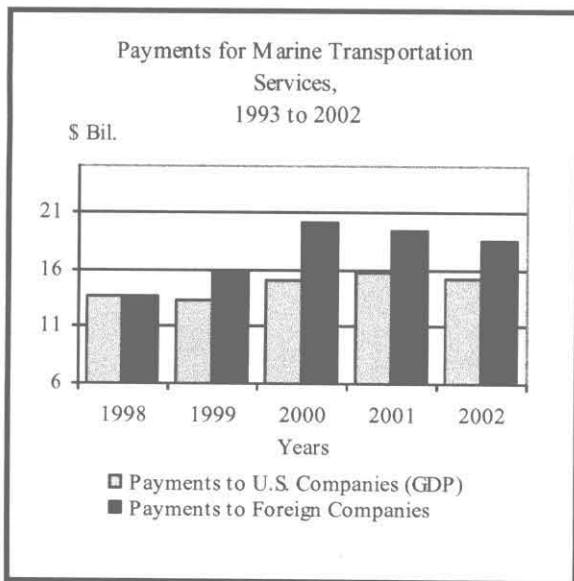


Exhibit 2

National Security



The Ready Reserve Force Ship Cape Texas in the eastern Mediterranean Sea, March 2003.

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 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 operational.

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

The 1400 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 (CBRD) 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

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

result was 96 percent. The improvement was due to the improved availability of a greater percentage of ships from the RRF.

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 management companies to observe crew performance.

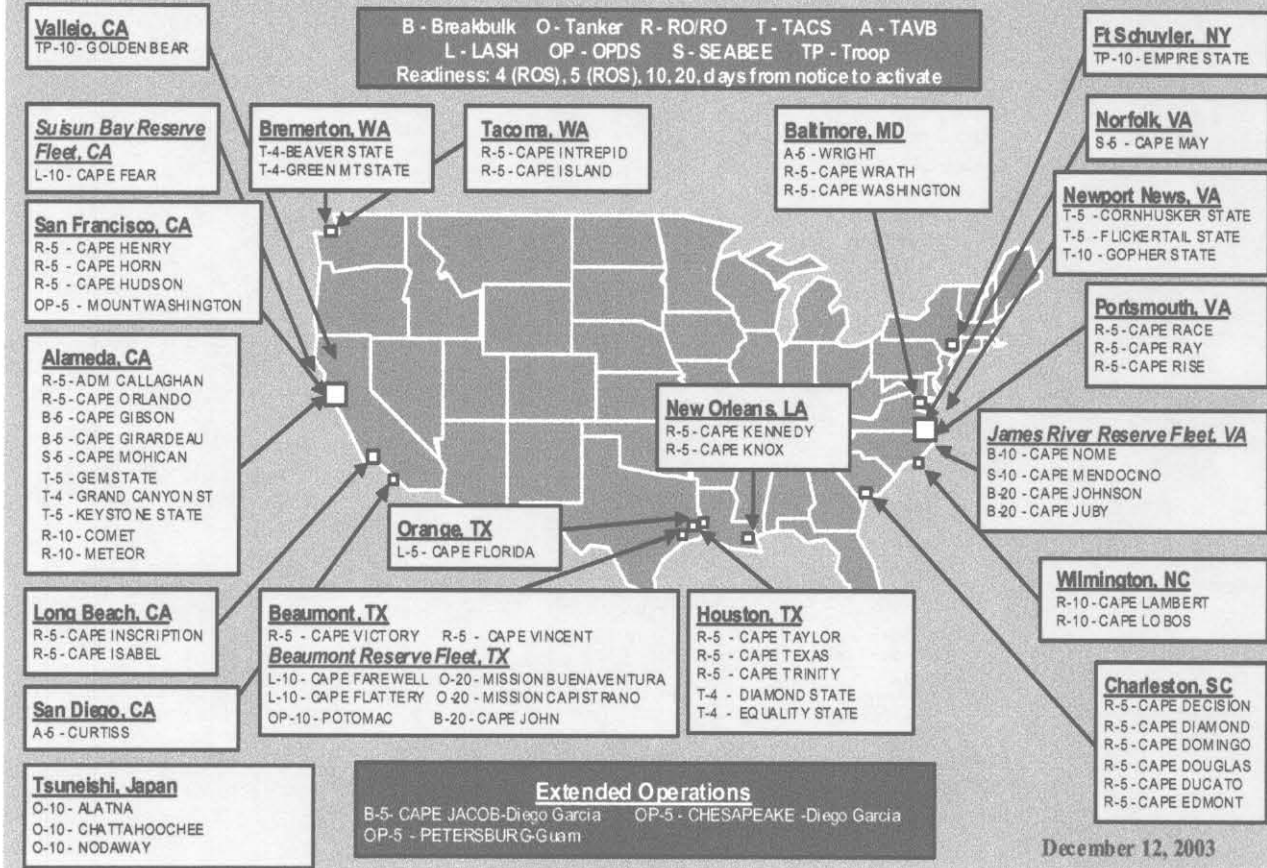
Turbo Activations are a rigorous test of ship readiness. Turbo Activations are initiated by the Department of Defense without prior notice or plan-

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

ning. 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/***. MARAD acts as personal injury claims agent for the RRF. Details on that activity for 2003 may be seen at www.marad.dot.gov/***.

RRF HOMEPORT SITES



Ready Reserve Force ships are homeported on all three saltwater coasts of the United States.

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/***.

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 authorize allowing memorial groups interested in obtaining ships to apply directly to MARAD. This will replace the current practice of needing special legislation for the donation.

Training Availability

NDRF vessels are made available to various groups for training purposes. Ships in the Reserve Fleet anchorages are mostly 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 03, the anchorages 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 02, RRF 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/* * *.

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 in 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 03 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 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/***

Maritime Security Program (MSP)

The MSP serves to maintain an active, privately owned, U.S.-flag and U.S.-crewed liner fleet in international trade, a fleet which is available to support DOD sustainment in a contingency. The MSP is a 10-year program 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 to DOD stem from MSP obligations. 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/***.

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 leverages relatively modest Federal support dollars to retain access to a robust U.S. commercial maritime capitalization base 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. These vessels were all newer and most were larger than the vessels they replaced which resulted in an increase in capacity of over 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 are now U.S.-flag vessels after they received U.S. Coast Guard expedited approval of their applications to reflag based on MARAD's determination that the vessels would be eligible for the MSP if additional funding were available.

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.

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

<p style="text-align: center;">VISA/MSP FY 2003 Performance Measure Goal: 165,000 TEUs for DOD use in time of emergency Actual result: 174,500 TEUs GOAL EXCEEDED</p>

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.

Port Readiness

Fourteen commercial ports are designated as strategic ports by DOD and the National Shipping Authority, which is the 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. transportation system in a way that minimizes disruption to commercial operations.

During OIF, 11 of the 14 strategic commercial ports handled deployment military cargo. A DOT 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.

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 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, 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

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. MARAD has played a key role in this program. 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. 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.

The unique aspect of this grant program was the creation of a web-based system to execute the program. 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.

Organization of American States Technical Advisory Group on Port Security

Consistent with DOT's Security Strategic Goal, MARAD coordinates with the international community and federal agencies to improve port and cargo security in the international maritime trade corridors. Some of the vulnerabilities in U.S. seaports are due to the weaknesses in port and cargo security in some of the U.S.'s maritime trading partners. As a proactive strategy, MARAD facilitates improvements in port and cargo security in Latin America and the Caribbean through continued interaction with the Organization of American States (OAS). MARAD serves as chair and secretariat of the Technical Advisory Group (TAG) of OAS' Inter-American Committee on Ports. The TAG coordinates multilateral approaches to improving port security in the Western Hemisphere. Part of the agenda for the TAG is organizing and conducting annual courses planned under the Inter-American Port Security Training Program. MARAD manages these courses, which provide port security training for commercial port authority policy and security personnel from OAS-member countries. Since 1998, over 500 port personnel have been trained. By improving the port security of our western hemispheric trading partners, we lessen the potential risks at home.

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.

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 (13) 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/***.

MERCHANT MARINER AVAILABILITY

Mariner Availability

An essential component of ensuring sufficient sealift 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 population 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 re-employment rights similar to those given military reservists. This was the first conflict in which those rights became an issue. MARAD granted certification for re-employment 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.

Mariner Tracking and Survey

MARAD continued the development of a 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 com

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

pleted the survey, findings show that the majority of mariners:

- Would volunteer for a national defense mission;
- Are working in the industry and sailing or attempting 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 Watchkeeping 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 , U.S. Naval Reserve, program (MMR) 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. In addition, STCW 95 certifications for members of such a reserve would be maintained at government expense.

Mariner Employment: Great Lakes

Great Lakes Region 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/***

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 posi-



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

tions 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 coeducational 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 increases 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

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 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 12.

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.

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.

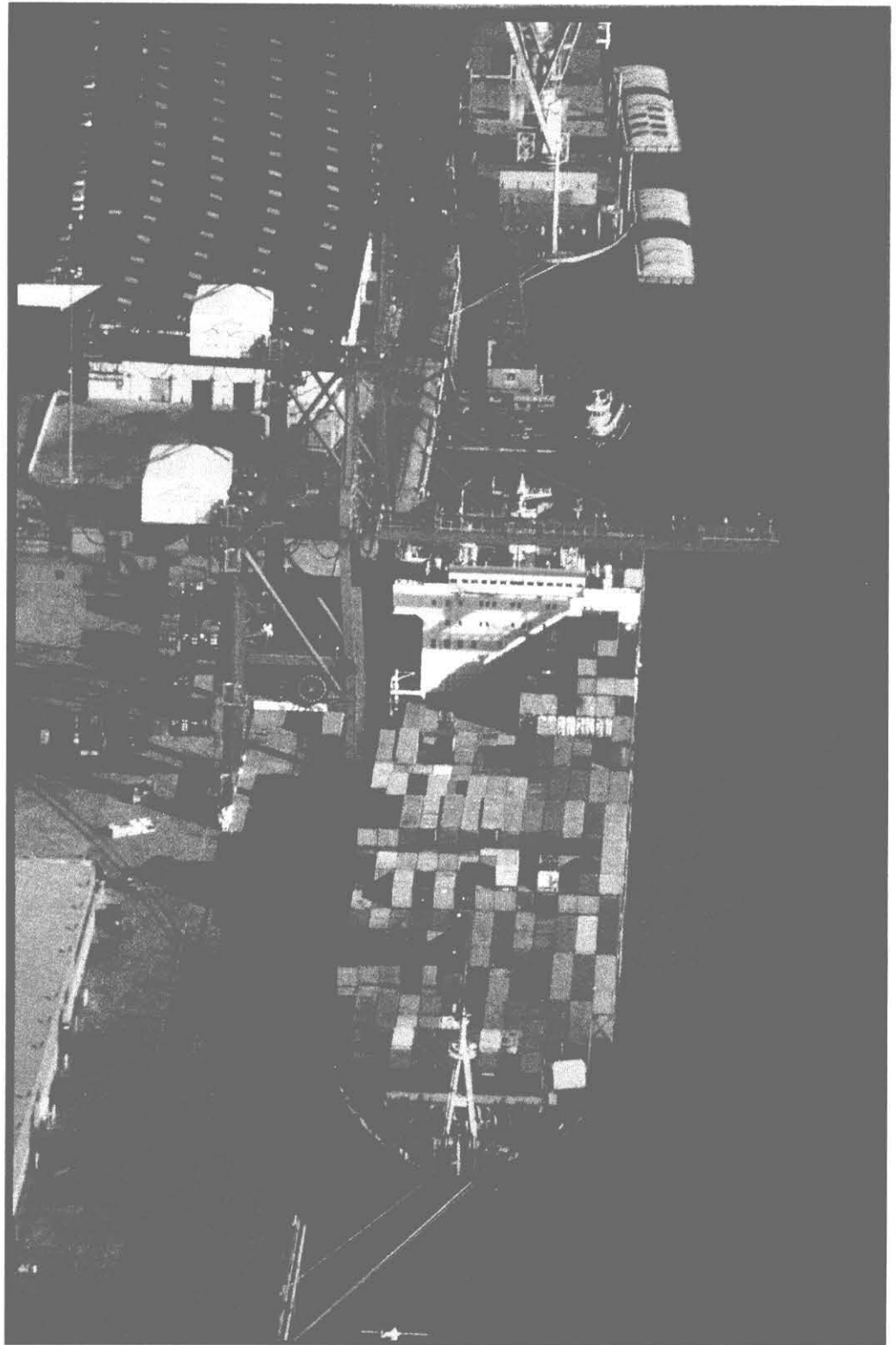
On Monday, July 14, when the TEXAS CLIPPER II was in New York City, cadets appeared on NBC's *Today*, ABC's *Good Morning America*, and CBS's *The Early Show*.

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 (NSRP/ASE). Again, using DOD funds, MARAD allocated substantial time to the DOD-funded Integrated Computerized Deployment System (ICODES) on behalf of the Military Traffic Management Command (MTMC), the U.S. Army, U.S. Navy, and U.S. Marine Corps. MARAD worked closely with an office of the Chief of Naval Operations (N42), the Office of Naval Research (ONR) Laboratory at Carderock in developing concepts for fast sealift and littoral combat ships.

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 03 include the following:

Short Sea Shipping Cooperative Program

MARAD did the preliminary work to form a government-industry cooperative to advance Short Sea Shipping concepts at the request of maritime industry stakeholders. 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 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 further develop effective freight alternatives.

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 inter-modal capabilities of the region. MARAD looks forward to a growing and productive relationship with GOMSA.

Connecticut / U.S. Short Sea Pilot Program. The Bridgeport Metropolitan Planning Organization has proposed a container-on-barge service with the greater port of New York and New Jersey for the purpose of taking nearly 42,000 trailer trucks off of the road on an annual basis. Every day more than 17,000 trucks and 140,000 other vehicles travel I-95 through Connecticut, resulting in air pollution, congestion, and increased risk of traffic accidents. Connecticut is a national air quality "non-attainment" area along this highway corridor. Consequently, in response to the high volume of traffic and associated issues, the port of Bridgeport, Connecticut has proposed a new Short Sea Shipping System with the Port Authority of New York and New Jersey.

MARINE TRANSPORTATION SYSTEM

The Marine Transportation System 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, inter-modal connections, shipyards, vessel repair facilities, associated management and repair systems, and a

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.

MARAD continued its support of an 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 deep-water ports, and most of the major shallow-water ports.

HIP chose as its first priorities better understanding the region's economy and transportation systems – rail, truck and maritime – and identifying the region's strengths and weaknesses. This review will include market segments, physical infrastructure, and policy.

Inland Waterways Intermodal Cooperative Program (IWICP)

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

With MARAD acting as a catalyst, a core group was formed representing port authorities, private companies, barge lines, and trade organizations involved in doing business on the inland waterways. The Cooperative has agreed to focus its efforts on initiating a Container-On-Barge (C-O-B) pilot service.

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

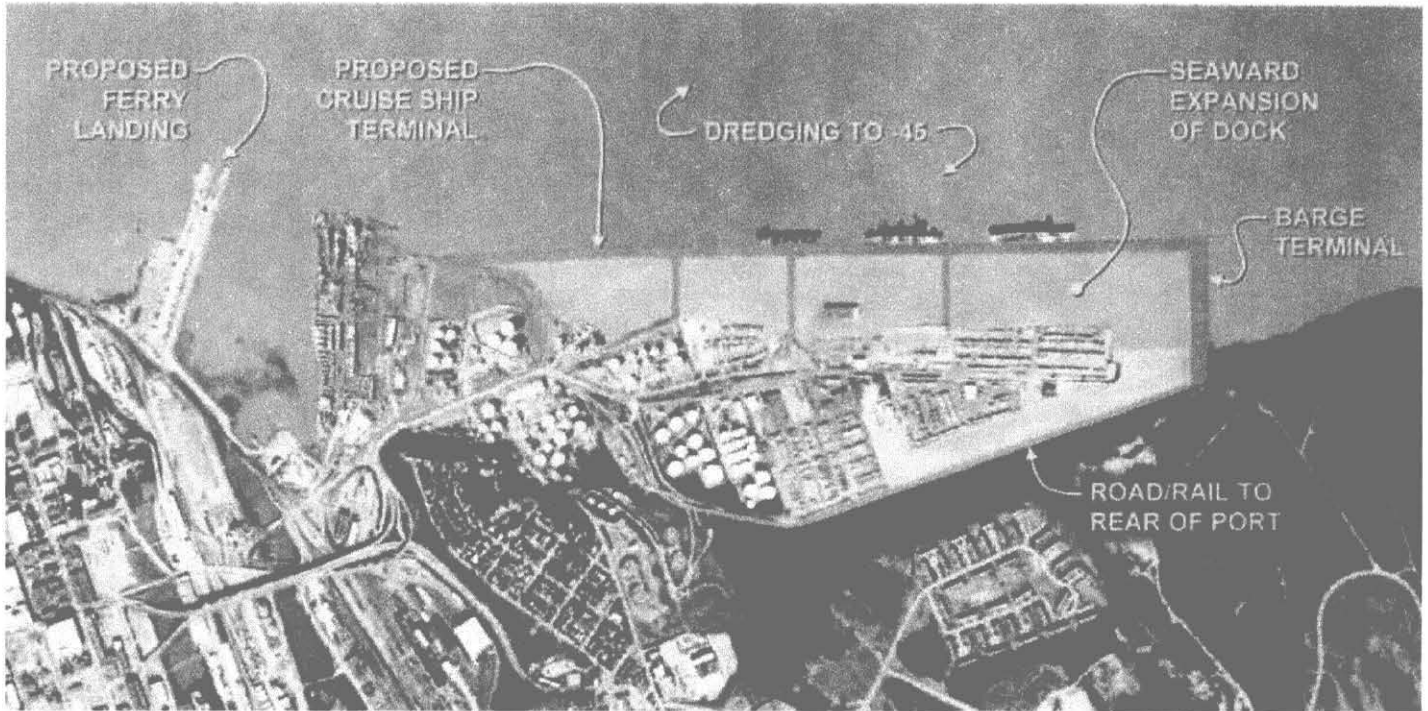
- A major shipper, working with an ocean carrier, a terminal, and a barge operator, develops both the service and the pricing;
- A major ocean carrier delivers containers to and from foreign ports that have destinations and origins in the U.S. and transfers these containers to barges to and from U.S.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

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

Port of Anchorage

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

Federal, state, and local entities jointly fund 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



Port of Anchorage Expansion Project

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. As one of the most sought after cruise destinations of the travel industry, the Port of Anchorage is building better facilities including a new ferry terminal which will be more receptive 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 this type of operation.

In addition to the positive effect on commercial mobility, the Port of Anchorage project is 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.

Small Vessel Waiver Program

On May 1, 2003, the Maritime Administration re-inaugurated the Small Vessel Waiver Program Service. Originally authorized by PL 105-383, the program sunsetted on September 30, 2002 but was reauthorized by Congress in the Marine Transpor-

tation Security Act of 2002. The law provides that MARAD can issue a waiver of the U.S. build requirement for the smallest of passenger vessels, 12 passengers or less, if MARAD finds that the issuance of the waiver will not cause harm to an existing vessel operator or shipbuilder. Since the program has been initiated, MARAD has received over 112 requests for waivers from most coastal states. Thus far, MARAD has granted approximately 80 waivers with others in various stages of technical review. This is an important service to communities, and it adds new vessels to the U.S. Merchant Marine while keeping in mind the needs of our current operators.

Inland Waterways Research Project

In FY 2003, at the initiative of the Maritime Administrator, MARAD began a project to try 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, 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 the Maritime Administration .

During FY 2003, Port Pelican, LLC, (Port Pelican) an affiliate of ChevronTexaco Corporation, filed an application to operate a facility to receive, store, and regasify liquid natural gas (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 the Maritime Administration. 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.

Dredging

MARAD is active in several programs and partnerships that deal with dredging, to assure that the dredging of U.S. harbors, channels, and tributaries, is conducted in a timely and cost-effective manner while meeting environmental protection, restoration and enhancement goals. MARAD activities concerning the environmental impact of dredging are outlined in the section on Environmental Stewardship.

Public Port Financing

MARAD continues to maintain an extensive database of U.S. port financial data (covering 1978-2002) that permits in-depth analyses 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, containing FY 2001 data. The FY

2002 report 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.

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 2002, \$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 CRF balances increased from 22 to 23 active during FY 2002. The total monies on deposit increased to \$87.4 million.

Title XI

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 shipbuilding 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 www.marad.dot.gov/TitleXI.

During FY 03, 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 an 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 disappointed 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 ship yards 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. As indicated in Table 3, MARAD approved marine hull and machinery in

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 www.marad.dot.gov/***.

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*. (*picture of BOTNICA*) 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. By having internationally sanctioned standards adopted and mandated for use by all shipbuilding nations, an element of unfair competition will be removed from the international marketplace.

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 dif

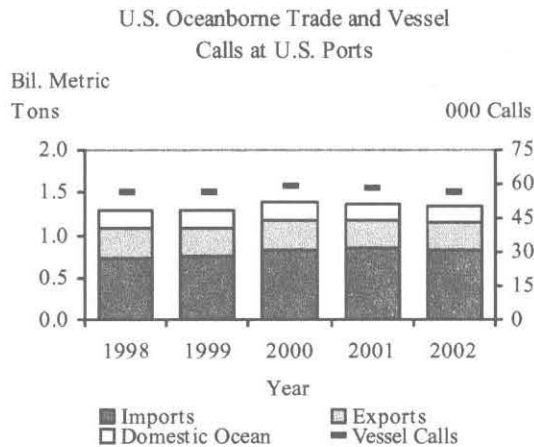
Global Connectivity



***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



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 in the trade were due largely to the depletion (1999) and rebuilding (2000-2001) of petroleum stocks.

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 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 (Exhibit 2). 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 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

ference was due largely to a scarcity of U.S. feeder and short-sea services. These services, which use smaller vessels than linehaul 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 (Exhibit 3). 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.

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

Because of 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 shipowners 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 oceanborne cargoes. MARAD is tasked with ensuring 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), including Iraq humanitarian relief; commodities financed by the Export-Import Bank (Eximbank), and other civilian agencies; 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, monitoring bilateral and similar 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, www.marad.dot.gov/usflag, making 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
- PL 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. An outline of those activities is also contained in this report.

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 www.marad.dot.gov/***.

During the 2002-2003 CPY, agricultural cargo preference laws generated \$424,653,000.00 in revenue for U.S.-flag vessel owners. Furthermore, agricultural cargo preference laws have 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 an exponentially larger amount of maritime and transportation related jobs shore-side. 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 cargo preference laws.

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 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 sites are 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 Military Traffic Management Command (MTMC). Rates and services provided by commercial ocean liner carriers constitute their transportation contracts with MTMC. 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 the volume exceeding liner capacity to be shipped as one lot. MARAD receives volume and revenue figures from MTMC and MSC that are incorporated into MARAD's annual cargo preference reports.

MARAD has also been receiving quarterly reports from MTMC 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.

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 operations 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 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 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.marad.dot.gov/exim>).

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/>***.

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 Depart

ment 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 obviously 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, and ocean freight plus ocean freight differential. MARAD must reimburse USDA for any excess. Some years there is no "Excess 20%." MARAD has not yet received correct invoices for fiscal years 1995, 1996, 1997, 1998, or 1999, and has not yet received any invoices for this program for fiscal years 2000, 2001, 2002, or 2003.

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 fiscal year 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 (RF-id) 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 RF-id 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 among seals. 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 would 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 US/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 Salvador, 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 done through the Office of the Secretary of Transportation with funding from the U.S. Agency for Inter

national 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 in order that 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 process 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 and which will be used to test and demonstrate an entire Agile Port.

Fisheries

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). This rule implemented the new statutory requirements for the owners of Fishing Vessels, Fish Processing Vessels and Fish Tender Vessels of 100 feet or greater in registered length, 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 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 Watch-keeping, 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 opera

tions, and other timely maritime matters. MARAD routinely issues them 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 04.

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 World Wide Web pages, 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. All voyages under this program ceased with the termination of the final ODS contract on September 18, 2001. There were no subsidized voyages terminated in the Great Lakes trade during FY 2003. All ODS rates have been finalized and 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) 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 sharply 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 www.socp.org that contains useful information for its members and the maritime industry.

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). 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. However, this funding did not arrive until midyear. 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 options 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 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

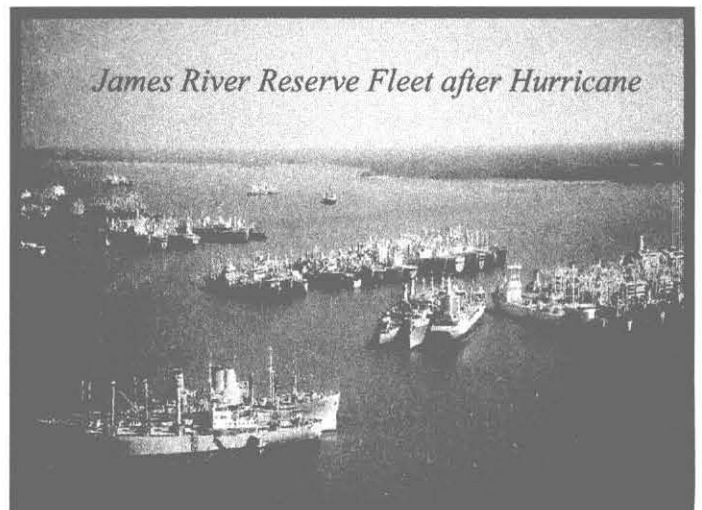
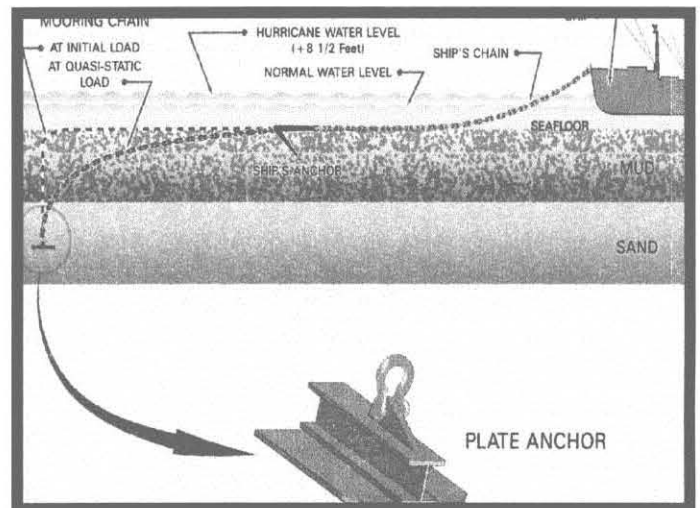
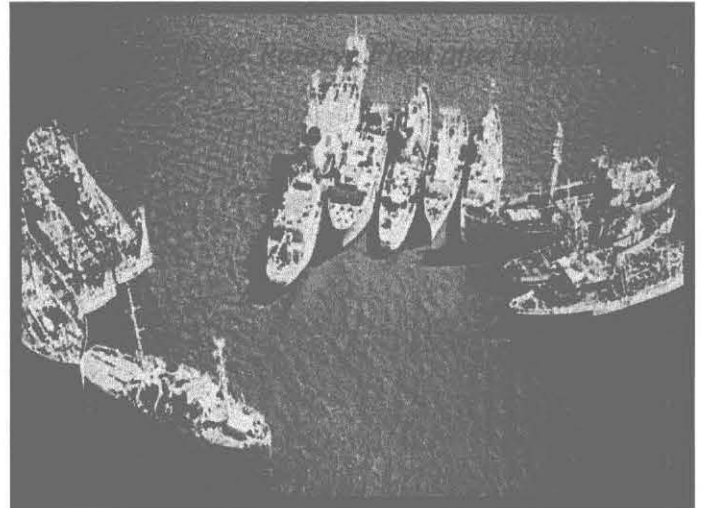
The environmental challenges involved in the custody of obsolete ships can be enormous. Ships awaiting disposal are exposed to the forces of nature, and are thus vulnerable to damage or deterioration, which may in turn result in a spill of fuel oil or other environmentally threatening substance.

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 picture.)

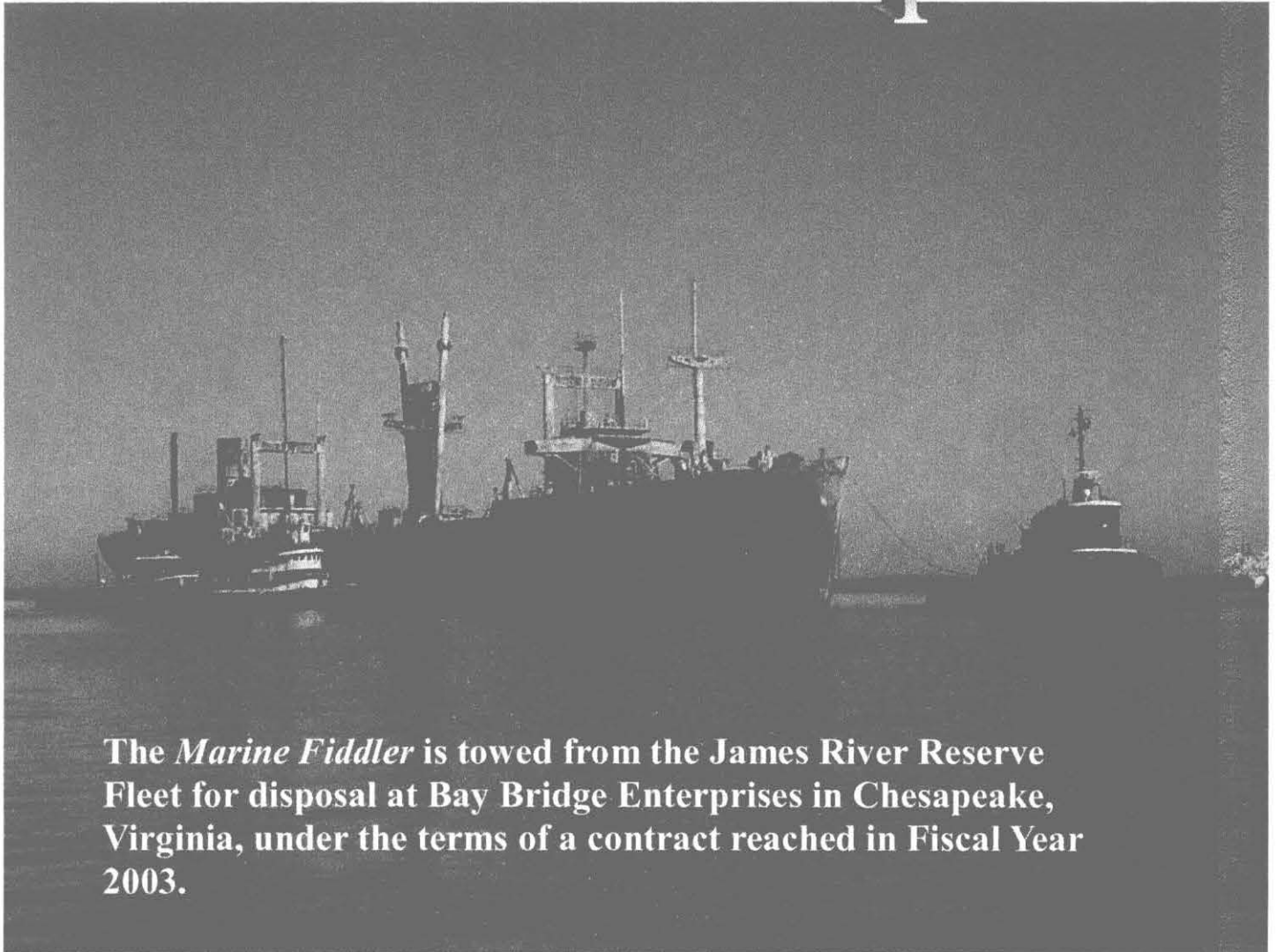
Although no oil leaked and no vessels were sunk in the main shipping channel as a result of Floyd, MARAD saw the havoc Floyd wrought as a clear warning that environmental catastrophe was a definite possibility.

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 illustration.)

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 and were the first to provide damage assessments upon the passing of the storm.



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.*

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 only required 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 surface 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

sel 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: www.marad.dot.gov, www.marad.dot.gov/nmrec, and 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 marine applications of efficient energy sources and low air emission propulsion. 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 inter-agency DOT team exploring the potential of hydrogen as an alternative, clean fuel. Due to its involvement in all of the above, MARAD has established for itself a lead role in the investigation, demonstration and promotion of energy efficient, alternative fuels, propulsion systems and air pollution reduction technologies.

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 Management. 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.

As a result of these reviews, MARAD has dramatically increased facility compliance and environmental stewardship initiatives. In all fleet facilities, the amounts of toxic chemicals were below reporting thresholds. MARAD successfully completed several key environmental projects including above-ground 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.

Safety



Department of Transportation Strategic Objective: Enhance public health and safety by working toward the elimination of transportation-related deaths and injuries.

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 various types of students:

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

Total students for FY 2003 numbered 464.

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.

*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 plans to pursue in order to achieve results that matter to the American people and to the maritime transportation industry. The new plan is available on line at the MARAD web site <http://www.marad.dot.gov>.

President's Management Agenda

Budget and Performance Integration Initiative. MARAD continued 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 marks the first year that MARAD developed a budget request as a component of DOT's appropriation. 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 due to Congressional committee jurisdiction issues. 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 and Treasury appropriation subcommittees.

MARAD continued to conduct annual and quarterly performance reviews of MARAD's programs during FY 2003. The prime 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 terrorism;
- 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 completed 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) and cancellation of the solicitation. The selection of the MEO was made and the solicitation canceled after a protest to the General Accounting Office was dismissed on September 5, 2003;
- 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 3200 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 847 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. None were people with disabilities.

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 (62) 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) concluded with a graduation ceremony and enthusiastic support for the coordinated structured approach to mentoring. The first full year of the program is continuing with the same success.

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 has 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. Also, MARAD has worked with OST on consolidation of information technology infrastructure services, as well as planning for the move of infrastructure to the new headquarters, scheduled in 2005/2006.

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 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 abated. 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. Details of this requirement are in the National Security section of this report. MARAD has the responsibility for monitoring their compliance. In the past, the compliance reports for these graduates were sent in by mail, and the data was entered manually into an aging computer system.

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 begun 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 coordinating of research activities that MARAD is currently involved in.

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 mechanism 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 (www.marad.dot.gov) under the customer service link.

Fifty-two (52) percent of the respondents rated MARAD above average or excellent in meeting their needs. Forty-six (46) percent interact with MARAD two times or less a month. Thirty-one (31) percent have been customers of MARAD 10 years or less, while 12 percent have interacted with us more than 30 years. Thirty-seven (37) 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 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.

Bid Protests on contracts and A76. MARAD has defended General Accounting Office protests on ship scrapping contracts, layberthing contracts and MARAD's A-76 Study on outsourcing the maintenance of the three NDRF fleet locations.

Maritime Security Program (MSP). In the past fiscal year, a ship operator sued MARAD for declaratory and injunctive relief alleging that the terms of the Maritime Security Program (MSP) program were breached when MARAD determined that a nominal shipowner was an eligible transferee of MSP contracts. MARAD filed a motion to dismiss based on lack of subject matter jurisdiction predicated on the plaintiff's lack on standing. The court has not set a hearing date. MARAD is reviewing materials received regarding a potential transfer of MSP contracts to the shipowner.

Cargo Preference. The Department of Justice has adopted many of MARAD's legal positions with respect to cargo preference. However, the final resolution of the issues in this area still remains unsettled. MARAD's debarment of one shipper for failure to comply with cargo preference requirements of P.R. 17 led to litigation, which was also ultimately settled with a removal of the debarment. Ultimately, this litigation led to an understanding with the Export Import Bank concerning the provisions and requirements of P.R. 17.

Civil Rights. During the past year, MARAD was involved in a trial involving allegations of Rehabilitation Act discrimination in both the promotion and termination of an individual. This trial has been completed. However, no decision has yet been rendered.

MARAD was also involved in various matters before the Equal Opportunity Employment Commission (EEOC), and is currently awaiting a decision after a hearing before the EEOC. MARAD also has four matters scheduled for an EEOC administrative hearing. One matter was dismissed on motion without a hearing. Another proceeding was remanded by the EEOC for further investigation. In a settled EEOC case, MARAD successfully challenged a portion of the claim for attorney's fees. MARAD also resolved four EEO complaints through mediation at the informal stage of the process during the past fiscal year.

National Defense Reserve Fleet

- **Maritime Liens.** MARAD continues to be involved in litigation arising out of the failure of vessel repairers to pay their subcontractors. These actions are based on maritime lien theories and arise primarily within the Eleventh Circuit. One of these matters went to trial with a verdict in favor of the United States. However, other subcontractors threaten similar litigation. The United States continues to vigorously resist the concept that one can get an actionable maritime lien on a public vessel, such as vessels in the National Defense Reserve Fleet.
- **Foreign Sovereign Immunity.** The Supreme Court of the Netherlands ruled in MARAD's favor in a case arising out of Operation Desert Shield. This decision affirmed the sovereign immunity aboard vessels in the National Defense Reserve Fleet operating under orders of the Department of Defense. Judicial recourse for the injuries suffered by the port authority plaintiff were found to be applicable only in the courts of the United States. The United States was not subject to the jurisdiction of the Dutch courts for tort damages arising out of

the Department of Defense. Judicial recourse for the injuries suffered by the port authority plaintiff were found to only in the courts of the United States. The United States was not subject to the jurisdiction of the Dutch courts for tort damages arising out of this military operation.

- *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 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, and at the end of the fiscal year challenges were under way in the UK. Environmental issues also arose between the United States and various states concerning NDRF operations. None of these issues resulted in litigation and many of them have been resolved. The U.S. Environmental Protection Agency also brought an administrative penalty action against MARAD for asbestos removal violations of a lower-tier subcontractor. The penalty assessment was significantly reduced and 80% of the penalty will be spent to remove asbestos panels from one of MARAD's training ships.
- *Asbestos Litigation.* Former and current MARAD general agents and ship managers have tendered approximately twenty thousand (20,000) suits filed by seamen to the U.S. government for defense in alleged asbestos injury cases. In these suits, plaintiff seamen allege exposure to asbestos aboard MARAD owned vessels caused personal injury. The tenders arise primarily out

of litigation involving more than 70,000 similar merchant seamen asbestos suits that are consolidated before the U.S. District Court for the Eastern District of Pennsylvania. The court has administratively closed these cases pending court order to proceed to litigation. Of the 20,000 tendered suits, the court has ordered approximately 10 to proceed to litigation. MARAD supports the Department of Justice in the handling of these matters.

Personal Injury Matters. At the end of the recording period, approximately 26 personal injury plaintiff actions pending in Federal Court or on appeal, although certain of these were consolidated into single case proceedings, such as in a limitation of liability action. Most of these claims involved seamen injured aboard MARAD vessels. However, some involved individuals such as longshoremen, contract workers, invitees, etc, who generally were not entitled to seafarer status. This is an increase of the number of cases pending at this time last year. It parallels an increase in the number of NDRF vessel activations for Operation Iraqi Freedom.

Federal Tort Claims Act. Litigation support is also provided for tort cases arising out of MARAD land based actions and programs. Such cases are normally brought under the Federal Tort Claims Act. Recent FTCA litigation has centered primarily on automobile accident cases involving MARAD drivers. At the close of the fiscal year, MARAD had eight claims brought under the FTCA pending before it for administrative determination. Most FTCA claims are resolved through the administrative process handled by the Office of Chief Counsel.

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 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 comes from approximately 40 reimbursable agreements from other Federal agencies for a variety of purposes. The largest ongoing reimbursable transaction 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.

Table 13: ODS ACCRUALS AND OUTLAYS--JANUARY 1, 1937, TO SEPTEMBER 30, 2003

Calendar Year of Operation	Accruals			Outlays		Net Accrual Liability
	Subsidies	Recapture	Subsidy Accrual	Paid in FY 2003	Total Amount of Net Accrued Paid	
1937-1955	\$682,457,954	\$157,632,946	\$524,825,008	\$-0-	\$524,825,008	\$-0-
1956-1960	751,430,098	63,755,409	687,674,689	-0-	687,674,689	-0-
1961	170,884,261	2,042,748	168,841,513	-0-	168,841,513	-0-
1962	179,396,797	4,929,404	174,467,393	-0-	174,467,393	-0-
1963	189,119,876	(1,415,917)	190,535,793	-0-	190,535,793	-0-
1964	220,334,818	674,506	219,660,312	-0-	219,660,312	-0-
1965	183,913,236	1,014,005	182,899,231	-0-	182,899,231	-0-
1966	202,734,069	3,229,471	199,504,598	-0-	199,504,598	-0-
1967	220,579,702	5,162,831	215,416,871	-0-	215,416,871	-0-
1968	222,862,970	3,673,790	219,189,180	-0-	219,189,180	-0-
1969	230,256,091	2,217,144	228,038,947	-0-	228,038,947	-0-
1970	232,541,169	(1,908,643)	234,449,812	-0-	234,449,812	-0-
1971	202,440,101	(2,821,259)	205,261,360	-0-	205,261,360	-0-
1972	190,732,158	-0-	190,732,158	-0-	190,732,158	-0-
1973	219,475,963	-0-	219,475,963	-0-	219,475,963	-0-
1974	219,297,428	-0-	219,297,428	-0-	219,297,428	-0-
1975	260,676,152	-0-	260,676,152	-0-	260,676,152	-0-
1976	275,267,465	-0-	275,267,465	-0-	275,267,465	-0-
1977	294,779,691	-0-	294,779,691	-0-	294,779,691	-0-
1978	285,075,424	-0-	285,075,424	-0-	285,075,424	-0-
1979	279,347,897	-0-	279,347,897	-0-	279,347,897	-0-
1980	386,309,467	-0-	386,309,467	-0-	386,309,467	-0-
1981	351,675,849	-0-	351,675,849	-0-	351,675,849	-0-
1982	366,654,502	-0-	366,654,502	-0-	366,654,502	-0-
1983	278,716,168	-0-	278,716,168	-0-	278,716,168	-0-
1984	342,756,506	-0-	352,756,628	-0-	342,756,628	-0-
1985	367,368,710	-0-	367,368,710	-0-	367,368,710	-0-
1986	317,963,824	-0-	317,963,824	-0-	317,963,824	-0-
1987	183,188,408	-0-	183,188,408	-0-	183,188,408	-0-
1988	219,079,931	-0-	219,079,931	-0-	219,079,931	-0-
1989	221,564,961	-0-	221,564,961	-0-	221,564,961	-0-
1990	231,208,232	-0-	231,208,232	-0-	231,208,232	-0-
1991	216,365,214	-0-	216,365,214	-0-	216,365,214	-0-
1992	213,129,380	-0-	213,129,380	-0-	213,129,380	-0-
1993	214,105,066	-0-	214,105,066	-0-	214,105,066	-0-
1994	213,716,552	-0-	213,716,552	-0-	213,716,552	-0-
1995	197,851,660	-0-	197,851,660	-0-	197,851,660	-0-
1996	178,559,375	-0-	178,559,375	-0-	178,559,375	-0-
1997	111,846,920	-0-	111,846,920	-0-	111,846,920	-0-
1998	27,183,866	-0-	27,183,866	-0-	27,183,866	-0-
1999	15,150,073	-0-	15,150,073	-0-	15,150,073	-0-
2000	4,412,978	-0-	4,412,978	-0-	4,412,978	-0-
2001	3,459,883	-0-	3,459,883	-0-	3,459,883	-0-
2002	5,087,961	-0-	5,087,961	-0-	5,087,861	-0-
2003	13,154,183	-0-	13,154,183	1,118,134	1,118,134	14,272,317
Total Regular ODS	\$10,402,302,117	\$238,186,435	\$10,164,115,682	1,118,134	\$10,148,725,231	\$14,272,317
Program ¹	\$147,132,626	\$-0-	Soviet Grain \$147,132,626	\$-0-	\$147,132,626	-0-
Total ODS	\$10,549,434,743	\$238,186,435	\$10,311,248,838	\$1,118,134	\$10,295,857,547	\$14,272,317

¹No longer operative.

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

Net Accrued	LINES	Accruals			Outlays		
		ODS	Recapture	Net Accrual	ODS Accrual	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 ⁵	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 subsidized carrier 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)

ASSETS	September 30	
	2002	2003
Selected Current Assets		
Funded Balances with Treasury:		
Budget Funds	\$751,596	\$ 618,293
Deposit Funds	<u>10</u>	<u>10</u>
	751,606	618,303
Federal Security Holdings	276,291	188,965
Accounts Receivable:		
Government Agencies	181,156	137,740
The Public		32
	<u>181,156</u>	<u>137,772</u>
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 (-)	<u>(381,570)</u>	<u>(353,496)</u>
	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	<u>0</u>	<u>0</u>
	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	<u>278,870</u>	<u>42,031</u>
	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	<u>17,389</u>	<u>22,689</u>
	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	<u>239,660</u>	<u>273,638</u>
	495,744	553,481
Unfinanced Budget Authority (-)		
Unfilled Customer Orders	(114,362)	(128,149)
Contract Authority		
	<u>(114,362)</u>	<u>(128,149)</u>
Invested Capital	<u>(227,914)</u>	<u>194,558</u>
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 Expenses	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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