MARAD 2004

U.S. Department of Transportation
Maritime Administration

Maritime Administration

Annual Report To Congress

Fiscal Year 2004

U.S. Department of Transportation
Norman Y. Mineta, Secretary

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Table of Contents

To Congress and Our Partners, Customers, and Employees

John Jamian
Acting Maritime Administrator

INTRODUCTION

During Fiscal Year 2004, Maritime Administration programs provided vital sealift support to U.S. Armed Forces overseas, and advanced the departmental goals of Commercial Mobility, Global Connectivity, and Environmental Stewardship, as well as carrying forward the President's Management Agenda. The Maritime Administration leverages the resources of the commercial maritime industry for sealift support and for planning, coordination, and development of policy. One distinguishing feature of this agency is its many successful cooperative ventures with private industry. You will find descriptions throughout this report.

Much of our work this year was collaborative with the Marine Transportation System National Advisory Committee (MTSNAC), which is appointed by the Secretary of Transportation. We worked together to review and carry forward preparing our Marine Transportation System to meet the growing demands of our expanding economy. Cargo efficiency is directly linked to cargo security in that both require an effective understanding of the supply chain, which is essential for the recovery of transportation from intentional harm or natural disasters.

MTSNAC also provided important input to the U.S. Commission on Ocean Policy report. The report recommended that the Interagency Committee for the Marine Transportation System be chaired by the Department of Transportation and promote coordination among marine transportation participants as well as with other modes of transportation. MARAD intends to implement the recommendations in the report that support maritime transportation.

We believe that in the years to come the Maritime Administration and the rest of the U.S. Department of Transportation will continue our important work incorporating better use of waterborne transportation into our National transportation system. We are confident that we laid the foundation in Fiscal Year 2004.

The Maritime Administration continues to honor America's maritime heritage, and to help build America's future.

EXECUTIVE SUMMARY

This Annual Report of the Maritime Administration (MARAD), *MARAD 2004*, enumerates many of the agency's measurable accomplishments during Fiscal Year 2004. In addition to these accomplishments, MARAD, with the Office of the Secretary of Transportation, has conducted a far-reaching review of the current status and future needs of America's marine transportation system as part of an initiative to strengthen our Nation's intermodal transportation system to meet anticipated demands.

While this initiative is still in its formative stages, its goal will be to improve the efficiency and effectiveness of our Nation's Marine Transportation System (MTS) and enhance the competitiveness of our maritime industry. It is expected to place renewed emphasis on the marine mode of transportation and integrate it more fully into the National transportation system with a focus on infrastructure development strengthening the U.S. merchant marine and our shipbuilding capabilities to meet our Nation's future needs. More information on the MTS and can be found in the Commercial Mobility section of this report.

MARAD also conducted a major maritime policy review in response to the interest of the House Committee on Appropriations. The committee emphasized that it was especially interested in sustaining U.S.-flag maritime commercial viability, while ensuring that maritime priorities are well articulated within the safety and infrastructure mission of the U.S. Department of Transportation (DOT). MARAD conducted that review, and reported the results to Congress in September 2004. More information on that report can also be found in the Commercial Mobility section of this report.

In FY 2004, MARAD continued to perform its multi-faceted maritime responsibilities. Four of MARAD's major accomplishments are highlighted below.

- Sealift has been of vital importance in deploying and sustaining U.S. forces overseas during the Global War on Terrorism. MARAD programs provide access to the government-owned ships of the Ready Reserve Force and to privately-owned sealift capability under the Maritime Security Program and the Voluntary Intermodal Sealift Agreement. MARAD also works to ensure the supply of skilled American seafarers to crew the ships. The accomplishments of these programs are outlined in the National Security section of this report.

- MARAD led the way in global trade, especially with China, in Fiscal Year 2004. In December 2003, six years of negotiations culminated in a new bilateral agreement that gave American carriers and shippers more access to China's markets. MARAD's Cargo Preference program has supported U.S. aid programs, and also sustained the U.S. merchant marine. The accomplishments in both these areas are outlined in the Global Connectivity section of this report.

- Stewardship of the environment is a strategic goal of the Department of Transportation, and MARAD's largest challenge in that area has been the presence of obsolete ships in the National Defense Reserve Fleet--ships that posed an elevated environmental threat. MARAD disposed of fifteen such ships in FY 2004.

- MARAD has instituted an effective response to the President's Management Agenda, the administration's aggressive strategy for improving the management of the Federal Government. The strategy focuses on five areas of management weakness across the Government where improvements and the most progress can be made. MARAD's accomplishments in the integration of budget and performance, the integration of business strategies and contracts, competitive sourcing, human capital, and e-government are outlined in the Organizational Excellence section of this report.

  This Annual Report fulfils the reporting requirements under Section 208 of the Merchant Marine Act of 1936, as amended. It also fulfils requirements of reporting to Congress on Cargo Preference activities, plus the requirement for reporting to Congress on Title XI activities, as mandated in 2003.

  Fiscal Year 2004 accomplishments are discussed in greater detail in this report. Together they constitute a record in which MARAD's personnel can take great pride.

Mission of the 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.

The U.S.-flag Sealand Comet at the Port of Long Beach, CA

INDUSTRY OVERVIEW

A kingdom, that has a large import and export, must abound more with industry, and that employed upon delicacies and luxuries, than a kingdom that rests contented with its native commodities. It is, therefore, more powerful as well as richer and happier.

David Hume, "Essay of Commerce," 1752

In the past, U.S. manufacturers and retailers had generous on-site warehouse capacity to provide for market uncertainty. Today, industries rely on sophisticated supply-chain logistics and just-in-time delivery practices to compete globally. Business plans are designed accordingly, with little or no room for delay, using minimum storage space.

The United States is the world's greatest trading Nation, accounting for nearly 20 percent of the world's annual oceanborne trade. U.S. international trade amounts to $2 trillion annually. Half of this trade consists of manufactured goods carried in shipping containers, and more than seven million containers enter American ports every year. 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, almost 27 percent of the Nation's Gross Domestic Product (GDP) was dependent on international trade, 38 percent of the value, and 78 percent of the volume of which moves by water.

U.S. Waterborne Commerce, 2003
(Million Metric Tons)

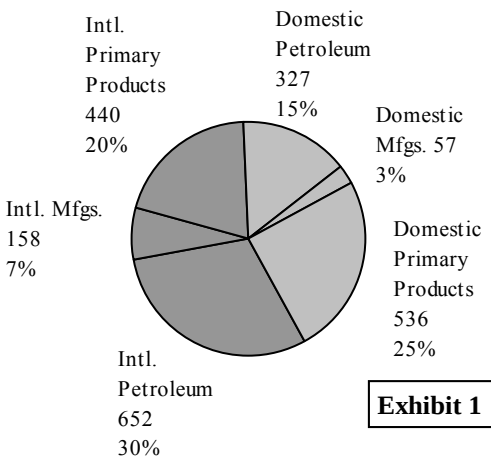


Exhibit 1

Source: U.S. Army Corps of Engineers

Thus, America's continued economic health depends on the current and future efficiency of the marine transportation industry.

In 2003, U.S. waterborne commerce amounted to 2.2 billion metric tons (Exhibit 1). This includes inland waterway commerce. International commerce accounted for 58 percent of the total, up from 52 percent 5 years earlier. The increase is due largely to a 20 percent increase in petroleum imports, and a 9 percent decline in coastwise petroleum shipments. The increasing share of imports in U.S. waterborne commerce has contributed to a rising deficit in the U.S. international ocean freight accounts (Exhibit 2). The growth of freight payments (to foreign companies) in absolute terms has been about twice the growth in payments to U.S. companies (gross output).

Petroleum and other primary commodities (coal, chemicals, crude materials, and farm products) accounted for 90 percent of U.S. waterborne commerce. Manufactures trades, a category including manufactured equipment, machinery, and products, and primary manufactured goods, 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.

A total of 48,173 U.S.- and foreign-flag vessels were active in U.S. domestic and international trades in 2003; of these, 6,157 were oceangoing vessels (10,000+ DWT). Of the oceangoing vessels, 514 were owned by U.S. companies; of these, 244, fewer than half, were registered under the U.S. flag. In 2003, the U.S.-flag oceangoing fleet carried only 2 percent of U.S. international trade. In addition to the oceangoing

U.S. Marine Transportation, Economic Indicators

	1998	1999	2000	2001	2002	2003
Gross Output and Components ($Mil.)						
Gross Output	25,034	27,019	28,864	28,299	27,919	30,037
Intermediate Inputs	18,519	20,606	21,642	20,996	21,004	22,480
Value Added[1]	6,516	6,413	7,222	7,303	6,915	7,557
Employee Compensation	3,077	3,359	3,455	3,578	3,650	3,760
Net Taxes	464	504	481	364	164	366
Operating Earnings (Surplus)	2,975	2,551	3,286	3,361	3,101	3,431
Labor and Capital						
Employment	52,000	54,000	55,000	54,000	54,000	54,000
Capital Stock ($Mil.)	47,600	47,000	46,600	45,900	45,900	46,100
Return on Capital (%)[2]	6.2	5.4	7.1	7.3	6.8	7.4
International Freight ($Mil.)						
Receipts	3,783	3,940	4,290	3,771	3,724	4,465
Payments	13,652	15,728	20,068	19,395	18,622	24,174
Balance	(9,869)	(11,788)	(15,778)	(15,624)	(14,898)	(19,709)
U.S. Waterborne Commerce (Mil. Metric Tons)						
International	1,130	1,144	1,228	1,225	1,197	1,248
Imports	763	781	852	863	847	912
Petroleum	501	512	558	563	553	600
Exports	367	363	376	362	349	337
Domestic	992	963	971	945	926	920
Ocean	227	208	206	202	196	201
Petroleum	161	147	148	149	140	146
Other	765	755	765	743	730	719
Total	2,122	2,107	2,199	2,170	2,123	2,168
Vessel Earnings ($/day)						
Tanker	16,630	12,261	27,206	27,963	16,362	29,351
Dry Bulk	6,309	6,328	9,334	7,924	7,284	9,900
Containership (2,750 TEU)	16,450	15,475	22,188	16,771	10,700	22,125

[1] Gross output less intermediate inputs.
[2] Operating surplus divided by capital stock.

Source: Bureau of Economic Analysis; Clarkson Research Studies for vessel earnings. U.S. Army Corps of Engineers for Waterborne Commerce.

Exhibit 2

fleets, there were 216 bulk vessels, of which 47 were U.S.-flag active in U.S. Great Lakes trades. The U.S. domestic fleet contains about 41,800 smaller U.S.-flag vessels: tugs, barges, offshore supply vessels, and ferries are active in U.S. inland and coastal trades.

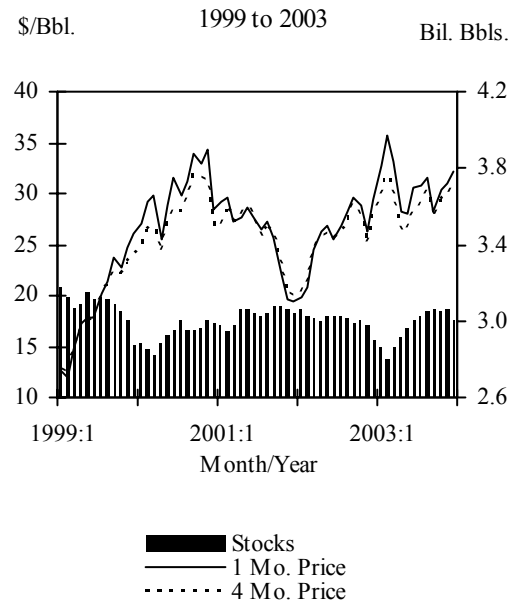
As of year-end 2003, the value of the U.S.-owned fleet (capital stock) was about $46 billion with an average age of 17 years. The capital stock declined slightly over the last five years, while industry employment has remained stable at 54,000 since 1999 (Exhibit 2).

Average fleet age is likely to fall over the next five years with the attrition and/or replacement of 25+- year-old vessels. U.S. companies have ordered a significant number of new vessels from foreign and domestic shipyards. These include: ten (four foreign-built) double-hull crude carriers; 15 foreign-built double-hull product carriers; 14 U.S.-built double-hull ATB's (articulated tug/tank barge units), which will replace older barges and product tankers in U.S. coastal trades; 13 foreign-built bulk carriers; six U.S.-built high-speed ferries for U.S. domestic trades, and 54 (17 foreign-built) offshore service vessels. All of the foreign-built vessels will be registered under foreign flags, and all of the U.S.-built vessels will be registered under U.S. flag.

As of year-end 2003, 61 percent (190 vessels) of the U.S.-owned tanker fleet were equipped with double hulls. Even if there were to be no growth in the U.S.-owned tanker fleet, but only the expected replacement of existing single-hull vessels, 67 percent of the U.S.-owned tanker fleet will have double hulls by year-end 2006.

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 customers, stabilize carriers' earnings, and offer the prospect of better returns. Over the last five years, the return on capital for marine transportation services (5.4-7.4 percent) has been below the return for other U.S. transportation services (8.3-11.9 percent).

The historical volatility in marine transportation operating earnings (surplus) can be traced largely to the impact of changes in oil prices on the demand for tank vessel services (Exhibits 2 and 3). As prices fell in 2000, 2001, and 2003, oil companies rebuilt depleted stocks, contributing to an upturn in petroleum trades, tank-vessel earnings, and industry returns.



Source: Energy Intelligence Group for stocks, New York Mercantile Exchange for oil prices.

Exhibit 3

At the end of World War II, America's shipbuilding industry was by far the largest and most advanced in the world. Since then, as other nations built up or rebuilt their shipbuilding industries and continually modernized them, the construction of commercial oceangoing vessels in the United States has steadily declined. The number of such ships built in the United States

was 77 in 1975, 21 in 1982, and is 10 per year at present.

Today in the United States, there are 24 private-sector shipyard facilities with the capability of handling vessels over 400 feet in length. This represents a 38 percent reduction from the 39 facilities operating in 1981. Repair yards with dry-dock facilities dropped by 23 percent from 1982 to the present. Most significantly overall, the number of production workers fell from 111,000 in 1982 to 44,700 in 2002. The United States now has less than a 1 percent share of the world's new construction market of commercial vessels of over 1000 gross tons, and lags far behind the world's shipbuilding leaders such as South Korea, Japan, China, Germany, Italy, and Poland.

NATIONAL SECURITY

On board the Ready Reserve Force ship Cape Vincent en route to the Middle East

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.

The United States military would be unable to deploy and sustain its forces worldwide without using privately owned, U.S.-flagged commercial vessels.
Finding of National Defense Transportation Association report, February 2003

BACKGROUND

Sixty years ago, at the end of World War II, the U.S. Merchant Marine was by far the strongest in the world. Since then, its decline—in vessels and seagoing personnel—has been relentless, even as this country grew into the largest trading Nation in the world. Less than 3 percent of our Nation's waterborne exports and imports are carried on vessels under the U.S. flag. Moreover, the manpower pool of American merchant mariners is declining due to real wage and benefit declines, increased licensing and documentation requirements, limited career prospects in a shrinking fleet, the fading lure of life at sea, restrictions on shore leave, and the attractiveness of shoreside jobs. The number of oceangoing qualified U.S. merchant mariners has declined from 69,100 in 1970 to 14,900 today.

National security programs of the Maritime Administration (MARAD) work to keep this decline in the merchant fleet from becoming a security weakness. MARAD programs assure sufficient sealift, as well as the necessary port and intermodal services, to move materiel into and out of the area of conflict, while maintaining the flow of commercial shipping and cargo, as well as ensuring a sufficient pool of trained mariners to crew the ships needed for sealift.

Ninety-two percent of cargo moved in Operation Iraqi Freedom (OIF) between January 1, 2003 and September 30, 2004, approximately 45.8 million cubic feet, was carried aboard U.S.-flag vessels and moved through 13 of 14 strategic commercial ports. Seventeen percent of military cargo was carried on vessels in MARAD's Ready Reserve Force.

The RRF ship Cape Victory offloads military cargo at the Port of Ash Shuaybah, Kuwait

READY RESERVE FORCE (RRF)

The Ready Reserve Force (RRF) is MARAD's premier sealift program that uses government-owned ships. MARAD maintains the RRF, a fleet of militarily useful ships, in a reserve status in the event that the Department of Defense (DOD) needs them to support the rapid, massive movement of military unit equipment and supplies and troops for a military exercise or large-scale conflict, for which they are placed under the operational control of the U.S. Navy's Military Sealift Command (MSC). The ships are managed by commercial companies selected by MARAD, and crewed by civilian merchant mariners. Most of the RRF ships activated for the conflict in the Middle East have been kept in reduced operating status (ROS), with partial crews keeping the ships in good repair and ready for activation.

RRF Operations

The tempo of operations for RRF ships during Fiscal Year 2004 was very high, as ships logged 4,798 operating days supporting military missions and exercises. In the four years prior to the war in Iraq, the RRF program was averaging about 400 operating days annually, so this was a more than ten-fold increase. The ships and

crews have performed well; the overall FY 2004 performance, or fully mission-capable rate for RRF ships while under MSC operational control, was 99.2 percent.

During the month of January and in early February 2004, 21 RRF ships were activated, in support of Operation Iraqi Freedom 2 (OIF2), which was the sealift effort supporting U.S. Armed Forces rotation in Iraq. All 21 vessels were roll-on/roll-off (RO/RO) ships in ROS. Late in FY 2004, six RRF roll on/roll off's were called upon again to support further U.S. Armed Forces deployments to the Middle East, with additional RRF activations expected into Fiscal Year 2005. More information on the activations of RRF ships supporting American military action in the Middle East is available at www.marad.dot.gov/programs/rrf.html.

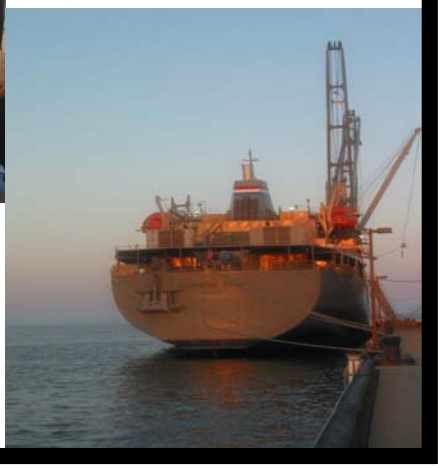
The RRF ships also participated in exercises at sea and supported peacekeeping missions during

FY 2004. Four RRF ships were activated for a Joint Logistics Over the Shore exercise; the scenario was a disaster relief and humanitarian response off Central America. The *Mount Washington, Cape May, Cape Trinity,* and *Flickertail State* participated. Immediately following its participation, the *Flickertail State* was dispatched to carry U.S. Marine Corps equipment to Haiti to support the peacekeeping mission in progress. The crew unloaded cargo under hazardous conditions.

FEATURE: FLICKERTAIL STATE WINS PROFESSIONAL SHIP AWARD

***Presentation of the Professional Ship Award**: Left to right: Joe Regan, Captain; Scott Stilianos, Chief Engineer; Maritime Administrator William Schubert; and Jorge Aguirre, President and CEO, Interocean Ugland Management Corporation*
Photo by Elvira May

Flickertail State
The Flickertail State at dawn, Newport News, VA
Photo by Susan Clark



On July 15, 2004, in a sunlit waterside ceremony in Newport News, VA, Maritime Administrator Captain William G. Schubert presented the Professional Ship Award to the officers and crew of the Ready Reserve Force ship SS *Flickertail State.* The Professional Ship Award is given to non-military ships that achieve the highest degree of readiness, performance, efficiency, reliability, productivity, and safety. The crew was honored for its part in Operation Haiti, working under fire delivering supplies and equipment to the U.S. Marine Corps, and for performing that mission directly on the heels of completing a training exercise in conjunction with the U.S. Navy.

In the training exercise in October 2003, the officers and crew had delivered aid cargo to Guatemala, and then had come back to participate in "skin-to-skin" operations in the Atlantic Ocean off Fort Story, VA. The operations involved at-sea approaching, mooring, and cargo transfer between two ships. The system being tested minimizes heavy load swings via computer control of a crane's movements, and since the *Flickertail State* is a crane ship, it was ideal for such tests.

The crew had returned with the ship to Newport News, VA, and were ready to head home, when they were asked to leave again immediately, to load military materiel and take it to Port-au-Prince, Haiti. They did as requested, and arrived to find riots going on in Port-au-Prince, and the city in flames. "We could see the fires," said Bosun David Brown. "There was smoke all over the mountain range. You could tell there was looting and rioting going on there, and we could hear quite a bit of gunfire."

Captain Joseph Regan said the ship's agent was telling them it was getting worse. "They couldn't get trucks into the docks because of violence in the streets. That was, obviously, in the back of our minds the whole time. But when you're focused on what you have to do, focused on getting the cargo off, focused on the people around you, you keep it in the back of the brain, because you've got other things to think on."

The cargo was unloaded quickly and safely within nine hours, and the *Flickertail State* came home. At the award ceremony, Captain Schubert praised the officers and crew, saying, "The crew of the *Flickertail State* is an outstanding example of the integral role the Ready Reserve Force plays in our National defense operations. Our Nation's Ready Reserve Force helps ensure our security by supporting the men and women of the U.S. Armed Forces."

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Other RRF ships participating in exercises were the *Wright* (Exercise Carolina Patriot/Dragon 04), the *Cape Girardeau* (Exercise RIMPAC 2004), the *Cape Isabel* (Exercise Cobra Gold 2004), and the *Cape Farewell* (Exercise Turbo-CADS, for a container ammo distribution system).

Three RRF ships, the *Petersburg*, the *Chesapeake*, and the *Cape Jacob*, continued their service supporting DOD's Afloat Prepositioning Force operating from Diego Garcia and Guam.

The RRF's exemplary activation record is due to a sound and systematic conditioning program. While the commercial ship managers are responsible for the overall material condition and readiness of the ships, the RRF program requires regular sea trials as well as dock trials and drydockings; for example, there were 15 maintenance sea trials conducted in FY 2004. The most conclusive test of readiness is performance upon activation in time of conflict or National emergency, and FY 2004 provided that kind of test for the RRF. Readiness was also tested by turbo activations, which are initiated by DOD without prior notice or planning in order to test vessel readiness to activate on time. In FY 2004, there were seven such turbo activations; all were successfully completed within the vessels' assigned readiness time periods. A list of recent turbo activations and their results is available at www.marad.dot.gov/programs/rrf.html.

NATIONAL DEFENSE RESERVE FLEET (NDRF)

MARAD is authorized to maintain 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. In 1950, the NDRF held 2,277 ships in eight different anchorages. As of September 30, 2004, there were 284 vessels in custody of NDRF, of which 59 were in the RRF, 69 were in long-term storage (retention), and 138 were ready for disposal or being prepared for disposal (non-retention). An additional 18 vessels, owned by other Federal agencies, were also maintained at NDRF facilities on a cost-reimbursable basis.

Most of the vessels are maintained at three anchorages: as of September 30, 2004, there were 81 vessels in the James River Reserve Fleet at Ft. Eustis, VA; 44 in the Beaumont Reserve Fleet at Beaumont, TX; and 86 in the Suisun Bay Reserve Fleet at Benicia, CA. There are 73 vessels assigned to port facility locations. More information on the NDRF may be found at www.marad.dot.gov/programs/rrf.html.

Maritime Heritage

MARAD is authorized to provide obsolete parts and equipment from NDRF ships that will soon be disposed to U.S. memorial ship organizations for helping to preserve the operational or historical character of vessels. Long-term loans of historical artifacts for public display are also made available to worthy organizations. As of September 30, 2004, 38 MARAD-owned artifacts were on loan to such organizations. For example, the binnacle off the *Sioux Falls Victory* is on long-term loan to the Navy League of the United States; the binnacle is being used to commemorate the Annual Congressional Sea Services Award. Four hundred fifty-six pieces of equipment were on loan to museums, and another 98 to other collections.

In November 2003, legislation was passed to authorize a vessel donation program that provides ships for specific historical and other purposes. This replaces the past practice of authorizing donations only through special legislation.

Ready Reserve Force ship Cape Flattery reflects at the Beaumont Reserve Fleet in Texas

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 2004, the anchorages supported training events for 8 days involving 475 individuals. RRF vessels in ROS were utilized as training platforms for a variety of organizations such as the U.S. Coast Guard Marine Safety Office and Naval Cargo Handling Battalions, and local law enforcement agencies. In FY 2004, ROS ships supported 84 training events for 184 days involving 2,210 individuals.

VOLUNTARY INTERMODAL SEALIFT AGREEMENT (VISA)

The Voluntary Intermodal Sealift Agreement (VISA) program is sponsored jointly by MARAD and DOD. VISA 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 the initial deployment or "surge."

More than 75 percent of available militarily useful capacity in the U.S.-flag fleet is committed to the VISA program. VISA companies commit specific vessel capacity, intermodal equipment, and management services. All VISA participants receive priority consideration for the award of DOD peacetime cargoes. As of September 30, 2004, there were 59 VISA participants. These participants are listed at www.marad.dot.gov/programs/rrf.html.

The binnacle from the Sioux Falls Victory

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, with each stage adding more capacity commitments. VISA activation is time phased to streamline the availability of capacity to coincide with DOD requirements.

An important element of the VISA program is the Joint Planning Advisory Group (JPAG). During JPAG meetings, government, industry, and maritime labor unions 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 2004, MARAD and the U.S. Transportation Command held JPAG meetings in January and August. At these meetings, participants were briefed on a variety of topics including deployment and redeployment operations in support of OIF, crewing and sealift requirements, and force protection. As a result of these meetings, government and industry continued to provide efficient and effective support to U.S. troops in Iraq.

Although DOD did not activate VISA stages for OIF, VISA carriers continued to transport equipment and supplies to support this effort. From January 1, 2003 to September 30, 2004, 15 VISA ships were chartered by the MSC, and 45 VISA ships provided liner service to the Military Surface Deployment and Distribution Command (SDDC) to support OIF.

In FY 2004, MARAD published a notice in the *Federal Register* for the VISA "Open Season" enrollment; this open season is the only allowed period for applications to be accepted. This enrollment window was open during May 2004, and MARAD approved three applications.

MARITIME SECURITY PROGRAM (MSP)

The Maritime Security Program (MSP) is a significant component of the VISA program; many shipping companies and ships are participants in both. As a condition for receiving government financial support, 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.

Forty ships in the MSP, more than 85 percent of the fleet, participated in OIF between January 1, 2003 and September 30, 2004.

The MSP serves to maintain an active, privately owned U.S.-flag and U.S.-crewed liner fleet in international trade to support DOD sustainment in a contingency. The program, therefore, helps the United States retain an active U.S.-flag merchant fleet comprising modern, efficient, militarily useful vessels that can support National security requirements and maintain a competitive U.S.-flag presence in international commerce. It also supports 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 was originally established as a 10-year program under the Maritime Security Act of 1996, and authorized more than $100 million in funding annually for up to 47 vessels to partially offset higher operating costs under U.S. registry. During FY 2004, the MSP was reauthorized for another 10 years, and the number of ships was expanded from 47 to 60.

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. Over 115,000 20-foot equivalent units (TEU's) and one million square feet of capacity committed to DOD stem from MSP obligations. As of September 30, 2004, 12 MSP carriers were receiving MSP payments for 47 vessels. A complete list of MSP vessels and operators is shown in www.marad.dot.gov/programs/rrf.html.

An important element of the MSP is the reflagging of new and more efficient vessels to U.S. registry. On October 28, 2003, the Maritime Administrator approved the substitution of the RO/RO vessel *Freedom* for the RO/RO vessel *Tanabata* for MSP participation. A RO/RO vessel is one which carries vehicles, be they automobiles or tanks, which "roll on" and "roll off" the vessel, usually under their own power. The *Freedom*, a newer and larger RO/RO vessel than the *Tanabata*, previously flew the flag of Norway. The *Freedom* was reflagged to U.S.-flag registry on October 30, 2003. A total of 18 modern commercial liner vessels, average age of less than four years old, have been reflagged to U.S. registry and are currently participating in the MSP. In addition, five other vessels less than four 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.

While the VISA program was not activated, VISA participants transported materiel for OIF. Totem Ocean Trailer Express, Inc. (TOTE) load military cargo on the MV North Star in Tacoma, WA.

WAR RISK INSURANCE

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

As of September 30, 2004, there were 369 binders on vessels and barges providing eligibility for hull and machinery protection and indemnity, and second seamen's war risk insurance. No binders related to MARAD's standby war risk cargo insurance and builder's risk insurance programs have been issued. All binders are effective for 30 days following an automatic ter-

mination of commercial insurance.

As a result of the terrorist activities of September 11, 2001, MARAD activated the Title XII War Risk Insurance Program at the request of DOD. MARAD wrote war risk insurance on six vessels in conjunction with Operation Enduring Freedom (OEF), and on 106 in conjunction with OIF. MARAD issued more than 300 policies covering more than $9.5 billion in values and limits since the post-9/11 activation. As of September 30, 2004, there had been no losses.

The U.S. flag- Industrial Challenger with a cargo of U.S. Coast Guard cutters.

STRATEGIC COMMERCIAL PORT READINESS

National Port Readiness Network

For most of FY 2004, there were 14 commercial American ports designated as strategic ports by DOD and the National Shipping Authority, which is the National defense arm of MARAD. In September 2004, the number of strategic ports increased by one, with the designation of the Port of Anchorage, AK. Port readiness supports the National security goal of assuring that DOD-designated commercial strategic ports are available to the military during National emergencies. Strategic ports must handle military cargo securely, efficiently, and in a way that minimizes the disruption of commercial cargo.

MARAD chairs the National Port Readiness Network (NPRN), which promotes the readiness of the ports; nine other Federal agencies are members. This network is responsible for supporting the movement of military forces through U.S. ports. Local port readiness committees hold regular meetings along with port readiness exercises.

For FY 2004, the performance measure target for MARAD's strategic port readiness activities was the availability of 92 percent of DOD-selected facilities on 48 hours notice. MARAD achieved 93 percent availability.

Report to Congress on the Performance of Ports and the Intermodal System

The conference report accompanying the FY 2004 omnibus appropriations legislation requested that MARAD report on the performance of the intermodal system with respect to the efficiency of the most congested ports. Working with the U.S. Transportation Command and other modal offices of DOT, MARAD prepared a report that provided an assessment of the conditions at commercial ports, particularly those responsible for the movement of military cargo through the intermodal system during OIF buildup. MARAD based its assessment on data collected via site visits and interviews. The assessment covered the performance of the major components of the intermodal system and emphasized the perceived ability of the Nation's freight transportation infrastructure to handle an unexpected surge in cargo during a military deployment. MARAD found that during the OIF deployment, the strategic commercial ports and the transportation industry were able to support the military's requirements with minimal commercial cargo disruption. The occasional congestion problems were resolved quickly. A number of impediments were identified that need to be addressed so future deployments can work equally well, particularly as the transportation system becomes more congested in the years ahead.

NATO PLANNING BOARD FOR OCEAN SHIPPING PARTICIPATION

MARAD is the focal point for 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 commercial shipping support to NATO in crisis and war, and serves as the NATO focal point for advice and assistance on the protection of civilian maritime assets against acts of terrorism. MARAD's Associate Administrator for National Security serves as chairman of PBOS, and a MARAD employee serves as its secretary.

In FY 2004, PBOS developed plans for the utilization of commercial vessels for strategic sealift and a market advisory panel to facilitate and enhance the military's access to the commercial shipping market. PBOS also has assisted NATO military planners by providing information and advice on the availability and use of commercial shipping to support projected operations.

DOMESTIC (JONES ACT) FLEET AND NATIONAL SECURITY

The Jones Act, which was part of the Merchant Marine Act of 1920, requires that cargo carried between U.S. ports be on vessels that are U.S. built, U.S. owned, and U.S. registered, and, as a result, U.S. crewed. The components of the domestic fleet, such as passenger ferries, tank vessels, containerships, and barges, help provide a secure and immediately responsive logistics capability for the domestic movement and international deployment of our armed forces. The commercial U.S.-flag fleet and the trained mariners it supports are integrated into military planning and operations through the MSP and VISA. U.S.-civilian merchant mariners crew all U.S.-Government sealift vessels as well. The Jones Act fleet provides a secure transportation mode for cargo and passengers for domestic waterborne trade.

FOREIGN TRANSFERS

As mentioned earlier in this report, MARAD is an approving agency for a ship "flagging in" (adopting the U.S. flag) if the vessel is needed in the MSP program. MARAD is also the approving agency for "flagging out" (the process by which a U.S.-flag vessel is transferred to another registry). MARAD must approve any such transfer of vessels of specified sizes and ages, and bases the approval on the National security needs of the U.S. Government. During FY 2004, MARAD approved the transfer of 52 ships of 1,000 gross tons and over to foreign ownership and/or registry. MARAD also approved the transfer of two towing vessels under 1,000 gross tons to Russian registry, and approved the transfer of nine vessels that 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 MARAD approval for any subsequent transfer of ownership and/or registry; vessels involved are required to remain available for U.S. Government requisitioning, if needed. At year's end, 165 vessels were subject to these terms, 54 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 $23,220 in this reporting period.

These activities take place under authority provided in Section 9 of the Shipping Act, 1916, as amended. All such activities are summarized at www.marad.dot.gov/programs.

MERCHANT MARINER AVAILABILITY

An essential component of ensuring sufficient sealift is making sure that enough qualified mariners are available to sail the required number of ships. During the fiscal year, despite a significant strain placed on the personnel base of merchant mariners, the effort to crew the emergency shipping needed for OIF was successful.

More than 8,000 mariners sailed aboard various ships in support of the operation, including almost 4,300 commercial mariners, and nearly 3,800 civil service mariners. This successful execution represents a significant joint achievement by MARAD, RRF ship managers, maritime labor unions, USCG and MSC.

MARAD continues to focus on looking beyond the number of mariners, to evaluate mariner characteristics and the skill mix of mariners available to sail. During FY 2004, MARAD leaders pursued efforts to maximize mariner availability. As a result of those efforts, several goals pertaining to mariner certification and availability were accomplished:

- In cooperation with MSC, established a procdure for smallpox and anthrax vaccinations for RRF crews prior to deployment to the Persian Gulf.
- Issued Merchant Marine Expeditionary Medal Certificates to 431 commercial and civil service mariners who participated in OIF 2, including those mariners who sailed in OIF 1.
- Granted certification for reemployment rights to four mariners, and processed inquiries from numerous individuals and organizations.

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.

American merchant mariners, members of the crew of the RRF ship Cape Vincent, on their return journey from the Middle East.

MARAD is also pursuing the establishment of a Civilian Mariner Reserve (CMR) program. The program would alleviate potential shortages in able-bodied seamen, qualified members of the Engine Department, and other ratings. In addition, it would provide a means to assure access to mariners in the event of a National emergency. The CMR would use the existing structure of the U .S. Maritime Service (USMS). Members would be activated for two weeks of training each year on U.S. Government vessels.

Although MARAD and its industry partners remain committed to both the recruitment and retention of mariners, there is no typical mariner. Some can be contacted only through an e-mail address or post office box. Some lead more settled lives, but are interested in occasional tours at sea. Others alternate between sea time and working ashore in industry-related jobs. MARAD will have fully accomplished its goals in the area of mariner availability when we have a large stable base of qualified mariners that we can contact in a timely manner to crew our Nation's vessels both in peace and in times of National emergency.

The USCG-licensed mariners who are Navy Officers in the Merchant Marine Reserve Program provided superb support to the sealift operations for Operation Iraqi Freedom. At MARAD, they provided support at the Crisis Management Center for the headquarters and regional offices, providing technical assistance in the areas of manpower, ship operations, intelligence, shipbuilding and repair, port services, and ship activations for DOD requirements. They continue to represent the Department of the Navy at MARAD and other government agencies.

MARITIME TRAINING AND EDUCATION

MARAD vigorously supports maritime training and education through the U.S. Merchant Marine Academy, 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 (USMMA) 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 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. Graduates incur an eight-year U.S. Naval Reserve commitment, unless they are accepted in another uniformed service, that obligates them to serve in time of war or National emergency. The critical maritime skills developed with their military training significantly increases our Nation's defense readiness.

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

The Class of 2004, which graduated in June, comprised 108 graduates licensed as third mates and 74 as third assistant engineers. The 16 women graduates in 2004 brought to 495 the total number of female graduates since the first co-educational graduating class in 1978. Within six months of graduation, 99 percent of the 182 graduates had obtained employment in the mari-

time and transportation industry, afloat and ashore or were on active military duty; the remaining 1 percent were in graduate school. More information on USMMA may be obtained at www.usmma.edu.

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 $4,000 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 a state academy, cadets must pass the U.S. Coast Guard examination for a license as an officer in the U.S. merchant marine, and
- To 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 vessel operations, and are part of MARAD's assistance to the academies to train highly qualified licensed officers.

Maritime Transportation Security Act (MTSA) Section 109 Training

The Maritime Transportation Security Act (MTSA) called for greater maritime security training for maritime security professionals in the United States; this encompasses primarily all civilian personnel who are employed in connection with ships and port facilities. During FY 2004, MARAD led the development of a National system of certification and course approval for course providers who voluntarily submit their maritime security courses for approval to MARAD. Through the efforts of a designated team at the USMMA, MARAD completed development of model courses geared towards vessel and facility personnel with specific security duties and the development of a maritime security awareness course. The team also worked closely with the Federal Law Enforcement Training Center towards completing a model course for land-based military and law enforcement officers. MARAD conducted all course development in coordination with the U.S. Coast Guard, the Transportation Security Administration, and other agencies under the Department of Homeland Security.

Ship Operations Cooperative Program (SOCP) Mariner Recruitment Working Group

The Ship Operations Cooperative Program (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, and classification societies. The SOCP is a MARAD-sponsored cooperative and its Mariner Recruitment Working Group in FY 2004 implemented an awareness campaign to introduce youth to career and employment opportunities in the maritime industry.

The Training Ship State of Michigan, which MARAD furnished to the Great Lakes Maritime Academy, participated in a U.S. Coast Guard exercise that also included representatives from county police, fire and rescue, NOAA, EPA, and CIA. This exercise took place in May 2004.

The Training Ship Golden Bear (background) is the training ship provided by MARAD to the California Maritime Academy.

The group was instrumental in producing print and electronic promotional material, and it participated in forums to disseminate information about maritime career paths, educational institutions and other resources for careers afloat.

SOCP launched a web site titled *A Career Afloat – Gateway to the Future,* one-stop-shop resource for information on educational and employment opportunities, virtual experiences, and U.S. Coast Guard Mariner and Licensing Documentation requirements. Group efforts resulted in the production of *A Future with Adventure* brochure, which is used in conjunction with a 30-second public service announcement. The group also co-sponsored a documentary titled *U.S. Merchant Marine Serving America in Peace and War.*

In June 2004, through the effort of the Mariner Recruitment Working Group and the Maine Maritime Academy over 400 students were introduced to careers afloat at the SOCP's mid-year meeting in Puerto Rico. The Puerto Rican Port Authority facilitated full press coverage of the event.

Adopt-a-Ship Program

MARAD works with the Propeller Club of the United States to implement and manage the Adopt-a-Ship Program, an experience designed for students in grades 6-8, involving communicating with the masters of commercial ships during extended voyages. Teachers develop mathematics and science projects around ship operations to motivate student skill development.

Fire Training Center

MARAD provides training in fighting ship, barge, and dockside fires to a range of personnel who may have to deal with such fires, offering basic and advanced firefighting classes through its Fire Training Center in Swanton, OH. In FY 2004, 469 students were trained from organizations such as the Ohio State Fire School, Toledo-Lucas County Port Authority, and local municipal fire departments. This also included crews of several U.S. Coast Guard cutters as well as

many merchant mariners. The Fire Training Center also presented an outreach training program at the Upper Great Lakes Captains Association Meeting in Traverse City, MI.

PORT SECURITY GRANTS

MARAD has played a key role in the Port Security Grants program, ever since it began in FY 2002. In October 2003, Congress appropriated $125 million for grants in FY 2004; more than half of that money went for grants announced in the previous year, and just under $50 million was available for the fourth round of projects. Grants were awarded for 154 port security projects on September 13, 2004.

MARAD's role has included setting up the web-based system that has managed the grant proposals since the beginning of the program. Although the program has been largely taken over by the Department of Homeland Security, MARAD's region offices continue to work with the U.S. Coast Guard to conduct the field-level evaluations of grant applications, and the web-based system plays a key role in monitoring and administering each grant's progress.

COMMERCIAL MOBILITY

Port of Seattle: Photo by Richard W. Clark

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.

The mobility activities of the Maritime Administration (MARAD) primarily address maintaining and enhancing the U.S. merchant fleet and U.S. shipbuilding, and congestion reduction through the use of waterborne transportation to ameliorate the impact of freight growth that is anticipated in our Nation's intermodal transportation system. Currently, the Nation's inland waterway, marine, and landside infrastructure is operating at or near capacity due to global economic changes and trade growth. These factors are generating additional demand for more port and marine terminal capacity, more efficient landside access, and better intermodal connections to the surface transportation system.

The U.S. intermodal transportation system (all land, water, and air modes) annually moves more than 16.3 billion tons of freight, with a total value of over $12 trillion. DOT now projects that total freight volumes will increase by more than 50 percent in the next 20 years.

SHORT SEA SHIPPING

MARAD is assessing the commercial viability of Short Sea Shipping, which is waterborne shipping that does not traverse an ocean, to increase the capacity of our Nation's intermodal transportation system. Water transportation, especially along our coasts and inland waterways, is potentially a sensible, economical, and environmentally friendly solution to many of our growing road and rail congestion problems. Short Sea Shipping uses our inland and coastal waterways to move commercial freight between domestic ports.

MARAD is engaged in a Short Sea Shipping Initiative, exploring the obstacles to using federal, state and local government incentives, vessel financing and construction, and customer requirements. Activities pursued under this initiative in FY 2004 include sponsoring comprehensive conferences and encouraging the growth of the Short Sea Shipping Cooperative Program (SCOOP).

Short Sea Shipping Conference

The 2nd Annual Marine Transportation System (MTS) Short Sea Shipping Conference was held in Sarasota, FL, on November 4-6, 2003. The Conference brought together a broad representation of experienced leaders of the transportation industry, state and Federal agencies, as well as representatives from Mexico, Canada and the Netherlands.

Participants were focused on future strategies to develop Short Sea Shipping as a viable transportation alternative to not only the United States domestic transportation needs but also the needs of the United States' fast growing North American Free Trade Agreement (NAFTA) trading with Mexico and Canada.

This meeting reflected a more comprehensive, sophisticated understanding of the impacts of highway congestion on the Nation's economic growth as well as National security. There was a collective urgency to join together and develop new water-based recommendations for new surface transportation capacity.

Short Sea Shipping Cooperative Program

The Short Sea Shipping Cooperative Program (SCOOP) began as a result of a set of industry recommendations for the private sector to participate in a public/private cooperative program for the advancement of Short Sea Shipping. The cooperative formed as an entity officially on October 15, 2003 with approximately 25 voting members. At the end of FY 2004 this number has grown to over 51 full members and 14 associates. MARAD is the sponsor for the co-op, and has supported the program since its inception. In FY 2004, SCOOP continued its outreach initiatives, including the following:

- Produced a website to provide information on the Cooperative and Short Sea initiatives at http://www.shortsea.us;
- Supported a U.S. Merchant Marine Academy team for the purposes of conducting

basic research on Short Sea Shipping;

- Provided funding and support to the National Ports and Waterways Institute to develop "National Advantages of Short Sea Shipping" report, which will focus on the environmental and economic advantages of a vibrant short sea shipping service; and Engaged in an active outreach program including the sponsorship of public displays and other activities at shipper conferences and other events in order to develop interest in new short sea shipping systems.

Support for the I-95 Coalition

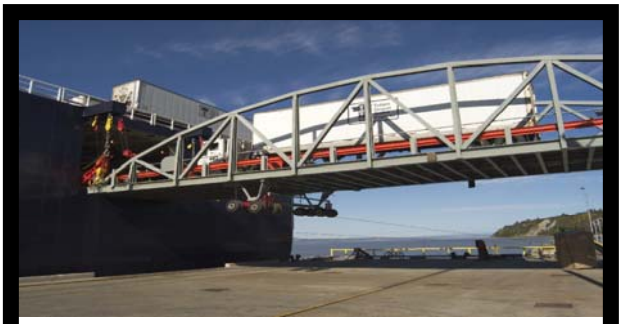
The I-95 Coalition is a regional partnership of major public and private transportation agencies and industry associations serving the United States from Maine to Florida. With congestion an increasing concern, the Coalition has sought to explore alternatives to supplement road and rail freight transportation. In 2003, the Coalition's Executive Board approved a MARAD proposal to study Short Sea Shipping freight alternatives along the I-95 corridor. This study will highlight potential routes that might be suitable for a successful Short Sea Shipping operation. This study is expected to be completed in April 2005.

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

Border crossings continue to be plagued by congestion. Consequently, MARAD, as part of DOT intermodal efforts, has been working with Canada on various concepts, policies and procedures to ease border congestion via increased use of the waterways. A Memorandum of Cooperation, signed with Canada in FY 2003, was extended to Mexico on November 16, 2003. During FY 2004, since the signing ceremony in November, MARAD and Canada have exchanged information on a number of topics including the U.S. harbor maintenance tax and the relatively new Canadian Customs user fees, which are seen as hampering Short Sea Shipping. During FY 2004, Canada, Mexico, and the United States continued to work to share Short Sea Shipping technology and information to facilitate global connectivity and mobility.

Support for the Gulf of Mexico States Accord (GOMSA) for Advancing Short Sea Shipping.

GOMSA is a regional organization of the 11 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. On November 17, 2003, MARAD signed a Memorandum of Cooperation with GOMSA and its associated private sector partnership to assist with a study to inventory the intermodal capabilities of the region.



An Alaska-bound truck boards a Totem Ocean Trailer Express (TOTE) truck ferry at the Port of Tacoma, WA

MARINE TRANSPORTATION SYSTEM

The Marine Transportation System (MTS) includes all of America's coastal and inland waterways, more than 300 public and private ports, a network of navigable channels, pipelines, vessels, marine terminals, intermodal connections, and associated management and safety information systems. The MTS includes 25,000 miles of commercially navigable waterways, which are a critically important mode of transportation and which provide the linkage between oceanborne transportation and highway, rail, and

pipeline transportation. The waterborne cargo moving on the MTS generates more than 13 million jobs, and this economic activity contributes more than $750 billion to the Nation's Gross Domestic Product.

Marine Transportation System National Advisory Council (MTSNAC)

MARAD continued its efforts to strengthen the MTS with participation in the Marine Transportation System National Advisory Council (MTSNAC) and its government interagency counterpart, the Interagency Committee on the Marine Transportation System (ICMTS). MTSNAC is a non- body, whose purpose is to advise the Secretary of Transportation on MTS issues. Its membership is comprised of leaders from over 30 commercial transportation firms, trade associations, state and local public entities, recreational boating interests, academics, and environmental groups. MARAD co-chairs the ICMTS with the U.S. Coast Guard.

During FY 2004 the MTSNAC completed and submitted to the Secretary its recommendations for investment in our Nation's Marine Transportation System as part of a coherent, coordinated, and comprehensive intermodal transportation policy. This policy would place renewed emphasis on the marine mode of transportation and integrate it more fully into the National transportation system. The proposed plans would also enable the Department of Transportation to take on a much more direct leadership role in the marine sector. Among the recommendations provided by MTSNAC are the prioritization of Short Sea Shipping pilot projects, creation of a loan guarantee program to facilitate port infrastructure improvements needed to support Short Sea Shipping, and the initiation of an MTS Awareness Program to provide on-going information to the public, Congress, and the Administration about the importance of the MTS to the Nation and its economy. The Council's proposal was heavily referenced during the development of the Department's initiative which began during the year.

The MTSNAC also provided important input to the U.S. Commission on Ocean Policy Report (Ocean Policy Report) to the President. Recognizing the fragmented approach to the Marine Transportation System, MTSNAC agreed that the Department of Transportation be designated as the lead agency for planning and oversight of

Traffic on America's inland waterways

the MTS and that the ICMTS be elevated within DOT and be chaired by the Department. The Ocean Policy Report recommended that ICMTS be tasked with recommending strategies and plans for better informing the public of marine commerce and transportation; devising alternative funding scenarios to meet short- and long-term demands on the marine transportation system; matching federal revenues derived from marine transportation with funding needs to maintain and improve the system; and delineating short- and long-term priorities. It also recommended that DOT draft a new National freight transportation strategy to support continued growth of the Nation's economy and international and domestic trade. The report was forwarded to the President late in the year for his review and approval.

Inland Waterways Intermodal Cooperative Program

In 2001, MARAD established the Inland Waterways Intermodal Cooperative Program (IWICP) to assist the Nation's inland waterway intermodal transport system operators in promoting innovations in cargo handling and new technologies. With MARAD acting as the catalyst, a core group was formed representing port authorities, barge lines, shippers, and trade organizations involved in doing business on the inland waterways.

After considering a number of initiatives, the Cooperative agreed to focus its efforts on establishing a Container-on-Barge service between selected points along the inland waterway system.

Major activities that took place during the past year include:

- With the cooperation of Inland Rivers, Ports & Terminals, Inc. (IRPT), partnered with Texas Transportation Institute (TTI) to conduct an infrastructure survey of shallow-draft ports and terminals;
- Generated cargo statistics to identify inland river locations where a Container-on-Barge service could be viable;
- Signed contract agreements with IRPT to perform two studies regarding the establishment of an inland waterway Container-on-Barge service; and
- Held meetings with industry representatives to investigate the feasibility of using fast/

high-speed vessels for the movement of containers on inland waterways.

Delaware River Maritime Enterprise Council

In partnership with the Delaware River Maritime Enterprise Council (DRMEC), MARAD was involved with a military equipment movement project. The project involved the delivery of four howitzers from a depot in Alabama, traveling via truck, vessel, and rail, to their final destination in Pennsylvania. During the move, real time in-transit visibility information was provided to a user base of participants, which included military, government and commercial organizations. The project allowed participants to view actual location of the howitzers as they proceeded on their trip. The project was also successful in providing alerts to local law enforcement officials as the cargo moved through their areas of operation. The next step is to plan and carry out an origin-to-destination project moving cargo from locations in the United States to an overseas destination.

MARAD oversees the work assigned to DRMEC by the Department of Defense through an agreement with the Surface Deployment and Distribution Command. MARAD assists DRMEC in promoting technology use, commercial business processes streamlining, and collaboration among commercial, government, military, and academic institutions to improve the flow of military cargo from commercial freight terminals to bases at destinations in the

U.S. and overseas.

MARAD acts as a catalyst for DRMEC in leveraging commercial transportation and logistics assets to improve strategic mobility capabilities for the DOD during times of peace and National need, while minimizing disruptions to commercial operations by ensuring that open communications exist for all parties that are necessary in the military cargo movement process.

MARAD works with DRMEC to demonstrate technologies and innovative best practices that assist strategic seaports and other commercial ports to accomplish the following activities:

- Reduce DOD deployment timeframes
- Improve force protection, homeland defense, and homeland security
- Improve information sharing between DOD and commercial transport providers, vendors, suppliers, and law enforcement
- Improve the efficiency of existing transport infrastructure capacity
- Utilize secure staging areas for storage and maintenance of DOD equipment and synchronizing the flow to marine terminals

MARITIME POLICY REVIEW

At the request of the House Subcommittee on Appropriations on the Department of Transportation, Treasury, and Independent Agencies, MARAD conducted a maritime policy review, including an examination of MARAD's mission and its long-term goals in the context of the reorganized Department of Transportation (DOT). The resulting *Maritime Policy Report to Congress,* submitted in September 2004, reflected not only the transfer of the U.S. Coast Guard to the Department of Homeland Security, but also the following factors:

- Recognition of the importance of the MTS and America's maritime industry;
- The present and projected growth of foreign trade and freight moving through the Nation's ports and on the National intermodal transportation system, and the increasingly stretched surface transportation system;
- The decades-long decline of the Nation's shipping and shipbuilding industries;
- The impact of the September 11 terrorist attacks on the MTS and maritime industry security and on the roles and missions of DOT and MARAD;
- The longstanding commitment of DOT and MARAD to the MTS and the maritime industry as essential components of the U.S. intermodal transportation system; and
  An extensive examination of the current condition and future requirements of the MTS.

  The report carefully considered Short Sea Shipping as a means to move cargo, not to displace truck or rail movements, but to add overall freight capacity. It also addressed the regulatory and tax burdens that plague U.S. shipping and shipbuilding, and reviewed ways in which the U.S. maritime sector can become more competitive in moving global trade.

PORT OF ANCHORAGE

The Port of Anchorage has seen steady growth in the past decade, which is expected to continue into the future. The Port has developed a master plan to assess needs that include the accommodation of larger ships with deeper drafts and wider beams. To address the needs of Alaska's smaller coastal communities, the Port also needs to develop new barge berths and transshipment areas to improve the flow of goods to rural Alaska. Finally, the Port plans to improve and expand its cruise ship facilities. The Port is currently in the planning and permitting stage of the project with actual construction scheduled to begin in 2005.

In assisting the Port of Anchorage, the Maritime Administration is the lead agency in an innovative public/private partnership for redevelopment of the port complex.

The project consists of two major initiatives. First, the Road and Rail Project to add intermodal connectors to the port property to improve road access and additional rail lines on the property for a Trailer on Flat Car (TOFC) interchange facility. Second, the Marine Terminal Redevelopment Project will nearly double the existing land area of the port terminal and provide additional space for ship berthing, liquid bulk cargo operations, RO/RO and container operations. The project is expected to take from seven to ten years to complete at a cost of approximately $437 million.

The Port has completed an environmental assessment for the Road and Rail Project and construction has begun on the rail extension. Studies for the design and layout of the TOFC yard have been completed and construction contracts have been issued. The prime contractor has also made significant progress with the beginning phases of the Marine Terminal Redevelopment Project. Several studies have been completed and several more are ongoing that are being used to determine the final design and construction of the dock expansion portion of the project as well as the environmental impact that the construction will have on the surrounding area. A Draft Environmental Assessment has been issued for the Marine Terminal Redevelopment Project and comments are currently being addressed.

The Port of Anchorage has been recently designated a strategic port, and will be used for the deployment of a new Stryker Brigade. Additionally, the 501st Airborne Division deployed to Afghanistan through the Port of Anchorage. An integral part of the Port expansion is to provide improved security and access and staging areas for deployments.

To manage the project, MARAD has streamlined the government contracting process through the development of web-enabled technologies. Contracting activities are performed on a secure website significantly reducing the time to review and approve tasks. The system also tracks, in graphic form, the progression of work and funding for better project management and oversight.

Upper Mississippi River-Inland Waterway System Feasibility Study

MARAD Participation in the U.S Army Corps of Engineers (USACE) Executive Level Principals Group - In order to be more responsive in their approach to finalizing the results of a 21-year, multi-million-dollar study on the future of the Upper Mississippi River Inland Waterway System (UMR-IWW), the USACE formed an executive level Principals Group including high-level members of the Department of Agriculture, Environmental Protection Agency, Department of the Interior (Fish and Wildlife Service), and DOT (MARAD) for the purpose of gaining additional advice and mutual consent on the results of the project. MARAD was represented at regular meetings of the Group throughout 2004 by the Associate Administrator for Port, Intermodal, and Environmental Activities. The Principals Group efforts culminated in the testimony of MARAD leadership before the House Water Resources Subcommittee on June 24, 2004. The final study, entitled *Integrated Feasibility Report and Programmatic Environmental Impact Statement for the Upper Mississippi River Inland Waterway System Navigation Feasibility Study*, was released on September 24, 2004.

Some of the recommendations of the study include proposals for six separate navigation efficiency alternatives and five ecosystem restoration measures. The USACE also offered a "recommended plan" in the form of an integrated proposal that balanced environmental and navigational concerns. In addition, the USACE recommended an accompanying plan for long-term ecosystem restoration to be accomplished in cooperation with the Fish and Wildlife Service, the five adjoining states, and private non-profit groups. The integrated plan would be

implemented through an adaptive approach that will include checkpoints.

INTERMODAL ACCESS TO U.S. PORTS AND TERMINALS SURVEY

In FY 2004, MARAD completed the 2002-2003 Intermodal Access to U.S. Ports and Terminals Survey Report. After extensive review of the completed survey data, some of the most significant findings concluded that port access conditions are generally acceptable today, but may not sustain continued cargo growth. However, "acceptable" mean only that ports, freight transportation providers, and shippers can work around problems and can tolerate a certain amount of delays and costs. It does not mean conditions are optimal.

DEEPWATER PORT LICENSING

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

During FY 2004, two licenses were issued: to Port Pelican, LLC and El Paso Energy Bridge Gulf of Mexico, LLC. Six applications for licenses were filed during the year: Cabrillo Port LNG, Gulf Landing LLC, Clearwater Port, Main Pass Energy Hub, Compass Port, LLC, and Exxon Mobil Pearl Crossing. These projects are 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.

PROTOTYPE MOORING BUOY PROJECT

MARAD funded a study to design and test a prototype-mooring buoy on the Mississippi River. The study was completed during FY 2004, and it indicated the prototype buoy to be superior to those currently in use. The prototype buoy, which will be used near locks and dams on the inland river system to stage tows closer to the locks to increase system efficiency, is being implemented as part of the Mississippi River Navigation Study, and it is expected to be the design of choice for all future mooring buoys.

PORT FACILITY CONVEYANCE PROGRAM

Under the National Defense Authorization of 1994, the Secretary of Transportation is authorized to convey surplus property to non- public entities for the development and operation of a port facility. This authority was delegated by the Secretary of Transportation to MARAD, which developed the Port Facility Conveyance Program. The program is designed to assist port communities by creating jobs and stimulating the economy in areas identified by the Department of Commerce as economically depressed.

The program uses existing program criteria from the Departments of Labor and Commerce for the disposition of surplus Federal property. Port conveyance program applicants are required to submit a short application of interest to MARAD for consideration.

In FY 2004, MARAD received and is currently reviewing three port conveyance program applications. MARAD continues to work closely with local communities and participating Federal agencies during the application process.

PUBLIC PORT FINANCING

MARAD maintains extensive databases of U.S. port financial data (covering 1978-2002) and of U.S. port capital expenditures (covering 1946-2002) that permit in-depth analyses of the port

industry. In cooperation with the American Association of Port Authorities, MARAD published in FY 2004 two reports: *The United States Port Development Expenditure Report* and *Public Port Finance Survey.* These reports summarize information gathered from voluntary-participation surveys, and are available on MARAD's web site.

CAPITAL CONSTRUCTION FUND

As part of MARAD's commercial mobility strategic objective, operators have been assisted in accumulating capital to build, acquire or reconstruct vessels through the deferral of Federal income taxes on certain deposits into their Capital Construction Fund (CCF) accounts.

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 FY 2004, $440 million was deposited into these accounts. Since the program was initiated in 1971, fundholders have deposited $8.9 billion in CCF accounts and withdrawn $6.3 billion for modernization and expansion of the U.S. merchant marine. As of September 30, 2004, approximately 139 companies were parties to CCF agreements.

CONSTRUCTION RESERVE FUND

Like the CCF, the Construction Reserve Fund (CRF) supports MARAD's commercial mobility strategic objective by encouraging the 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 account 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 since its benefits are not as broad as those of the CCF. There were 24 companies with active CRF balances during FY 2004.

MARITIME GUARANTEED LOAN (TITLE XI) PROGRAM

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

- U.S. or foreign shipowners for the pur pose or financing of refinancing either U.S.-flag vessels or eligible export ves sels constructed, reconstructed, or recon ditioned in U.S. shipyards; and
- U.S. shipyards for the purpose of financing advanced ship building technology and modern shipbuilding technology of a privately owned general shipyard facility located in the United States.

The 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 2004

During FY 2004, the Maritime Administration issued three commitments for Title XI loan guarantees. The first, a $140,000,000 commitment, was issued to Totem Ocean Trailer Express, Inc., for one RO/RO vessel built at National Steel and Shipbuilding Co. in San Diego, California. The second, an $11,969,000 commitment, was issued to Vane Line Bunkering, Inc. for two double-hull tank barges built at Jeffboat, LLC in Jeffsonville, Indiana. An additional $21,869,000 commitment was issued to Petrodrill Four and Five Limited to aid in the completion of construction of two drilling rigs. MARAD had previously guaranteed Title XI financing for these two drilling rigs in the total amount of $341.8 million. Both drilling rigs have been delivered by Cianbro, Inc. in Maine.

MARAD closed on four commitments to guarantee obligations covering the financing, in part, of five vessels: two drilling rigs, one ferry, one RO/RO vessel, and one containership. These four commitments were for an aggregate amount of $231,369,000. In addition, MARAD closed on eight vessel deliveries, three conversions of financings to fixed interest rate, three debt restructures, four retirements of Title XI obligations, and the sale of one repossessed passenger vessel. MARAD litigated issues in three bankruptcies related to five Title XI companies; MARAD engaged in litigation in seven cases to defend MARAD's sales of property and to resolve conflicting lien priorities, recover debts owed MARAD by defaulting Title XI obligors and related parties; and MARAD foreclosed upon one vessel mortgage.

As of September 30, 2004 (end of FY 2004), the Title XI loan guarantee portfolio is $3.45 billion. Of this amount, $3.42 billion is for loan guarantees outstanding and $29 million is for outstanding commitments that have not yet been funded. The portfolio consists of 95 projects that include drill rigs, tankers, barges, containerships, RO/RO vessels, fast ferries, passenger vessels, supply vessels, tugs, and shipyard modernization projects. At the end of FY 2004, $40.8 million in subsidy remained available to issue new loan guarantee commitments while there is over $1.5 billion in pending applications for Title XI loan guarantees. Additional information on MARAD's Title XI Program can be found at the Program's web site at http://www.marad.dot.gov/TitleXI .

Of MARAD's $3.45 billion Title XI portfolio, $524 million (or 15 percent of projects) have been identified as experiencing financial difficulties and, as such, are receiving the highest level of monitoring. The Title XI loan guarantee program did not experience any defaults during FY 2004.

During FY 2004, the Department of Transportation Inspector General (IG) conducted and finished two audits that reviewed the management of the Title XI program. One of the audits was a follow up to a FY 2003 audit. In the FY 2004 audit, the IG concluded that MARAD had developed policies and procedures that addressed each of the five recommendations from the earlier audit in a satisfactory manner. In addition, the FY 2004 audit indicated that MARAD had satisfactorily addressed the intent of three additional IG recommendations. The other IG audit addressed the handling of inactive obligations for the Title XI program. As a result of this audit, MARAD updated the process for reviewing outstanding obligations for the Title XI program.

In 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 (MHI). Three lawsuits related to the 2003 foreclosure and to claims against MHI are still pending, two cases in U.S. District Court in Massachusetts and one case in the U.S. Court of Federal Claims.

In a case decided by the U.S. Fifth Circuit Court of Appeals related to the foreclosure of a Title XI financed vessel, the Trident Crusader, MARAD prevailed against a claimant which had alleged that its lien on the vessel was superior to MARAD's mortgage.

Title XI 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 ly owned vessels on charter to private operators.

One aspect of this compliance is to assure that the American marine insurance market has the opportunity to compete for placement of marine insurance on these vessels. MARAD approved marine hull and machinery insurance during FY 2004, with 36 percent being placed in the American market and 64 percent being placed in the foreign insurance markets. This compares with 37 percent American market placement of hull and machinery insurance in FY 2003. A table containing this information is available at http://marad.dot.gov/publications/AnnualReport/Annual%2002/WebReady.pdf.

TEA-21 REAUTHORIZATION

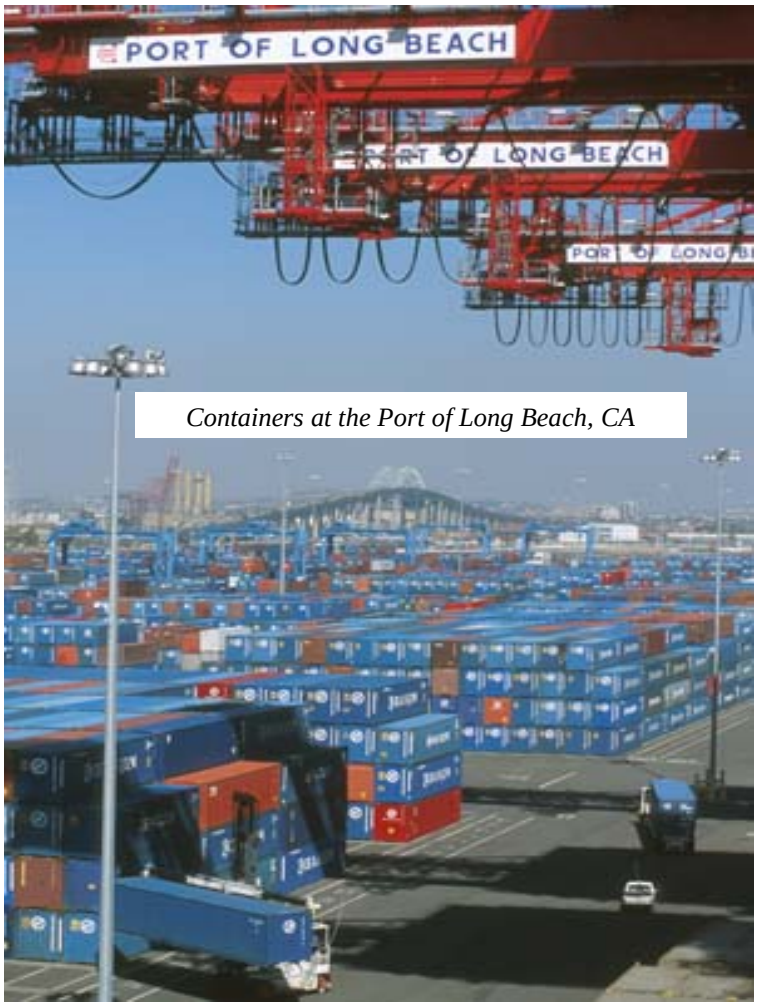
MARAD participated in the review of the proposed draft for the TEA-21 reauthorization. MARAD provided comments on the provision for intermodal connectors to the National highway system. Other discussion points for MARAD on the TEA - 21 reauthorization package include:

- Congestion Mitigation and Air Quality Initiative (CMAQ) funding for marine transport services.
- Transportation Infrastructure Finance and Innovation Act (TIFIA) loans for port access projects.
- Information Technology System (ITS) funding which could improve port access systems.

GLOBAL CONNECTIVITY

Department of Transportation/Maritime Administration Strategic Objective: Global Connectivity.

Facilitate a more efficient global and domestic transportation system that enables economic growth and development.



Containers at the Port of Long Beach, CA

The growing intricacy and variety of commerce is adding to the advantages which a large fleet of ships under one management derives from its power of delivering goods promptly, and without breach of responsibility, in many different ports; and as regards the vessels themselves time is on the side of large ships.

Alfred Marshall, *Principles of Economics, 1890*

Port of Long Beach

Over the course of the last 50 years, even as the United States has become the world's largest trading nation, the U.S.-flag fleet carriage of U.S. oceanborne trade (exports, imports and domestic ocean shipments) has shrunk. In 2003, the U.S.-flag fleet carried 16 percent of U.S. oceanborne trade, down from 66 percent 50 years ago. Excluding domestic shipments, the share fell from 30 percent to only 2 percent. While the interdependent global economy is of great importance to the economy and well-being of the Nation, the size of the U.S.-flag fleet participating in that global economy is small.

In 2003, U.S. oceanborne trade, imports, exports and domestic ocean shipments, amounted to 1.4 billion metric tons, up slightly from the year before (Exhibit 1). Recent changes in the trade were due largely to the depletion (2002) and rebuilding (2003) of petroleum stocks (See discussion of earnings volatility in the Industry Overview section of this report).

From 1998 to 2003 the import share of U.S. oceanborne trade rose from 57 percent to 63 percent while the domestic share, which is reserved for U.S.-flag vessels, fell from 17 percent to 14 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 20 percent (57 million metric tons), while domestic ocean shipments fell by 9 percent (21 million metric tons).

In 2003, 6,157 oceangoing vessels or 44 percent of the active world fleet were employed in U.S. oceanborne trades. These vessels made 56,759 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, 33 percent were by tankers, 30 percent were by containerships,

Average Vessel Size (DWT, TEU)
Per U.S. Call, 1998 and 2003

	1998	2003	% Ch. 98-03
Tanker	68,670	72,387	5.4
Container	36,872	43,168	17.1
Container (TEU)	2,503	3,144	25.6
Dry Bulk	41,740	42,685	2.3
Ro-Ro	19,898	20,270	1.9
Gas Carrier	29,954	37,818	26.3
Combination Carrier	82,895	84,016	1.3
General Cargo	21,409	23,655	10.5
All Types	45,289	49,557	9.4

Exhibit 1

Vessel Calls at U.S. Ports, 1998 and 2003

	1998	2003	% Ch. 98-03
Tanker	16,841	18,503	9.9
Container	15,846	17,287	9.1
Dry Bulk	12,674	10,271	-19.0
Ro-Ro	4,251	5,191	22.1
Gas Carrier	685	926	35.2
Combination Carrier	846	666	-21.3
General Cargo	4,978	3,915	-21.4
All Types	56,121	56,759	1.1

Exhibit 2

U.S. Oceanborne Trade

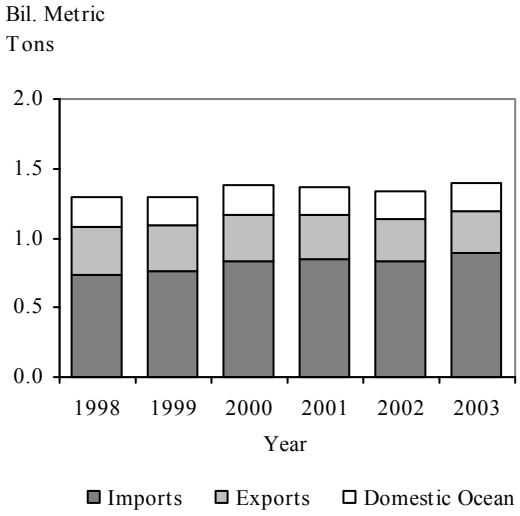


Exhibit 3

18 percent were by dry bulk carriers and 9 percent were by RO/RO (roll-on/roll-off) vessels (See *Vessel Calls at U.S. Ports, 2003* at www.marad.dot.gov/marad_statistics for active fleets and detailed U.S. port call data).

Tankers. From 1998 to 2003, tanker calls at U.S. ports increased by 10 percent. In 2003, 64 percent (11,903) of the tanker calls at U.S. ports were by double hull tankers, up from 37 percent (6,255) 5 years earlier. For the period 1998 to 2003, double-hull tanker calls increased by 90 percent, while single-hull tanker calls declined by 38 percent.

Containerships. From 1998 to 2003, containership calls at U.S. ports increased by 9 percent. Over the same period, the number of containerships calling at U.S. ports increased by 28 percent to 1,025, but, as larger containerships entered U.S. trades, the average number of calls per containership fell. In terms of TEU's (twenty-foot equivalent units), the average size of containerships (per call) increased by 31 percent to 3,290 TEU's.

*Dry Bulk Carriers***.** A 49 percent decline in U.S. coal exports contributed to a 19 percent decline in dry bulk vessel calls at U.S. ports since 1998. The primary impact was on South Atlantic ports, which had a 51 percent decline in dry bulk calls.

RO/RO's/Vehicle Carriers. RO/RO calls at U.S. (discharge) ports increased by 22 percent from 1998 to 2003. However, the growth occurred largely in the late 1990s with the 2-year, 34 percent expansion of U.S. vehicle imports.

Gas Carriers (Liquefied Petroleum Gas (LPG) and Liquefied Natural Gas (LNG)). Gas carrier calls (only 2 percent of U.S. calls in 2003) increased by 35 percent over the last five years. Over the same period, the LNG segment increased by 141 percent reflecting a 130 percent increase in U.S. LNG imports.

Capacity. Vessel capacity calling at U.S. ports (calls times vessel dead weight tons) increased by 11 percent from 1998 to 2003. Over this period, the number of calls increased by only 1 percent, but average vessel size (per call) increased by 9 percent (Exhibit 3). Average vessel size increased for all vessel types with the largest increases for gas carriers (26 percent) and containerships (19 percent).

While many cargo preference cargoes are grain or aid shipments, MARAD also ensures that equipment imported for transit projects travels aboard U.S.-flag vessels. This locomotive traveled from Spain to the Port of Albany, NY, on the U.S.-flag Industrial Challenger.

In 2003, the average size (per call) of commercial vessels calling at U.S. ports was 16 percent larger than vessels calling at all ports worldwide. The difference 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. Linehaul services are those that provide transportation from one city to another, as opposed to local switching service.

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 such as coal and ores, accounted for 51 percent of U.S. major dry bulk trades, compared to only 20 percent of worldwide major bulk trades.

*U.S.-flag***.** In 2003, U.S.-flag vessels carried 16 percent (227 million metric tons) of U.S. oceanborne trade, down from 19 percent (258 million metric tons) in 1998. The domestic ocean trades accounted for 25 of the 31 million metric ton decline.

In 2003, 244 U.S.-flag vessels were active in U.S. oceanborne trades, down from 256 vessels in 1998. These vessels accounted for 7,819 U.S. port calls, down from 8,650 calls five years earlier. The decline was primarily in the general cargo, tanker, and containership segments as 25+-year-old vessels were removed from service.

CARGO PREFERENCE

Because U.S. ships must meet higher construction, maintenance, environmental, and safety standards than their foreign-flag competitors, they incur higher operating costs. The primary form of assistance to all U.S.-flag vessel types is provided through the cargo preference laws, which provide economic incentives to U.S.-flag shipowners. Since 1904 Congress has enacted a series of such laws, which require exporters and importers to use U.S.-flag vessels to transport a certain percentage of any oceanborne cargoes

that are financed, directly or indirectly, by the U.S. Government. These cargoes provide a base to help offset the higher costs to keep carriers' ships under U.S. registry.

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 help sustain the assured sealift capability of the 118 U.S.-flag vessels and the related mariner positions that are vital to our National security. All U.S.-flag vessels that carry preference agricultural cargoes and most of the vessels that carry preference general cargoes participate in the Voluntary Intermodal Sealift Agreement program with the Department of Defense (DOD) and so provide the defense community with "assured access" to commercial intermodal capacity to move cargo during time of war or National emergency.
MARAD is tasked with ensuring that cargo preference compliance is achieved by 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 (USAID); Iraqi reconstruction; commodities financed by the Export-Import Bank (Ex-Im Bank), and other civilian agencies; Foreign Military Sales (FMS), and 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 also is charged with promoting the use of U.S.-flag vessels, monitoring international shipping agreements, and identifying discriminatory or potentially discriminatory trade practices against U.S.-flag vessels. MARAD's Cargo Preference Web site http://www.marad.dot.gov/usflag allows exporters, importers, and government agencies to find U.S.-flag commercial ships to transport cargo to or from foreign nations.

MARAD's Office of Cargo Preference monitors compliance with 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 (1934); and
- P.L. 105-383, the Coast Guard Authorization Act of 1998, which deals with substandard vessels and their owners or operators.

MARAD is required to report to Congress on compliance with those laws. DOT is responsible for financing certain cargo preference costs for foreign aid agricultural donation cargoes, as outlined in the Food Security Act of 1985. MARAD also administers measures instituted by a "side letter" agreement involving USAID and the Government of Israel, referred to as the Israeli Cash Transfer.

Cargo Preference Act of 1954 (P.L. 83-664), as amended, requires that at least 50 percent of the gross tonnage of all Government-impelled cargo be transported on privately owned, U.S.-flag commercial vessels to the extent such vessels are available at fair and reasonable rates. The Food Security Act of 1985 amended the Merchant Marine Act of 1936 and raised the minimum requirement to 75 percent for certain agricultural cargoes. In addition, the Act required the reporting period for a cargo preference year (CPY) to be from April 1 to March 30. However, the Maritime Security Act of 2003 (MSA) amended the CPY to correspond to the fiscal year. The MSA also retroactively created a new 18-month 2002-2003 cargo preference year commencing April 1, 2002 through September 30, 2003.

Statistics for preference cargo in humanitarian food aid are kept on a Cargo Preference Year (CPY) basis. A total of 4,277,652 metric tons of humanitarian food aid commodities were exported during CPY 2003-2004, of which 74.6 percent, or 3,193,138 metric tons, were trans-

ported on U.S.-flag vessels. This is a decrease in total tonnage from the 5,210,448 metric tons shipped during CPY 2002-2003. Wheat was the primary commodity shipped during the year. Liner type vessels transported 47 percent of the food aid cargoes. Tankers and bulk carriers carried 3 percent and 50 percent, respectively.

For CPY 2003-2004, agricultural cargo preference laws generated $465,362,881 in revenue for U.S.-flag vessel operators. Furthermore, agricultural cargo preference laws employed a total of 93 U.S.-flag vessels. MARAD estimates that these 93 vessels trading in agricultural cargoes created about 4,973 merchant mariner jobs and a larger number of maritime and transportation related jobs shore-side. Of the 118 U.S.-flag vessels which carried preference cargoes of all types in 2003-2004, 93 of them participated in the agricultural preference cargoes in addition to carrying military, other ly financed project cargoes, and commercial cargoes. MARAD estimates that most of these participating vessels would probably not be able to maintain their U.S. flag registry absent these cargo preference laws.

GOVERNMENT-SPONSORED CARGOES—2004
(Note: These numbers do not include domestic shipments)

PUBLIC LAW 664 CARGOES:

Program	U.S.-Flag Revenue ($1,000)	Total Metric Tons	U.S.-Flag Metric Tons	Percentage U.S.-Flag Tonnage
Agency for International Development (AID):				
P.L. 480 - Title II				
Liner	189,453	1,552,674	1,156,547	74.5%
Bulker	135,451	1,543,294	1,080,917	70.0%
Tanker	5,899	90,591	59,269	65.4%
TOTAL	**330,804**	**3,186,560**	**2,296,734**	**72.1%**
Department of Agriculture:				
P.L. 480 - Title I				
Liner	744	23,871	5,512	23.1%
Bulker	18,242	229,798	203,696	88.6%
Tanker	0	0	0	0%
TOTAL	**18,986**	**253,669**	**209,208**	**82.5%**
Food for Progress				
Liner	33,781	214,085	182,693	85.3%
Bulker	40,415	434,114	355,057	81.8%
Tanker	7,734	32,741	24,741	75.6%
TOTAL	**81,930**	**680,940**	**562,491**	**82.6%**
Food for Education				
Liner	16,600	101,860	83,220	81.7%
Bulker	4,256	29,969	29,969	100%
Tanker	0	0 0	0%	
TOTAL	**20,856**	**131,829**	**113,189**	**85.9%**

Program	U.S.-Flag Revenue ($1,000)	Total Metric Tons	U.S.-Flag Metric Tons	Percentage U.S.-Flag Tonnage
Section 416(b)				
Liner	15,915	78,097	70,247	89.9%
Bulker	0	0	0	0%
Tanker	0	0	0	0%
TOTAL	**15,915**	**78,097**	**70,247**	**89.9%**

TOTALS	**468,491**	**4,331,095**	**3,251,868**	**75.1%**

Agency for International Development (AID):

Loans and Grants				
Liner	3,812	50,146	38,407	76.6%

Department of Transportation
Federal Transit Administration

Liner	6,845	32,725	30,303	92.6%

State Department – Overseas Building Office

Liner	510	5,082	2,321	45.7%

State Department – U.S. Despatch Agencies

Liner	4,221	60,268	58,643	97.3%
TOTALS	**15,388**	**148,221**	**129,6748**	**7.5%**

PUBLIC RESOLUTION 17 CARGOES:

Program	Total Freight Revenue	U.S.-Flag Freight Revenue	Total Metric Tons	U.S.-Flag Metric Tons	Percentage U.S.-Flag
Eximbank					
Liner	14,049	10,290	67,177	38,418	57%

Israeli Side Letter Agreement

Program	U.S.-Flag Revenue ($1,000)	Total Metric Tons	U.S.-Flag Metric Tons	Percentage U.S.-Flag Tonnage
Government of Israel (GOI)				
Bulker:	11,192	604,980	302,490	50.0%
Iraq Reconstruction				
Liner:	931	2,370	811	34.2%

Defense Security Cooperation Agency (DSCA):

Foreign Military Financing, Grant

Transfers and related programs

Liner:	15,673	49,192	35,597	72%
Tanker:	16,750	375,998	375,998	100%
TOTAL	**32,423**	**425,190**	**411,595**	**97%**

CARGO PREFERENCE ACT OF 1904 CARGOES:

FISCAL YEAR 2004

Department of Defense Military Contracts[1]

Military Contract Cargoes:	**Measurement Tons Dry Cargo**	**Percentage U.S.-Flag Tonnage Total Dry Cargo**	**Metric Tons Petroleum**	**Percentage U.S.-Flag Tonnage Total Petroleum**
U.S.-flag privately-owned vessels	4,361,551	48.6	n/a	n/a
Foreign-flag vessels	322,562	n/a	n/a	n/a
U.S. Government-owned vessels	3,781,705	42.2	2,153,670	39.2
Chartered U.S.-flag vessels	494,487	5.5	1,453,886	26.4
Chartered Foreign-flag vessels	6,823	n/a	1,892,152	n/a
Total Military Contract Cargoes:	**8,967,128**	**96.3**	**5,499,708**	**65.5**

	Total	**U.S.-Flag Metric Tons**	**Metric Tons**	**Percentage U.S.-Flag Tonnage**
Commercial Contractor Cargoes		28,745	25,176	88.0%
Personal Property and POV Shipments		313,152	313,152	100.0%

Military U.S.-Flag Revenues:

Dry Cargo	$344,693,919
Commercial Contractor Cargoes	$17,652,244

Personal Property & POV Shipments	$491,048,663
Petroleum	$10,427,517
Total U.S.-Flag Revenue	**$863,822,343**

Notes

Tonnages and revenues are reported by Military Sealift Command (MSC) and Military Surface Deployment and Distribution Command (SDDC). Tonnages are from vessel manifests and lift reports of ocean carriers, and from DOD booking and payment systems to ocean carriers that carry DOD sponsored cargo by liner contract or charter contract during the fiscal year. Foreign Military Sales cargoes are excluded. "U.S.-flag privately-owned vessels" and "foreign-flag vessels" represent cargoes transported by contract with liner carriers.

Tonnages and revenues for commercial cargoes are derived from rated ladings submitted by shippers to MARAD's Office of Cargo Preference. Tonnages and revenues for DOD personal property and POV shipments are reported by SDDC from rated ladings submitted for payment by carriers performing under SDDC contract.

Strategic Petroleum Reserve

The Cargo Preference Act of 1954 applies 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 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. However, due to a change in the program and non-availability of interested U.S.-flag carriers, privately owned U.S.-flag commercial vessel participation in the program stopped as of 1995. Compliance is monitored on a cumulative basis dating back to January 1981 at which time the U.S.-flag participation was at 54.6 percent. As of September 2004, the cumulative compliance for U.S. flag vessels is down to 40.8 percent and continues to drop as the reserve is replenished with all non-U.S.-flag vessels.

Defense Security Cooperation Agency

The Defense Security Cooperation Agency (DSCA) is the sponsoring DOD agency 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 ocean-borne cargoes generated under these programs be transported on U.S.-flag vessels. In contrast, 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. In this regard, the DSCA's staff has recently revised the official wording of all their contracts to include specific reference to the U.S.-flag vessel requirements. This effort was made to ensure that all foreign government purchasing DSCA material would be able to identify the U.S.-flag requirement at the time of purchase.

The Military Cargo Preference Act of 1904 requires all items procured for or owned by U.S. military departments and defense agencies to be carried exclusively (100 percent) on U.S.-flag vessels as long as capacity is available at reasonable rates. Program efforts concentrate on developing and maintaining a cooperative business relationship with DOD transportation component commands and commercial military shipper parties that fosters compliance with U.S.-flag statutory requirements while meeting the Nation's defense needs.

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

MARAD also has been receiving quarterly reports from SDDC on the movement of shipments of personal effects, plus other data on the movement of privately owned vehicles. However, cargo that is moved by DOD contractors using commercial corporate traffic departments or third party providers frequently moves without data being reported to either DOD or MARAD. Consequently the tonnage and revenue data from commercial sources is less than complete, and DOD and MARAD are working to correct this problem.

Under DOD acquisition regulations, cargo preference does not apply to subcontractors supplying commercial items when there is no value added and when ocean transportation is not the purpose of the contract. As a consequence, there may be no requirement for tonnage or revenue to be reported for some DOD shipments. There are three exceptions to this rule: (1) the contractor does not add value to the items; (2) the items are commissary or exchange items transported under

specified conditions; or (3) the items 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 examples of commercial items requiring carriage on board U.S.-flag ships. MARAD has made exceptions for commercial cargo a focal point with shippers to ensure adherence to cargo preference regulations. Further information can be obtained by contacting MARAD at 1-800-9US-FLAG or via e-mail at cargo.marad@marad.dot.gov.

Section 17 of the Maritime Security Act of 1996 (MSA 17) authorizes USDA's Commodity Credit Corporation (CCC) to take steps to allocate up to 25 percent of bagged, processed, or fortified commodities to Great Lakes ports on the basis of lowest landed cost without reference to the flag of the vessel. The implementation 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 2003-2004 cargo preference year (CPY), approximately 337,340 metric tons of food aid cargo transited via the Great Lakes ports. The first year of implementation was for the 1998-1999 CPY when approximately 30,327 metric tons of food aid cargo transited the Great Lakes ports. U.S. food aid cargo rarely moved out of the Great Lakes prior to 1998. MARAD attributes this significant increase to the industry response to MSA 17. Transportation organizations invested additional assets in the Great Lakes ports to meet the requirements of MSA 17; that resulted in the increased amounts of food aid transiting the region. This increased tonnage strengthened the U.S. maritime transportation system including the infrastructure, industry, and labor in the Great Lakes.

Public Resolution (PR) 17 of the 73rd Congress (1934) requires that certain cargoes generated by Export-Import Bank (Ex-Im Bank), 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/offices/CivilianAgenciesSection.htm. Also included on this site are lists 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 MARAD Web site allows electronic paperless filing of reports about Ex-Im Bank cargoes. These revised procedures were the result of a cooperative effort involving MARAD, Ex-Im Bank, U.S. shippers and exporters, and the U.S.-flag maritime industry, both labor and management.

P.L. 105-383, Coast Guard Authorization Act of 1998, established that substandard vessels and vessels operated by owners or charterers of substandard vessels are prohibited from the carriage of U.S. 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 can be found on MARAD's cargo preference Web site http://www.marad.dot.gov/offices/cargo_memo_one.html including links to the U.S. Coast Guard's listing of vessels, owners, and operators prohibited from carrying U.S. Government-impelled cargo. The easy availability of this information has resulted in increased industry awareness and use.

Detailed statistics on the shipping activities of Federal agencies, independent entities, and Government corporations may be viewed at http://www.marad.dot.gov/marad_statistics/index.html. Statistics are maintained on a calendar year or fiscal year, or 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 tonnage of agricultural products shipped in FY 2004 was 4,277,652 metric tons. The "minimum tonnage required" was calculated for FY 2004 to be 5,915,703 metric tons. The total for FY 2004 fell below the "minimum tonnage" by 1,638,051 metric tons, because aid shipments declined.

Ocean Freight Differential (OFD). The Food Security Act of 1985 added Section 901b of the Merchant Marine Act of 1936 and increased the required percentage for U.S.-flag carriage from 50 to 75 percent of gross tonnage of certain agricultural programs. OFD cost is the difference between the cost of shipping cargo on a U.S.-flag vessel as compared to shipping the same cargo on a foreign-flag vessel. The Department of Transportation is responsible for financing any increased ocean freight charges resulting from the application of the increased U.S.-flag portion. MARAD reimburses USDA and AID for its share of the OFD costs above 50 percent of the gross tonnage, for ocean transportation only.

MARAD reimbursed USDA's Commodity Credit Corporation (CCC) $60,675,515 for OFD invoices submitted during FY 2004**.** The payments were for OFD obligations incurred on shipments in the fiscal years 1999, 2000, 2001, 2002, and 2003.

The Food Security Act of 1985 also requires additional OFD to be reimbursed by the Secretary of Transportation. This additional OFD payment has been termed "Excess 20 percent" and is based on a fiscal year and not a CPY. "Excess 20 percent" is applicable if the total obligations incurred by USDA and CCC for ocean freight and OFD on exports of agricultural commodities and products under certain agricultural programs exceed 20 percent of the value of the commodities exported under these programs, ocean freight, and OFD. MARAD must reimburse CCC for any excess, if applicable. Some years will have no "Excess 20 percent." In FY 2004, MARAD received correct "Excess 20 percent" invoices from USDA and AID for the years FY 1995, FY 1996, FY 1997, FY 1998, FY 1999, FY 2000, and FY 2001. The following "Excess 20 percent" was paid to USDA/USAID in FY 2004:

FY 1995	$10,737,754.00
FY 1996	$ 4,380,008.00
FY 1997	$24,236,933.34
FY 1998	$20,830,995.42
FY 1999	$161,650,389.62
FY 2000	$155,301,910.66
FY 2001	$ 92,237,993.18
Total:	**$469,375,984.22**

MARAD has not yet received "Excess 20 percent" invoices for FY 2002, FY 2003, and FY 2004.

Israeli Cash Transfer

Under a "side letter" agreement, the Government of Israel and AID agreed that a portion of the bulk grain generated by the Israeli Cash Transfer Program would be transported on U.S.-flag vessels. The agreement, dating back to 1978, required that half the total grain purchased under the program move on U.S.-flag vessels. In 1978, the total grain purchase amounted to 1.6 million tons generating 800,000 tons per year for U.S.-flag carriers. From 1979 to 1999, U.S.-flag vessels had received 800,000 tons annually regardless of the funding level, which ranged from $785 million to $1.2 billion. Although financial support for Israel continued, in 1999 it was agreed that the U.S.-funded grain purchase program would be reduced by $120 million per year, each year, until funding reaches zero. On this basis, privately owned U.S.-flag commercial vessels have carried the following decreasing tonnage:

FY 2001	643,051 tons
FY 2002	533,333 tons
FY 2003	444,444 tons
FY 2004	120,000 tons

INTERNATIONAL ACTIVITIES

U.S./China Bilateral Maritime Agreement

On April 21, 2004, Department of Transportation Under Secretary for Policy Jeffrey Shane and Vice Minister of Communications Hong Shanxiang exchanged diplomatic notes confirming the official entry into force of the *Agreement on Maritime Transport between the Government of the United States of America and the Government of the People's Republic of China,* signed by Secretary of Transportation Norman Y. Mineta and Minister of Communications Zhang Chunxian in Washington, DC, in December of 2003. The Agreement secured broad new rights for U.S. shipping to conduct business in China.

Trade Agreement Negotiations

MARAD representatives frequently participate in negotiations of Free Trade Agreements as part of the U.S. delegation led by the Office of the U.S. Trade Representative. Free Trade Agreements were concluded during FY 2004 with Australia, Morocco, and Bahrain. A single Free Trade Agreement was concluded with five Central American countries: Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua; negotiations continue with Panama and with delegations Bolivia, Colombia, Ecuador, and Peru.

A bilateral maritime agreement with Brazil was negotiated during FY 2004, and initialed in April. The agreement represents a positive step in continuing to provide market access for U.S. carriers to Brazilian commercial cargoes that Brazilian authorities have designated as government controlled. Formal signing has been planned for 2005; once the agreement is signed the Brazilian Congress must ratify it.

International Port Security Initiatives

MARAD heads the delegation to the Organization of American States Inter-American Committee on Ports and serves as chair of the Committee's Technical Advisory Group, which coordinates multilateral approaches to improving port security in the Western Hemisphere. This group has organized and conducted annual courses, managed by MARAD, which provide port security training for commercial port authority police and security personnel. More than 500 people have been trained in these courses since 1998.

MARAD also participates in U.S. interagency Foreign Port Security Assessments for the Latin America/Caribbean Region. MARAD also participated in the State Department-led initiative to assist Latin American and Caribbean countries in meeting their International Ship and Port Facilities Code compliance by the International Marine Organization deadline of July 1, 2004. MARAD was designated the lead agency for organizing the necessary expertise among U.S. agencies and other OAS member countries. While most OAS countries met the requirements at or soon after the deadline, some did not, and training and discussions are continuing.

Multilateral and International Partnerships

MARAD's Associate Administrator for Policy and International Trade chaired the Maritime Transport Committee of the Organization for Economic Cooperation and Development (OECD). During its two meetings in FY 2004 the committee worked on security in maritime transport, safety and the environment, and held a workshop to identify maritime transportation issues to be addressed by government and industry.

MARAD serves as the DOT delegate to the International Labor Organization (ILO), and so participated in meetings on a new convention for Seafarers Identity Documents. A special session concluded with a consensus regarding practices to be employed in the development and maintenance of a "white list" containing information regarding those countries that have ratified the convention and issued seafarer identity documents in accordance with the requirements set forth in the Convention and its annexes. MARAD also led the U.S. delegation at a two

week session at the ILO that worked on a draft of a new Consolidated Maritime Labor Convention concerning seafarers' working and living conditions. Additional work on the project is planned for 2005; a diplomatic conference to sign the new convention should be scheduled for early 2006.

MARAD served as the lead for environmental and worker health and safety issues related to ship recycling at the IMO's Marine Environment Protection Committee during 2004. The committee was scheduled to continue developing voluntary international standards for ship recycling and to consider potential measures for mandatory application.

MARAD worked extensively with the International Association of Maritime Universities to ensure the safe waterborne carriage of Liquefied Natural Gas (LNG). The group consists of the 43 leading institutions of maritime education and training in the world, including the U.S. Merchant Marine Academy.

Africa

MARAD worked with the State Department and the country of Nigeria to arrange for 26 Nigerian Government officials, along with waterfront labor and private sector maritime officials, to visit the port of Vera Cruz, Mexico. The purpose of the visit was to provide an opportunity for the Nigerians to study and then start to implement plans to privatize some of the Nigerian container terminals.

MARAD's Global Maritime and Transportation School (GMATS) at the U.S. Merchant Marine Academy hosted two weeks of courses on Nigerian transport and security, one on railroad operations and intermodal management, held in conjunction with the Federal Railroad Administration; a second two-week course was International Seaport Security; both courses were presented to Nigerian officials.

MARAD and GMATS also conducted an on-site survey of ports in the Cape Verde islands to assess the extent of maritime security compliance, review completed improvements and conduct training needs assessments for advanced programs.

Asia/Pacific

At the Transportation Working Group meetings for the Asia-Pacific Economic Community (APEC), MARAD led panels on the development of appropriate maritime security training in support of the new worldwide requirements, presenting the courses it has developed for maritime security personnel training providers, as mandated by Section 109 of the Maritime Transportation Security Act of 2002. The course development is discussed further in the National Security section of this report.

MARAD participated in the first Indo-American Chamber of Commerce conference in Mumbai, India, addressing questions on how U.S. companies can be attracted to bid on contracts and cooperate with Indian industry on making maritime infrastructure improvements in India.

MARAD shared developments in technology, ship design trends, and possibilities for future innovation in the area of ship design and technology at Kyushu University in Japan. MARAD also assisted a team of representatives from Oshima shipyards visiting the United States as part of a research effort to gain perspective on new technology.

U.S. Russia Maritime Consultations

MARAD led the U.S. delegation in consultations with the Russian Federation in a meeting at the U.S. Merchant Marine Academy in Kings Point, NY, in November, 2004. Participants negotiated an agreement to cooperate in maritime education and training, and outlined commitments to work together to implement an exchange program for faculty, staff, and students.

FINANCIAL APPROVALS

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

This is a broad function that ranges from financial reviews of MARAD program applicants, to analyses of U.S. and foreign-flag vessels operation, to internal management control reviews. For example, MARAD is the delegated authority for the issuance of licenses to own, construct, and operate deepwater ports. MARAD assesses the applicant's ability to construct and safely operate the deepwater port and assure that resources are available to decommission or remove the port when no longer necessary. As another example, MARAD does its own analysis of MSP applicants and marine hull insurers.

MARAD also conducts extensive analysis of the crewing and the cost of crews and other vessel operating expenses for both U.S.-flag and foreign-flag vessels. MARAD can detail the crew nationalities and sizes of the various cargo-carrying vessel types serving the U.S. markets and determine cost comparisons between U.S. and foreign-flag vessels. Some of this information is published or available on request by members of the public; more is available to members of Congress and other government entities.

CARGO HANDLING COOPERATIVE PROGRAM

MARAD, through the Cargo Handling Cooperative Program (CHCP), continues to work to initiate a container technology project. The goal is to test a selected group of technology devices for use with intermodal freight containers to make cargo movement more secure. The CHCP has selected light sensors, door status sensors, and temperature sensors, from among many possible technologies, to test. The project, now in the planning stage, will show how sensors are integrated into a package, not as individual items, to ensure that containers and their contents can move through the transportation network in a secure and efficient manner.

AGILE PORT

MARAD continues to work with a number of commercial and military organizations to plan a demonstration of simultaneous discharging and loading of a large container ship in the Pacific Northwest. The purpose of the demonstration is to verify the projected efficiency of this method of operation that promises productivity increases of up to 100 percent over existing methods. MARAD is the catalyst for this project in order to bring together those parties needed to complete this effort. This is part of an overall plan to make ports, terminals, and the surrounding infrastructure more agile in moving cargo through the transportation system, increasing transportation efficiency and moderating environmental impact.

RESEARCH, TECHNOLOGY, DEMONSTRATION, AND DEPLOYMENT INITIATIVE

Recognizing the need for more attention to maritime research and innovation, MARAD's Research, Technology, Demonstration, and Deployment Initiative (RTDD) efforts resulted in a new web site (http://www.marad.dot.gov/Research) launched on March 4, 2003. Efforts since then have been aimed at identifying and encouraging collaboration and partnership opportunities to address the maritime industry's low level of research investment. This deficiency was highlighted in the 2002 report to Congress entitled *Maritime Research and Technology Development (*http://www.marad.dot.gov/publications), which compared industry investments in transportation to those of , state, and local governments.

Improved coordination within MARAD has also been facilitated for the better sharing of information and activities on MARAD research efforts. During FY 2004 the RTDD effort worked with the Department's Research and Technology Co-

ordinating and the Technology Innovation Committees to describe and provide points of contact for each of the individual MARAD programs. The Department's January 2004 "Guide to Transportation Technology and Innovation" brochure now contains brief coordinated descriptions of MARAD's RTDD-related program efforts (see http://t2.dot.gov) that assist with awareness and potential partnering between the program efforts and MARAD-sponsored cooperatives.

OPERATING-DIFFERENTIAL SUBSIDY

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

The only outstanding ODS liabilities are related to possible subsidy claims under the ODS contracts for payments made for asbestos related diseases incurred by seafarers when serving on subsidized vessels. The obligation of the government regarding such claims is not time restricted and when presented for payment, claims will be reviewed and satisfied as appropriate. During FY 2004, one payment of $193,802 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 costing trends in the industry.

FEATURE: NORTH ATLANTIC AND GREAT LAKES REGIONAL OFFICES

Port of New Bedford, MA

MARAD has five regional offices: Norfolk, VA; New Orleans, LA; San Francisco, CA; New York, NY; and Chicago, IL, plus two one-person satellite offices in St. Louis, MO, and Seattle, WA. The three largest regions operate the three National Defense Reserve Fleet sites and provide support for the RRF fleet.

However, the two smallest regional offices, the North Atlantic Region office in New York and the Great Lakes Region office in Chicago, do much of the interfacing with state and local entities, and with industry, to do the work of strengthening the U.S. marine transportation system and the maritime industry.

Short Sea Shipping

Both the North Atlantic Region and the Great Lakes Region offices have worked to promote Short Sea Shipping, the initiative to integrate waterborne transportation into the Nation's overall transportation system. This initiative is discussed in the Commercial Mobility section of this report.

The North Atlantic Region office worked with the Port Authority of New York and New Jersey, helping to support the container-on-barge service operating between the Port of Newark, NJ and the Port of Albany, NY. During the past year, 7,500 trucks transporting containers between the Port of New York and New Jersey and the Port of Albany have been taken off the New York State Thruway as a result of this local Short Sea Shipping Initiative, thus reducing congestion on the surface routes. Port officials in these ports are requesting MARAD support in extending Federal Government assistance to this successful intermodal program past next spring.

MARAD has also encouraged a study by the North Jersey Transportation Planning Authority, examining the projected costs and operational feasibility of using very large, fast freight ferries to move rail cars and trucks across New York Bay from Brooklyn to Jersey City in the Port of

New York and New Jersey. These new ferries would employ efficient, environmentally cleaner engines and be equipped with GPS navigation and dynamic positioning systems to simplify and expedite vessel berthing and turn-around, regardless of current and wind conditions. The new freight ferries would also benefit from advanced rail car switching technology to expedite loading and unloading.

NORTH ATLANTIC REGIONAL OFFICE: NEW YORK

Area Maritime Security Initiatives

MARAD employees are active on the Steering Committee of the Area Maritime Security Committee for the Port of New York and New Jersey. This committee discusses maritime preparedness, crisis management, and recovery plans for the port. Topics of discussion included the development of a Web-based U.S. Coast Guard Notification System utilizing phone, e-mail and fax communications to rapidly notify port stakeholders of changes in Maritime Security (MARSEC) Level status or other security developments. The system will automatically verify receipt of notifications. The Area Maritime Security Committee highlighted the creation of a landside location or marine platform to isolate hazardous materials and potential threats.

MARAD is also represented on the Steering Committee of the Area Maritime Security Committee of Rhode Island and Southeastern Massachusetts, and met to discuss the handling of sensitive security information; a review of Round 4 Port Security Grant Awards in Rhode Island and Southeastern Massachusetts; the use of security zones and restricted navigation areas as methods for protecting critical infrastructure and improved systems to communicate MARSEC threat level and other security information to port stakeholders as rapidly as possible.

MARAD works with the Steering Committee of the Area Maritime Security Committee of the Port of Baltimore, which met to discuss the Area Maritime Security Plan for the port, as well as a presentation by the Chief of the Arlington County Fire Department on lessons learned following the September 11, 2001 terrorist attack on the Pentagon.

Developing Container Storage and Distribution Centers

The City of New Bedford, MA is one of three ports selected Nationwide as a Portfields Demonstration Pilot Port. The Portfields Program is a interagency partnership to address the economic and beneficial use of brownfields in local port communities. The term "brownfields" refers to land, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant. Through , state and city support, New Bedford is leveraging its available resources to revitalize its waterfront, improve marine transportation and develop additional commercial port facilities. Areas under discussion with the Maritime Administration's North Atlantic Region Office include the increased use of fast freight ferries, new rail-to-water capacity, and introduction of container and breakbulk cargo handling capability.

Developments in New Bedford offer a unique opportunity to develop Short Sea Shipping using existing brownfield sites as waterfront container storage and distribution centers.

The Brownfields Inter-Agency Work Group is a joint Federal and State working group established by the U.S. Environmental Protection Agency to pursue the development of brownfields sites in the northeast region. Participants work with local communities to identify opportunities for brownfields redevelopment projects, including those relating to the storage and distribution of marine containers as part of MARAD's Short Sea Shipping Initiative. Currently, more than 25 Federal and State agencies have participated in this Inter-Agency Work Group.

GREAT LAKES REGIONAL OFFICE: CHICAGO

Heartland Intermodal Partnership (HIP)

MARAD's Great Lakes Region Office leads the Heartland Intermodal Partnership (HIP), a coalition of senior public and private-sector professionals from across the 24 states of the American heartland. This mission of HIP 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.

These states extend from the Great Lakes to the Gulf of Mexico, and have a complex network of highways and rail lines, the majority of the Nation's inland waterways, half of its largest deepwater ports, and most of the major shallow water ports.

The HIP Executive Committee met in Chicago, IL, to review the progress made during the year and to develop a work plan which includes research and development, administration education/public relations and membership. The Maritime Administrator participated in this meeting and discussed the Marine Transportation System, Short Sea Shipping, and policy developments.

McAlpine Lock Emergency Closure

The McAlpine Lock, located near Louisville, KY, was closed during August 2004 for emergency repairs. These repairs were necessary to avoid closing the Ohio River waterway system, which would have prevented navigation and caused major economic losses.

The U.S. Army Corps of Engineers worked with the inland marine industry to provide as much advance notice to the ports and shippers on the Ohio River as possible. Despite this notice, however, an estimated two million tons of cargo were delayed in delivery and the schedules of numerous industries were disrupted. MARAD's Great Lakes Region Office worked closely with the Corps of Engineers, U.S. Coast Guard, and inland navigation industry to prepare for the closure, mitigate its impact, and keep the Secretary of Transportation advised.

Great Lakes Dredging Team

MARAD is a charter member of the Great Lakes Dredging Team, a partnership of and state agencies created to assure that the dredging of U.S. harbors and channels throughout the Great Lakes, connecting channels and tributaries is conducted in a timely and cost-effective manner, while meeting environmental protection, restoration, and enhancement goals.

Emergency Support for 2004 Federal Hurricane Response

MARAD, as one of the agencies of the U.S. Department of Transportation, assisted in the massive response efforts to aid the hurricane-battered citizens of Florida. The DOT responded to a mission assignment from the Federal Emergency Management Agency (FEMA) to deliver emergency relief supplies to hurricane victims. The U.S. DOT performs this action as Emergency Support Function-1 under the National Response Plan.

MARAD, a member of DOT's Region V Emergency Support Team domiciled in the Great Lakes states, answered a call to relieve and bolster the DOT's Region IV team providing emergency supplies to the storm-maimed area. From various staging areas, relief commodities were delivered to state distribution sites located in local Florida communities affected by the storms. Main relief supplies included water, ice, meals-ready-to-eat, and generators. The DOT team worked with FEMA, the U.S. Army Corps of Engineers, U.S. Forestry Service, and a distribution contractor to perform the mission.

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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.

ENVIRONMENTAL STEWARDSHIP

SHIP DISPOSAL PROGRAM

The Department of Transportation (DOT) has a performance goal to ensure that DOT operations leave no significant environmental damage behind in facilities utilized by the Department. In support of that goal, MARAD's Ship Disposal Program strives to reduce the inventory of non-retention vessels in the National Defense Reserve Fleet (NDRF) as quickly as possible. FY 2004 was the second year MARAD received direct appropriations for the Ship Disposal Program, receiving $16.2 million to dispose of obsolete vessels.

A FY 2004 performance measure and goal for the Ship Disposal Program was the removal of four obsolete, non-retention vessels from NDRF sites. The actual number of vessels removed in FY 2004 was 15, which included 11 ships designated by MARAD as high-priority because of their deteriorating material condition. In addition, the number of vessels awarded in disposal contracts in FY 2004 was 13, in spite of the fact that FY 2004 funding was not received until March 2004. Since the cycle of vessel award/removal/disposal crosses fiscal year boundaries, some of the vessel removals in 2004 resulted from FY 2003 funded contract actions.

The FY 2003 contract to PRP/AbleUK for the disposal of 13 obsolete ships involved the export of ships for recycling in the United Kingdom. This contract has been challenged in a United States District Court by two environmental groups--the Basel Action Network and the Sierra Club. The challenge resulted in a temporary restraining order which allowed the export of only four of the 13 ships in 2003 pending a full hearing scheduled for October 2004. This challenge has delayed the removal of nine ships from the fleet site.

The remaining high priority ships originally named in the contract were removed from the contract in FY 2004 and awarded to domestic facilities to expedite their disposal. MARAD has been vigorously defending the legal challenge and preparing for the District Court hearing to preserve the foreign recycling option for the removal of aging, high priority ships from fleet anchorages, which are considered environmentally sensitive habitats.

In spite of challenges, an aggressive program of maximizing FY 2004 funds and pursuing all feasible disposal options resulted in the award of contracts of a significant number of high-priority vessel disposals in 2004. The award of 13 ships for disposal in 2004, following the 24 vessels awarded for disposal in 2003, has eliminated all but three (3) high priority ships in MARAD's James River Fleet-- a significant achievement. MARAD's actions in 2004 continue the trend of cost-effective, accelerated ship disposal through interagency initiatives, industry response to requests for innovative proposals and the export of obsolete ships for the first time since 1994. Much remains to be done, and done on a consistent basis, to eliminate the backlog of deteriorating, obsolete vessels by repeating the results shown in 2004.

Excluding the disposal awards in 2004, there is an existing backlog of approximately 96 obsolete vessels, not under contract, awaiting disposal in MARAD's three fleet sites, with approximately 30 additional vessels projected to be added to MARAD's fleets over the next two years.

Interagency Ship Disposal Initiatives

MARAD has also explored a variety of ship disposal options, including cooperation with other agencies.

MARAD/EPA/State Department Vessel Export Initiative

MARAD and other agencies worked diligently with Department of Justice to overcome legal challenges to enable the export of the remaining nine (9) vessels involved in the UK contract. The pilot project for proof of concept/performance and to demonstrate the feasibility and value of responsible foreign recycling will commence upon issuance of licenses and per-

missions to the UK contractor.

The freighter Santa Cruz is towed from its berth at the James River Reserve Fleet, bound for disposal in Brownsville, TX.

MARAD/EPA/Navy Vessel Artificial Reefing Initiative

Draft environmental best management practices (BMP's) were completed in 2004. Draft BMP's were placed in a 60-day public review and comment period ending in October 2004. When completed, the BMPs will provide consistent National guidelines for the preparation of ships to be used as artificial reefs.

MARAD/Navy Vessel Deep Sinking Cooperative Program

A MARAD/Navy Memorandum of Agreement (MOA) was signed September 5, 2003. The first MARAD vessel prepared for sinking under this program was accomplished in 2004.

MARAD/Navy Joint Artificial Reefing Program

A MARAD/Navy Memorandum of Agreement (MOA) was signed October 14, 2003. The joint agency program leverages the resources of both agencies in achieving common artificial reefing goals. The Navy vessel *Oriskany* began preparation for use as an artificial reef under this MOA in 2004 and is scheduled to be completed in 2005.

Global Action Program

MARAD solicited interest from Basel Convention countries, the International Maritime Organization, and the International Labor Organization in developing an international program to ensure environmentally responsible and sustainable ship disposal. MARAD continues these international discussions to that end.

READY RESERVE FORCE 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. It maintains a U.S. 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 NDRF sites.

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

MARAD has 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). MARAD plans to provide the follow up annual 8-hour refresher training to those who have been certified in the 24-hour training cur-

riculum so that they continue to maintain their certification. The training is in complete compliance with OSHA statutory certification requirements.

ENVIRONMENT AND MARINE TECHNOLOGY

As maritime trade expands and increases the strain on the land transportation system, so will the potential effects 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 designing environmental policy mechanisms to encourage voluntary application of emissions reduction technology.

MARAD is involved in new projects, supported through the Department of Transportation's Center for Climate Change and Environmental Forecasting, which address marine vessel emissions. The research projects incorporate "well – to – hull" emissions modeling, retrofit technologies, and inventory assessments.

Finally, MARAD has procured a Geographic Information System that will ultimately provide detailed, applied spatial analyses of emissions concerns and scenarios related to Short Sea Shipping and landside congestion. Data compilation to populate the GIS is on going.

Marine Transportation Industry Outreach

MARAD continues to publish its quarterly *Report on Port and Shipping Safety and Environmental Protection (reports 70 -72 during FY 2004).* 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 International Maritime Organization (IMO). Report copies can be found at the following Internet addresses: http://www.marad.dot.gov, http://www.marad.dot.gov/nmrec, and http://www.socp.org.

Shipbuilding and the Environment

MARAD assures that its Title XI loan guarantee projects for building ships and improving shipyards are in compliance with applicable environmentally 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 environmental efficient marine propulsion systems. This important work has been carried on by significant funding and in-kind contributions from more than 30 partners from the , state and local governments, private sector and academia. In addition, MARAD is represented on the interagency DOT team exploring the potential of hydrogen as an alternative, clean fuel. Through these activities, MARAD is the recognized leader in the investigation, demonstration and promotion of energy efficient marine propulsion systems.

Dredging

MARAD addresses dredging and dredged-material management issues related to impacts to National ports and harbors through active participation on the National Dredging Team (NDT) and Regional Dredging Teams (RDT). 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, the U.S. Coast Guard, and the Navy.

International Activities

MARAD is represented on the International Marine Organization's Marine Environment Protection Committee (MEPC). The MEPC is responsible for developing international conventions, codes, and guidelines to prevent and control pollution from ships. In addition, MARAD participates in the activities of the U.S. Shipping Coordinating Committee, which finalizes U.S. positions for meetings of the IMO committees and subcommittees, as well as for sessions of the IMO Assembly and Council.

ENVIRONMENTAL STEWARDSHIP

MARAD continues to protect the environment by ensuring that its facilities, ships and programs are in compliance with environmental laws, regulations, executive orders, and treaties. This is accomplished by conducting internal environmental compliance audits of facilities and ships. Since 1992, MARAD has conducted three separate rounds of multi-media environmental compliance audits, and is in the process of completing the fourth. Deficiencies identified in the audits have been budgeted for and corrected. MARAD continues to be vigilant in ensuring pollution prevention techniques, beneficial landscape programs, and energy management are employed in each facility.

In concert with the Administration's goals and Council on Environmental Quality (CEQ) policy goals to increase significantly the government's use of environmental management systems (EMS) as a planning and implementation tool, MARAD has been fully committed to complying with Executive Order 13148 "Greening the Government through Leadership in Environmental Management," and DOT Order 5641.1A, "U.S. Department of Transportation Internal Environmental Management System," in implementing EMS into its facilities. In 2003, MARAD joined with the EPA and many U.S. ports in implementing a pilot EMS program at the James River Reserve Fleet (JRRF).

In using the JRRF as a pilot, MARAD is planning to expand the full EMS program to the other four facilities, i.e., the Beaumont Reserve Fleet, the Suisun Bay Reserve Fleet, the Fire Training Center, and the U.S. Merchant Marine Academy, in 2005 and 2006. The final EMS will provide MARAD with a new system that documents environmental risks as they relate to environmental compliance and legal obligations.

AQUATIC NUISANCE SPECIES

Aquatic Nuisance Species (ANS) are plants, animals, bacteria, and pathogens, which have been introduced into new ecosystems, and which are having a harmful impact on those ecosystems. Such species have been introduced into the United States by a number of means, including in water that has been used as shipboard ballast. Many ships use water as ballast for stability and safety because it is available, it is low-cost, and easy to unload. Problems may arise when ships take water on in one ecosystem and discharge it in another. Species discharged in a new environment in such a way can have an impact on biological and economic resources and can also impact human health. The best-known example is that of the zebra mussel, a non-indigenous species that was introduced into the Great Lakes by shipboard ballast water, which has disturbed native species, clogged intake pipes for water supplies, and may pose serious human health risks. Great Lakes water users spend tens of millions of dollars on zebra mussel control every year. That is only one example among many.

MARAD is the lead Federal agency in the Federal Ballast Water Demonstration Project, which provides opportunities for testing technologies for treating ballast water. The Project is seeking to speed the movement of promising technology from the laboratory to shipboard to ultimately eliminate this problem. Other agencies involved include the National Oceanographic and Atmospheric Administration (NOAA) and the U.S. Fish and Wildlife Service. One of MARAD's important contributions is the use of ships as test platforms.

In FY 2004, MARAD sponsored the third phase of testing for a promising new ballast water technology that uses a combination of filtration and a high-frequency sonic contact reactor with ozone injection. The technology is one of the few that have shown potential for successful shipboard operation. The test phase was successfully completed and the system is expected to be tested onboard a commercial vessel in the near future.

The next focus of the program will be the development of test barge platforms that can accommodate technology testing in a ship-like environment. Approximately 93% of the applicants to the Program are at a stage that is past the laboratory but not ready to be tested under the rigorous conditions of an operating ship. It is the goal of the program to move substantially more technologies from the lab to commercially operating vessels and to complement other Federal and State ballast water initiatives.

ORGANIZATIONAL EXCELLENCE

PRESIDENT'S MANAGEMENT AGENDA

The President's Management Agenda, announced in the summer of 2001, is an aggressive strategy for improving the management of the Federal Government. It focuses on five areas of management across the government where improvements and the most progress can be made. The Maritime Administration (MARAD) has also focused on those areas: budget and performance integration, improved financial management, competitive sourcing, strategic management of human capital, and expanded E-government.

Budget and Performance Integration Initiative

MARAD produced its second integrated performance budget when it developed the FY 2006 budget request during FY 2004. This request included several important improvements that enhanced the readability and usefulness of the document. In addition to being far more concise, the FY 2006 budget also displays improved organization with a more explicit and detailed resource breakout for easier comparison between the resource requests and the text justifying those requests.

As part of its budget development process, MARAD also continued to conduct annual and quarterly performance reviews of MARAD's programs and conducted its first program assessment using the Office of Management and Budget's Program Assessment Rating Tool (PART). The Maritime Security Program received a PART assessment rating of 91 percent. This is one of the highest PART ratings received by a Federal program.

Improved Financial Management

The largest contracts MARAD administers are those for the maintenance, activation, and operation of Ready Reserve Force (RRF) ships. In FY 2004 MARAD issued the first Request for Proposals (RFP) for these contracts using both a totally electronic solicitation, supporting the President's e-commerce Initiative, and an RFP which will result in performance based service contracts. The Ship Manager Solicitation developed by RRF personnel was goal- and outcome-oriented. Contracts reached under this RFP are scheduled to be announced in FY 2005.

MARAD has implemented many other improvements to management processes in FY 2004, including using more electronically-based budgeting and expense accounting, inventory and asset management, workforce planning, customer service and help desk operations.

Competitive Sourcing

The National Defense Reserve Fleet Anchorage Facilities commercial activity competition was completed at the end of FY 2003, and MARAD was the successful bidder having the most efficient organization (MEO). MARAD developed and submitted the bid in order to continue performing the reserve fleet operations with government employees.

Implementation began in January 2004 and continued into April. During this time, personnel actions were taken to staff the new organization, employee training was provided, and contract deliverables were received. The MEO organization took over the operation on April 16, 2004, in compliance with the contract and the newly established Quality Assurance group began performing its quality oversight function.

Strategic Development of Human Capital

MARAD created a Human Capital Council during FY 2004. The HCC evaluates overall agency priorities and operations during its deliberations to determine agency personnel staffing requirements. The HCC is composed of the agency's Associate Administrators. The Director of Human Resources serves as the Executive Secretary and the Director of Civil Rights serves as Diversity Advisor.

The HCC is charged with reaching a consensus on workforce allocation and development, making recommendations to the Administrator on

agency positions to ensure that the agency can execute critical missions and goals as efficiently as possible. As an evolving entity, it will address organizational change and status as well as forecast the organization's future workforce needs. Through the HCC, MARAD will be able to focus on organizational employment opportunities to help it become a high-performing, diverse organization prepared to meet today's workplace challenge and opportunities.

MARAD's employment totaled 837 at the end of FY 2004. During that fiscal year, MARAD hired a total of 75 employees; 25 percent of the new hires were females, 32 percent were minority employees, and 5 percent were people with disabilities.

FEATURE : TRANSPORTATION LEADERSHIP PROGRAM

TRANSPORTATION LEADERSHIP PROGRAM

The MARAD Transportation Leadership Program (TLP) was initiated in FY 2004 as part of the agency's human capital and succession planning efforts. The TLP was created specifically to address these issues by ensuring that a pool of highly qualified internal candidates is trained and equipped to fill future critical needs.

The TLP is a full-time, two-year program dedicated to training and equipping current high performing employees to assume management and leadership positions within the Maritime Administration. Participation in the program is open to all full-time permanent MARAD employees at the GS-13 through GS-15 level, who have at least two years tenure with the agency. Participants are selected based upon their education, experience, and demonstrated leadership potential.

The first participants in MARAD's TLP program. Left to right: Brian Blower, Patrick Carlton, Tracey Ford, Lennis Fludd, Joseph DuVal

As is the case with many agencies of the Federal Government, MARAD is confronting the potential loss of a significant number of retirement eligible employees in leadership positions over the next five years. In FY 2004, more than 27 percent of MARAD's leaders were already eligible to retire and by 2008 that number will increase by nearly 60 percent. It is recognized that as key leadership and management positions are vacated over the next few years, MARAD must be ready to quickly fill these critical positions. Additionally, it is important that available financial resources be strategically targeted to ensure that training programs are specifically tailored to meet both current and future agency needs as gaps in critical skill sets occur.

The first class of TLP was competitively selected in July 2004. A total of five participants, three from MARAD headquarters and two from the Regions, were selected from among 20 highly qualified candidates. These participants embarked upon a two-year program involving an eight-week indoctrination in headquarters which began on October 4, 2004, rotational assignments both in headquarters and the regions, and completion of a Masters Degree within the two-year period. Upon successful completion of all program requirements, GS-13 and GS-14 participants will receive a one-grade promotion and placement in a permanent job assignment based on agency needs.

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Six positions were advertised under MARAD's Career Enhancement Program or the Department of Transportation's Rotational Assignment Program. Six positions were established in our Career Opportunities Training Agreement Program (COTA), formerly known as Upward Mobility. Fifty-four 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, two received the Excellence Award, one received the EEO/Affirmative Action Award, and one received the Volunteerism/Community Service Award. In addition, 15 MARAD employees, as a group, received the Secretary's Team Award, and 28 received the Partnering for Excellence Award. Fourteen employees received the Maritime Administrator's Bronze Medal Award, and four employees received MARAD's EEO Award in recognition of and appreciation for contributions made toward the furtherance of Equal Employment Opportunity. The Maritime Administrator and the Associate Administrator for National Security received the Secretary of Transportation's War on Terrorism Medal for leading MARAD's sealift efforts during Operations Enduring Freedom and Iraqi Freedom; 21 employees received the War on Terrorism Ribbon.

Expanded Electronic Government

In FY 2004, MARAD focused its E-government efforts on infrastructure upgrades, information systems security (INFOSEC), mission systems planning, and management processes.

Infrastructure Upgrade: MARAD adopted a three-year hardware replacement cycle and began participating in the Microsoft Software Assurance contract to ensure MARAD's IT infrastructure meets the demands of current and future mission needs. As result, MARAD migrated from Microsoft NT 4.0 to Microsoft Windows XP and from Office 97 to Office 2003. MARAD established the concept of a "fixed" and "mobile" seat, reducing hardware needs while meeting the needs of a mobile workforce. MARAD continued to work with the Office of the Secretary of Transportation on the consolidation of information technology infrastructure services in 2005 and 2006, as well as planning for the move to the new DOT headquarters buildings scheduled in 2006.

Information Systems Security: MARAD certified and accredited all of its critical information systems. The certification process assures MARAD that adequate security controls have been implemented based on the sensitivity of the data. MARAD continued its work toward a viable Continuity of Operations Plan for critical information technology functions, including email and various business applications. The site is operational and provides MARAD the capability to perform all critical business functions.

Mission Systems Planning: MARAD began an intensive effort to update, integrate, and develop application systems centered on its mission needs. 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 its information technology systems while increasing user productivity and management access to data for decision making. To enable the enterprise architecture, MARAD invested in a systems development environment including Microsoft, Documentum, and Oracle development tools. These tools provide a robust, state-of-the-art applications development environment that will serve MARAD for many years to come.

CIVIL RIGHTS

The agency also developed an initiative to educate employees on equal employment opportunity programs, the concept of diversity, harassment, sexual harassment and the Notification of Federal Employees Anti-discrimination and Retaliation (No Fear) Act. The faculty and staff of the U.S. Merchant Marine Academy and three of

four regions have participated in the training, which was specifically designed for MARAD and facilitated by experienced contract civil rights professionals. This initiative is expected to be completed next fiscal year. However, MARAD will continue with employee education programs on an ongoing basis.

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, can be completed by accessing MARAD's web site (http://www.marad.dot.gov).
- The Program Performance Survey 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 2004* report, which has been published and is currently available on MARAD's web site (http://www.marad.dot.gov) under the Programs link.

Sixty-nine percent of the respondents rated MARAD above average or excellent in meeting their needs. Fifty-nine percent interact with MARAD two times or less a month. Forty-one percent have been customers of MARAD 10 years or less, while 7 percent have interacted with us more than 30 years. Thirty percent cited MARAD as their primary supplier for maritime information and support. Ninety percent found MARAD's information in clear and easy to understand plain language.

On specific comparison factors to other entities with which they interact, 55 percent rated MARAD better, while only 2 percent rated MARAD worse. Respondents indicated positive impressions of professionalism (65 percent), friendliness (63 percent), and our willingness to work with customers (62 percent). One area needing improvement was reliability of service (4 percent). However, all but one respondent stated they would recommend MARAD, and all but one respondent indicated they would use MARAD again.

LEGAL SERVICES AND AGENCY DECISIONS

MARAD is required by law to report on its activities under Admiralty Law.

Admiralty Actions

The United States is seeking compensation for damages caused to three of its vessels, *Mount Washington, Equality State ,and Diamond State*, arising out of an allision with these vessels by barges in the Houston area. Settlements have been reached with some of the barge owners, but a trial on liability and damages is expected in FY 2005.

MARAD also concluded a limitation of liability proceeding, which arose out of personal injuries suffered during a fire aboard a MARAD vessel.

Admiralty Claims

An admiralty claim was received from a port authority in the Netherlands. This claim was originally filed more than ten years after the date of an accident, which occurred during Desert Shield / Desert Storm and involved the allision of a National Defense Reserve Fleet (NDRF) vessel with a dike.

The Supreme Court of the Netherlands ruled in MARAD's favor, and affirmed the sovereign immunity abroad of such vessels operating under the orders of the Department of Defense.

MARAD thus denied the claim.

Another admiralty claim arose when an NDRF vessel damaged a fishing net system in South Korea. This claim was settled, with MARAD coordinating activities with the U.S. Department of Justice.

Admiralty Personal Injury Matters

At the end of the recording period, 17 personal injury plaintiff actions were pending in courts or on appeal, although certain of these were consolidated into single case proceedings. Most of these claims involved seafarers injured aboard MARAD vessels.

Ship Disposal

Environmental issues relating to the recycling of the non-retention National Defense Reserve Fleet vessels in the James River were the subject of considerable effort during the past fiscal year. In FY 2003, MARAD entered into a contract with a United Kingdom recycling facility for 15 vessels. The U.S. Environmental Protection Agency issued a letter of enforcement discretion indicating that it would not legally challenge the export provided certain conditions were satisfied. Various environmental groups and individuals challenged the export of the vessels in U.S. District Court. The District Court allowed four vessels to leave the United States. The ability of MARAD to export the remaining vessels is currently under consideration by the U.S. District Court on cross-motions for summary judgment.

Within the United Kingdom, challenges were also mounted against the validity of the U.K. recycler's various environmental permits. These challenges ultimately resulted in judicial findings that the U.K. recycler's amended Waste Management License was not issued in accordance with proper U.K. administrative procedures. The existing local council approval for the recycling of "marine structures" was also determined not to encompass vessels within its meaning. Rather than appeal these decisions, the U.K. recycler is currently applying for a new Waste Management License and local council approvals for the recycling of MARAD's vessels.

MARAD has also petitioned the Environmental Protection Agency for an administrative rule under the Toxic Substances Control Act approving the export of any of the listed vessels to the U.K. recycling facility.

At the same time environmental groups are attempting to restrict the export of vessels from the James River Reserve Fleet, a citizen suit has been filed seeking to compel the removal from the JRRF of non-retention NDRF vessels. Responsive pleadings have not yet been filed in this proceeding.

Asbestos

Former and current MARAD general agents and ship managers have tendered for defense approximately 2,500 suits filed by seafarers to the U.S. Government. In these suits, plaintiffs 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 seafarers' 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 70,000 suits, the court has ordered approximately 50 to proceed to litigation. MARAD is not actively involved in the defense of any of these cases at this time.

Administration Procedure Act

The dismissal of a student from the United States Merchant Marine Academy was challenged in U.S. District Court under the Administration Procedure Act. This matter is currently awaiting a decision on cross-motions for summary judgment.

Freedom of Information Act

MARAD began the fiscal year with 44 carryover Freedom of Information Act (FOIA) requests for access to records, and received 175 new requests. One hundred forty-five requests were processed during FY 2004, and 64 requests were pending at year's end. There was only one administrative appeal of an initial FOIA decision.

ACQUISITION

During FY 2004, MARAD awarded approximately $409 million in contracts for goods and services, continuing its vital role of performing MARAD's critical missions in the context of the President's Management Agenda.

These contracts included strengthening the Nation's security and supporting the war on terrorism, including Operation Iraqi Freedom; removal of environmentally at-risk vessels from Reserve Fleet anchorage, and implementation of programs that expand and institutionalize E-government. The major accomplishments during the year include:

- Provided key contracting support for the activation of 40 surge sealift vessels of the Ready Reserve Force (RRF) in direct support of Operation Iraqi Freedom and the war on terrorism, as well as other DOD exercises and missions;
- Designed and implemented the Virtual Office of Acquisition (VOA), providing access to all award documents to both the U.S. Government and industry;
- Negotiated and awarded contracts to scrap 11 environmentally at-risk vessels from the James River Reserve Fleet. These contracts represent a significant step toward meeting Congressional mandates and achieving one of the Department of Transportation's high priorities: to dispose of obsolete vessels responsibly;
- Awarded, using electronic commerce methods, over $333 million in contract actions, in direct support of the President's e-government initiative; and
- Executed $27 million in support of the intermodal Port Expansion program, a 10-year port renovation project which is being executed under an innovative business partnership with the Port of Anchorage. Further developed the Port of Anchorage Contract Management System (CMS), allowing for electronic submission and approval of task orders, modifications, and other contract actions. Development and implementation of this E-contracting tool has significantly expedited contract actions, in spite of the geographic and time-zone differences.
- Continued the effective, ongoing administration of major contracts, including, but not limited to, operation and maintenance of the RRF, logistics and repair parts and ship material replenishment 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.

AUDITS

In FY 2004, the Department of Transportation's (DOT's) Office of Inspector General (OIG) and the Government Accountability Office (GAO) started audit work or submitted principal final reports on MARAD activities as follows:

Office of the Inspector General

DOT's Top Management Challenges for FY 2004 (PT-2004-006 Dated: December 5, 2003) File 10-321;

Financial Statements – FY 2004 DOT OIG Audit (Work Underway – Project No 04F3018F000 Notification Memorandum Dated: February 27, 2004) File 10-324;

Policy and Procedures for Locating Federal Offices and Facilities in Rural Areas – DOT (SC-2004-071 Dated: July 23, 2004) File 10-325;

Consolidation of Accounting Functions (Work Underway – Project No 04F3010F000

Notification Memorandum Dated: May 7, 2004) File 10-326;

Resolution of Audit Findings – Single Audits (Work Underway) File 10-327;

Cargo Preference Billing and Payment Process (FI-2004-057 Dated: May 5, 2004) File 10-328; and

Background Investigations of DOT Government and Contractor Employees (Work Underway – Project No 04B3008B000 Notification Memorandum Dated: July 7, 2004) File 10-329.

Government Accountability Office:

Freight Transportation: Strategies Needed to Address Planning and Financing Limitations (GAO-04-165 Dated: December 19, 2003) File 11-403;

Alaska Native Villages: Most Are Affected by Flooding and Erosion, but Few Qualify for Federal Assistance (GAO-04-142 Dated: December 12, 2003) File 11-406;

Monitoring and Oversight of Federal Funds Awarded to Bridgeport CT (GAO-04-230R Dated: November 26, 2003) File 11-417;

Maritime Law Exemption: Provides Limited Competitive Advantage, but Barriers to Further Entry Under U.S. Flag Remain (GAO-04-421 Dated: February 27, 2004) File: 11-421;

MARAD Ship Scrapping Contracts (Work Underway - Job Code 350471 Notification Memorandum Dated: November 4, 2003) File 11-423;

Follow-up of Maritime Transportation Security Act (MTSA) of 2002. (Work Underway - Job Code 440265 Notification Memorandum Dated: November 24, 2003) File 11-424;

Maritime Security Fleet: Many Factors Determine Impact of Potential Limits on Food Aid Shipments (GAO-04-1065 Dated: September 13, 2004) File: 11-426;

Continuity Of Operations: Improved Planning Needed to Ensure Delivery of Essential Government Services (GAO-04-160 Dated: February 27, 2004) File 11-428 (Also See File 11-431 Continuity Of Operations: - Update (Job Code 310395);

Federal Insurance Programs (War Risk Insurance) (Work Underway - Job Code 250184 Notification Memorandum Dated: July 21, 2004) File 11-432;

Assessment of Non-Intrusive Technologies for Cargo Security (Work Underway - Job Code 460567 Notification Memorandum Dated: July 8, 2004) File 11-433;

Maritime Security: Implementation of the Automatic Vessel Identification System (GAO-04-868 Dated: July 23, 2004) File 11-434;

Short Sea Shipping (Work Underway - Job Code 544095 See Memorandum Dated: July 27, 2004) File 11-435; and

Progress on Addressing Major Management Challenges and Program Risks at DOT (Work Underway - Job Code 542047 Notification Memorandum Dated: September 13, 2004) File 11-437.

FINANCIAL STATEMENTS

U.S. DEPARTMENT OF TRANSPORTATION--Maritime Administration

Exhibit 1. Statement of Financial Condition
September 30, 2003 and September 30, 2004

	September 30	
ASSETS	**2004**	**2003**
Selected Current Assets		
Funded Balances with Treasury:		
Budget Funds	$546,689,000	$ 618,293,000
Deposit Funds	10,000	10,000
	546,699,000	618,303,000
Federal Security Holdings	88,342,000	188,776,000
Accounts Receivable:		
Government Agencies	54,506,000	137,771,000
The Public		
	54,506,000	137,771,000
Advances To:		
Government Agencies		
The Public		
Total Selected Current Assets	**$ 689,547,000**	**$944,850,000**
Loans Receivable:		
Repayment in Dollars	431,967,000	433,183,000
Allowances (-)	(362,270,000)	(353,496,000)
	69,697,000	79,687,000
Real Property and Equipment:		
Land	3,962,000	3,962,000
Structures and Facilities	62,261,000	68,306,000
Equipment, Vessels, Inventory	715,897,000	1,095,783,000
Leasehold Improvements	0	0
	782,120,000	1,168,051,000
Total Other Assets	**$310,048,000**	**$1,247,738,000**
Total Assets	**$1,851,412,000**	**$2,192,588,000**

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, 2003 and September 30, 2004

	September 30	
LIABILITIES	**2004**	**2003**
Selected Current Liabilities (Note 2)		
Accounts Payable (Including Funded Accrued Liabilities):		
Government Agencies	$ 1,002.749,000	$ 267,859,000
The Public	38,311,000	33.391,000
	1,041,060,000	301,250,000
Accrued Liabilities for Loan Guaranteed	378,061,000	292,740,000
Unfunded Liabilities:		
Environmental Liabilities	528,902,000	375,000,000
Other Liabilities	57,538,000	235,114,000
Federal Employee's Benefits Payable	20,253,000	22,689,000
	606,793,000	632,803,000
Total Selected Current Liabilities	2,025,914,000	1,226,793,000
Deposit Fund Liabilities	0	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	**$2,025,914,000**	**$ 1,226,793,000**
Government Equity		
Unexpended Budget Authority:		
Unobligated	124,564,000	248,108,000
Undelivered Orders	237,164,000	282,138,000
	361,728,000	530,246.000
Unfinanced Budget Authority (-)		
Unfilled Customer Orders	(91,659,000)	(124,269,000)
Contract Authority		
	(91,659,000)	(124,269,000)

Invested Capital	(227,914,000)	559,818,000
Total Government Equity	**($174,502,000)**	**$965,795,000**
Total Liabilities and Government Equity	**$1851,412,000**	**$2,192,588,000**

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

U.S. DEPARTMENT OF TRANSPORTATION Maritime Administration

Exhibit 2. Statement of Operations

	Years Ended September 30	
	2004	**2003**
OPERATIONS OF THE MARITIME ADMINISTRATION		
Net Costs of Operating Activities		
Reserve Fleet Programs:		
Maintenance and Preservation	$ 538,000	$ 3,229,0007
Direct Subsidies and National Defense Costs:		
Operating-Differential	194,000	1,118,000
Ocean Freight Differential	147,558,000	114,033,000
Title XI Credit Reform Program and Financing Fund	10,793,000	(35,086,000)
Maritime Security Program	98,580,000	97,053,000
Ship Disposal Program	7,300,000	252,000
Administrative (includes Financial Assistance to State Maritime Schools, School ships, Student Incentive	83,934,000	89,730,000
Other Operating Income Net of Expenses	349,000	90,018.000
Net Cost of Maritime Administration	**$260,524,000**	**$360,347,000**
Operations of Revolving Funds (-Income):		
Vessel Operations Revolving Fund	(18,066,000)	(4,889,000)
War Risk Revolving Fund	(1,410,000)	(1,721,000)
Construction Differential Fund	(1,979,000)	(2,223,000)
Federal Ship Financing Fund	(1,703,000)	(418,000)
Gifts and Bequests	(98,000)	629,000
Special Studies	(107,000)	(3,000)
	(23,363,000)	(9,883,000)
Net Cost of Combined Operations	**$237,161,000**	**$350,464,000**

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, 2004

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 & 2004 financial information is based on MARAD's FY 2003 & 2004 audited financial statements required by the Chief Financial Officer Act.

2. Contingent liabilities for Title XI guaranteed loans aggregated $3.4 billion as of September 30, 2004.

3. There were no conditional liabilities for pre-launching War-Risk Builder's Insurance on September 30, 2004.

4. The Federal Ship Financing Fund incurred no defaults during FY 2004.

5. The Title XI Credit Reform Program incurred no defaults during FY 2004.

6. Real Property and Equipment are reported at the net book value (i.e., acquisition cost, minus accumulated depreciation) for FY 2004.

National Maritime Day, 2004

By the President of the United States of America
A Proclamation

National Maritime Day provides an opportunity to recognize the men and women of the United States Merchant Marine and their contributions to our national security and economic strength.

Since they first offered their ships and services to assist the Continental Navy in our struggle for independence, to their distinguished service in World War II, merchant mariners have courageously sacrificed to protect our country and defend our freedoms. In 1936, America recognized the contributions of these patriots and established the U.S. Merchant Marine "as a naval or military auxiliary in time of war or national emergency." Today, merchant mariners are delivering essential supplies and equipment to our troops in Iraq and bravely serving the cause of liberty. They continue to play an important role in our Nation's efforts to advance democracy, peace, and freedom around the world, and we are grateful for their dedication.

Merchant mariners also contribute significantly to the U.S. maritime transportation system. More than 95 percent of non-North American trade enters our country through our seaports. These ports handle more than $740 billion and 2 billion tons of domestic and international freight each year. Those in the maritime industry, including merchant mariners, enhance waterborne commerce and help promote America's economic growth.

Today, we honor the courage, determination, and service of our Nation's merchant mariners and remember the many who have given their lives in defense of our country. Their work reflects the patriotism and devotion to duty that make America great.

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, 2004, 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 four, and of the Independence of the United States of America the two hundred and twenty-eighth.

GEORGE W. BUSH

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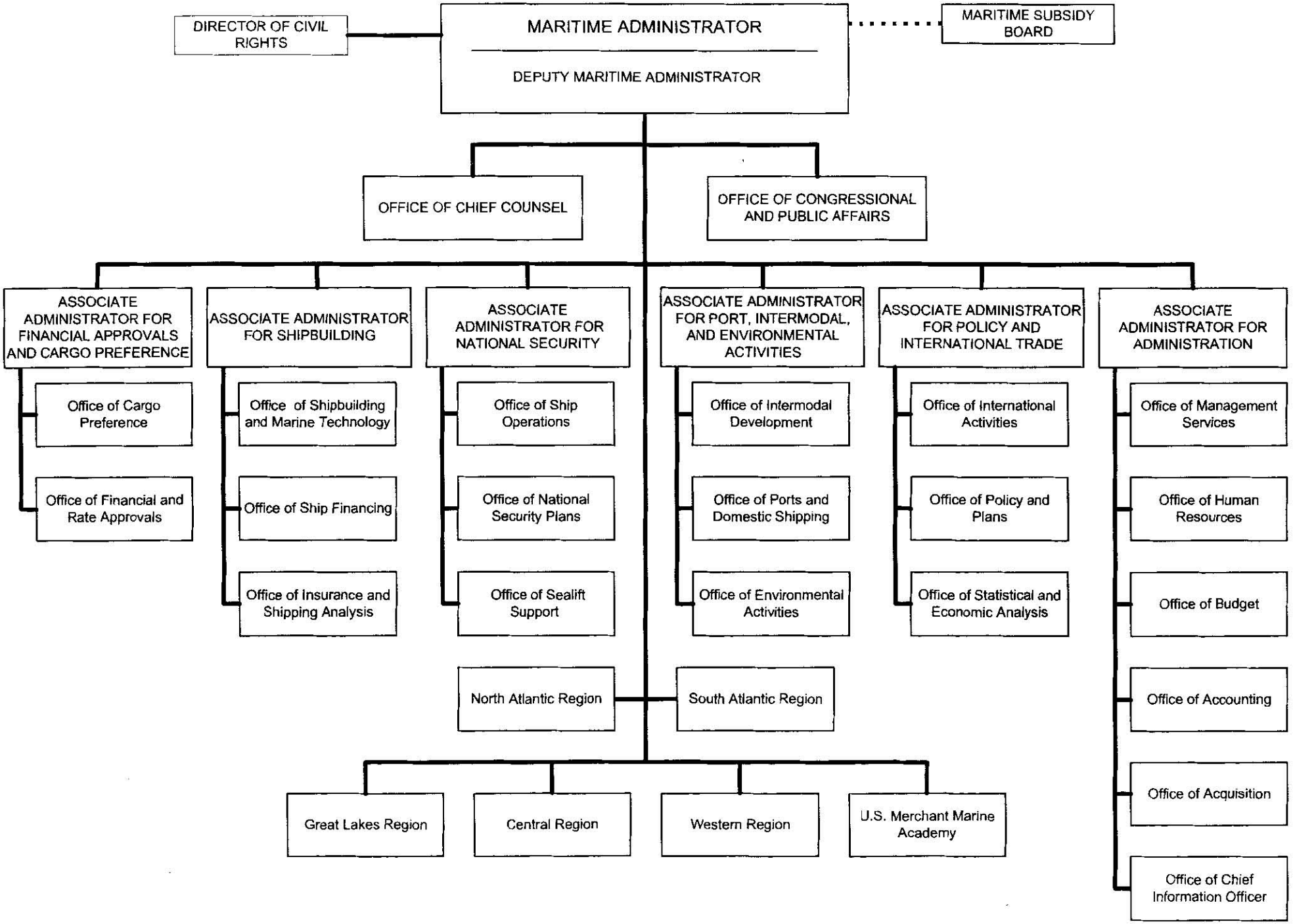
MARITIME ADMINISTRATION



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