

Maritime Administration Annual Report to Congress

**M
A
R
A
D

5
0
0
2
5**

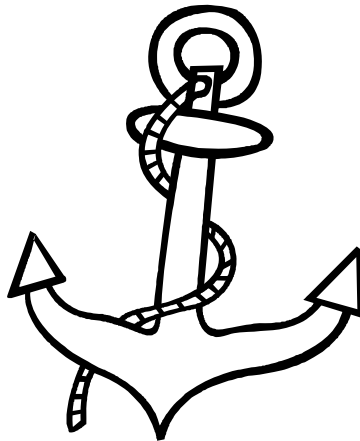


U.S. Department of Transportation
Maritime Administration

Maritime Administration

**ANNUAL REPORT
TO CONGRESS**

FISCAL YEAR 2005



**U. S. DEPARTMENT OF TRANSPORTATION
NORMAN Y. MINETA
SECRETARY**

**MARITIME ADMINISTRATION
JOHN JAMIAN
ACTING MARITIME ADMINISTRATOR**

**HEADQUARTERS
400 7TH STREET, SW
WASHINGTON, DC 20590**

TABLE OF CONTENTS

| | |
|---|----------------|
| INTRODUCTION | page 5 |
| EXECUTIVE SUMMARY | page 7 |
| NATIONAL SECURITY | page 9 |
| <i>Hurricane Recovery Response</i> | <i>page 10</i> |
| <i>Ready Reserve Force</i> | <i>page 11</i> |
| <i>Maritime Security Program & Voluntary Intermodal Sealift Agreement</i> | <i>page 12</i> |
| <i>Inventory of Intermodal Equipment</i> | <i>page 13</i> |
| <i>Strategic Ports</i> | <i>page 13</i> |
| <i>National Defense Reserve Fleet</i> | <i>page 13</i> |
| <i>Merchant Mariner Availability</i> | <i>page 14</i> |
| <i>Maritime Training and Education</i> | <i>page 15</i> |
| <i>Maritime Recruitment/Careers Outreach</i> | <i>page 18</i> |
| <i>War Risk Insurance</i> | <i>page 19</i> |
| <i>NATO Planning Board for Ocean Shipping</i> | <i>page 20</i> |
| <i>Port Security Grants</i> | <i>page 20</i> |
| | |
| COMMERCIAL MOBILITY | page 21 |
| <i>Short Sea Shipping Initiative</i> | <i>page 22</i> |
| <i>Marine Transportation System</i> | <i>page 23</i> |
| <i>Delaware River Maritime Enterprise Council</i> | <i>page 24</i> |
| <i>Port of Anchorage</i> | <i>page 24</i> |
| <i>Maritime Guaranteed Loan Program (Title XI)</i> | <i>page 24</i> |
| <i>Research and Development</i> | <i>page 26</i> |
| <i>Deepwater Port Licensing</i> | <i>page 28</i> |
| <i>Port Facility Conveyance Program</i> | <i>page 28</i> |
| | |
| GLOBAL CONNECTIVITY | page 29 |
| <i>Bilateral and Multilateral Maritime Negotiations</i> | <i>page 29</i> |
| <i>International Port Security Initiatives</i> | <i>page 30</i> |
| <i>Cargo Preference</i> | <i>page 31</i> |
| <i>Fair and Reasonable Guideline Rates</i> | <i>page 33</i> |
| <i>Financial Approvals</i> | <i>page 33</i> |
| <i>Operating Costs</i> | <i>page 33</i> |
| <i>Agile Port</i> | <i>page 34</i> |
| <i>Operating-Differential Subsidy</i> | <i>page 34</i> |

ENVIRONMENTAL STEWARDSHIP

Ship Disposal Program
Environment and Marine Technology
Dredging
Pilot Emergency Management System Project

page 35
page 35
page 36
page 37
page 38

ORGANIZATIONAL EXCELLENCE

Improved Financial Management
Budget and Performance Integration Initiative
Competitive Sourcing
Expanded Electronic Government
Strategic Management of Human Capital
Civil Rights
Legal Services and Agency Decisions
Cooperative Work
Region Offices
Publications, Reports, and Web sites
MARAD Financial Statements
Maritime Day Proclamation, 2005
MARAD Organizational Chart

page 39
page 39
page 40
page 41
page 41
page 43
page 43
page 44
page 47
page 50
page 57
pages 58-61
page 62
page 63



The Maritime Administration and Response to Hurricanes Katrina and Rita

John Jamian Acting Maritime Administrator

When the time came to respond to a crisis, the Maritime Administration (MARAD) was ready.

Even as Hurricanes Katrina and Rita were beginning to wreak their devastation on the U.S. Gulf Coast, all modal agencies at the U.S. Department of Transportation were actively involved in exchanging information and addressing immediate needs.

Secretary Norman Y. Mineta made it clear during his emergency briefings when he stated, “I don’t want to hear reports. I want to see action.”

The Maritime Administration produced the desired action.

MARAD did not wait to be asked to help in the recovery of vital shipping and port facilities, but moved quickly to actively support relief and recovery efforts in the affected regions.

As soon as the recovery needs for Hurricanes Katrina and Rita were identified, Secretary Mineta had MARAD deploy seven ships from its Ready Reserve Force (RRF) to participate in the next phase of disaster recovery and reconstruction of infrastructure. The Secretary’s unprecedented and historic deployment marks the first time that the RRF has been activated to assist in recovery from a domestic disaster.

Two of the ships, the *Cape Kennedy* and the *Cape Knox*, were of immediate assistance. They stood firm throughout the storm at the Port of New Orleans, and were at once deployed to serve as emergency headquarters for the staff of the port, and to support oil spill recovery efforts on the

Mississippi coast. The remaining RRF ships were used for cargo transport and discharge, helicopter repair, generation of electrical power, and provision of meals and shelter for recovery workers.

Secretary Mineta also ordered the release of three State maritime academy training ships to house a total of over 1,000 relief workers, police, port employees, stevedores, petroleum industry workers, and others on the front lines of the response. Their skills and abilities were critical to vital recovery efforts to rebuild Gulf Coast port infrastructure.

It is my firm belief that Secretary Mineta's timely efforts saved many lives in the affected regions and provided important leadership in keeping America's commerce moving. MARAD was ready to serve because MARAD's efficient programs are dedicated to keeping America moving. MARAD programs flow from the departmental goals of Homeland and National Security, Commercial Mobility, Global Connectivity, Environmental Stewardship, and Organizational Excellence. MARAD was ready to meet the challenge of hurricane recovery, and as you read the pages of this Annual Report you will understand why—MARAD's people believe in excellence and readiness, and they make it happen.

MARAD is responsible for many important activities that do not make headlines. For example, MARAD assists shippers in locating vessels qualified for domestic trade under Section 27 of the Merchant Marine Act of 1920. This law, commonly called the Jones Act, requires that cargo carried between U.S. ports be moved on vessels that are U.S. built, owned, registered, and crewed. MARAD also provides Jones Act vessel availability determinations to U.S. Customs and Border Protection. Throughout both hurricanes and their aftermaths, MARAD provided vessel availability information for commercial maritime needs, as well as providing daily updates on needs and status in the affected ports.

We do not know what challenges the future may bring. We know that in Fiscal Year 2005, MARAD not only met its greatest challenge, but also continued to meet many other challenges. We hope that is communicated in this Annual Report.

A handwritten signature in black ink that reads "John Jamian". The signature is written in a cursive, flowing style with a long horizontal line extending from the end of the name.

John Jamian
Acting Maritime Administrator

EXECUTIVE SUMMARY

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

During Fiscal Year 2005, MARAD continued to provide strong support to the Administration's efforts to ensure America's future as a maritime nation.

The agency activated the Ready Reserve Force (RRF) ships to support the U.S. Armed Forces in overseas movements, and the RRF continued to play a key role in transporting support supplies for Operation Iraqi Freedom.

Domestically, the RRF, other ships from the National Defense Reserve Fleet (NDRF), including training ships from the fleet's school ship program, as well as an additional ship from the NDRF, were activated for the first time to respond to a domestic emergency. They assisted in the recovery and rebuilding efforts due to the unprecedented destruction caused by Hurricanes Katrina and Rita.

Additionally, the RRF displayed its security capabilities and importance to national security by conducting a SafePort demonstration in San Francisco Harbor. The demonstration safely accessed a "suspect container" by removing it from a post-Panamax containership at a safe anchorage location for homeland security.

The Maritime Security Program (MSP) was scheduled for expansion at the end of Fiscal Year (FY) 2005, and MARAD completed preparations for the transition. As of October 1, 2005, the program was authorized for 60 ships instead of the 47 of previous years. These 60 ships serve to maintain a U.S.-flag fleet in oceangoing commerce, both in peace and war.

MARAD also completed the final phase of the development of a Mariner Tracking System capable of importing data from the U.S. Coast Guard merchant mariner database to identify qualified mariners.

MARAD is actively investigating ways our Nation's maritime transportation system can be used to alleviate congested landside transportation systems, thereby promoting greater use of the waterways. MARAD acts as the official sponsor of the Short Sea Shipping Cooperative Program, supports the I-95 Corridor Coalition's efforts to study freight alternatives from Maine to Florida, and established the Inland Waterways Intermodal Cooperative Program to assist the Nation's inland waterway intermodal transport system operators in promoting innovations in cargo handling and new technologies.

In other significant activities during the fiscal year, MARAD continued its efforts to strengthen the Marine Transportation System with participation in the Marine Transportation System National Advisory Council (MTSNAC). The MTSNAC provided important input to the U.S. Commission on Ocean Policy Report, resulting in the creation of

a new cabinet-level Committee on the Marine Transportation System, and held its inaugural meeting in July 2005, chaired by U.S. Secretary of Transportation Norman Y. Mineta.

MARAD promoted the growth and modernization of the U.S. merchant marine and U.S. shipyards through the Title XI Program. For the third straight year, the Title XI loan guarantee program did not experience any defaults during FY 2005.

In FY 2005, major changes in coordination of Department of Transportation (DOT) research were made with the creation of the Research and Innovative Technology Administration under the Norman Y. Mineta Research and Special Programs Improvement Act. MARAD has worked with other agencies within DOT to develop arrangements to significantly improve coordination of research by the different DOT agencies. A first report to Congress, *Research Activities of the Department of Transportation: A Report to Congress*, was developed by the coordinated effort and was published in March 2005.

During FY 2005, MARAD conducted bilateral negotiations or consultations on maritime issues with the following countries: Brazil, China, India, Thailand, and Vietnam. These bilateral agreements are intended to achieve full-market access for U.S. carriers in specific markets where full access is not assured by major global trade agreements.

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.

The agency created a Ship Disposal Comprehensive Management Plan that implements disposition of all existing obsolete ships and future transfers in an environmentally friendly and timely manner.

In keeping with project goals for FY 2005, MARAD signed a Memorandum of Agreement with the National Oceanic and Atmospheric Administration for the purpose of obtaining funds to convert a MARAD-owned barge into a ballast water technology testing platform. MARAD became a member of the Aquatic Nuisance Species Task Force in FY 2005.

The annual report discusses the accomplishments of the Maritime Administration in greater detail and highlights many MARAD efforts to support the Nation's maritime policy and the goals of the Administration.

NATIONAL SECURITY

The Department of Transportation's Security Strategic Objective is to ensure the security of the transportation system for the movement of people and goods, and to support the National Security Strategy. The Maritime Administration (MARAD) receives more in appropriations for this function than all of the other modes of the Department of Transportation combined, as illustrated in Figure 1.

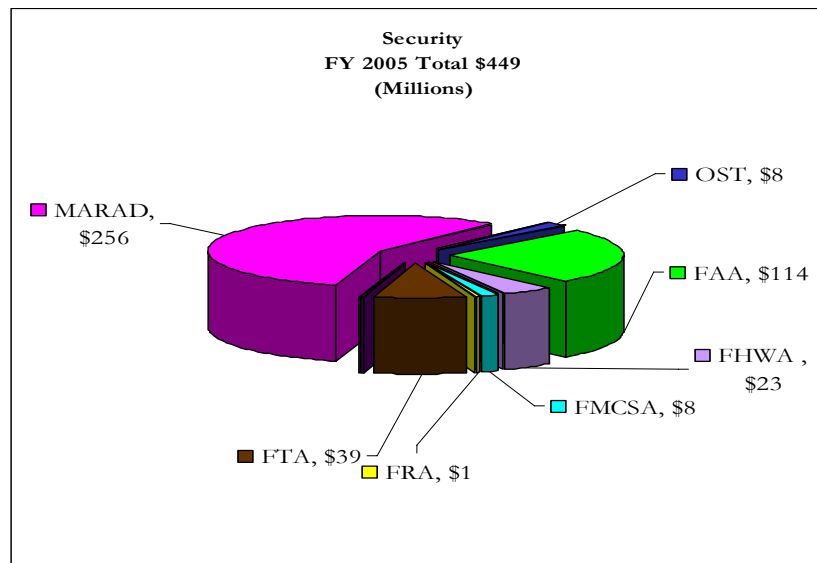


Figure 1: Appropriations for Security in the U.S. Department of Transportation, broken down by mode. *Source: Performance and Accountability Report, U.S. Department of Transportation.*

MARAD administers three programs providing sealift: the Ready Reserve Force (RRF) of government-owned and commercially operated ships, the government-commercial partnerships of the Maritime Security Program, and the Voluntary Intermodal Sealift Agreement. MARAD is also responsible for the National Defense Reserve Fleet, the State maritime academy scholarship programs, the Strategic Commercial Port Readiness Program, and education and training for merchant mariners, both at the degree-program level and for continuing education. Additionally, MARAD administers war risk insurance for shipping and plays a continuing role in the Port Security Grant program.

HURRICANE RECOVERY RESPONSE



Left to Right: MARAD ships Wright, Sirius, and Diamond State in the Port of New Orleans.

The unparalleled destruction caused by Hurricanes Katrina and Rita in the U.S. Gulf Coast called for an unprecedented response from MARAD and the National Defense Reserve Fleet. Training ships from the fleet's school ship program, ships from the RRF, and an additional ship from the National Defense Reserve Fleet were activated for missions designated by the Federal Emergency Management Agency (FEMA). The RRF ships *Cape Knox* and *Cape Kennedy*, which are based in New Orleans, weathered Hurricane Katrina successfully, and immediately offered a base of operations for the Port of New Orleans in the days that followed.

The RRF ship *Diamond State* was activated and sent to New Orleans to generate necessary electrical power and to unload the first ship to arrive after the hurricane. The following training ships provided meals and shelter for rescue and recovery workers, and also for port workers in the days after the storm: the *State of Maine*, from the Maine Maritime Academy in Castine, Maine; the *Sirius*, the newly-arrived school ship for the Texas Maritime Academy, Texas A & M at Galveston, Texas; and the *Empire State*, from the Maritime College of the State University of New York. The RRF ship *Wright* was activated to provide critically needed meals and shelter. The RRF ship *Equality State* was activated for the use of its cranes, and the RRF ship *Cape Vincent*, after bringing cargo into the area, was retained to provide meals and shelter for workers at the Port of St. Bernard, in Chalmette, Louisiana. These operations were vital in assisting the Ports of New Orleans and St. Bernard to resume operations, helping to accelerate the economic recovery.

The *Cape Vincent* entered Louisiana after participating in an unusual emergency management operation in the recovery of its home port, Beaumont, Texas, from the devastation of Hurricane Rita. Along with the *Cape Victory*, also home ported in Beaumont, the *Cape Vincent* loaded on board more than 225 emergency response vehicles for the Port of Beaumont, City of Beaumont, Jefferson County, and the neighboring cities of Nederland, Groves, and Port Neches. Weathering the hurricane, the emergency personnel and vehicles were ready to roll off the ships and begin rescue and recovery operations. Some emergency personnel who could not live in their own homes in the days after the storm stayed on the ships, where the captains provided meals and a place to sleep, and had washers and dryers installed. These measures made it possible for emergency services in the area to continue to operate at full efficiency, despite the enormous devastation.

READY RESERVE FORCE

The RRF is MARAD's most responsive sealift program using government-owned ships. Although the response to the hurricanes in the Gulf Coast marked the first time the RRF was activated for a domestic emergency, the RRF remained heavily involved in its established mission of supporting the U.S. Armed Forces in overseas movements, and in Operation Iraqi Freedom, during FY 2005. Six ships continued operations from FY 2004, and 18 additional ships were successfully activated to support the mission. Once activated, the vessels maintained 99 percent operational reliability, surpassing expected performance.

RRF ships and their crews have provided an unprecedented level of support to the Armed Forces since November 2002 for Operations Enduring Freedom and Iraqi Freedom with more than 90 ship activations, logging over 12,300 days of service. RRF ships continued to support the more routine exercises and prepositioning required by the Department of Defense during the same time period, with almost 5,000 days of service.

RRF ships under operational control of the Military Sealift Command (MSC) logged 5,106 operating days in FY 2005 supporting military missions and exercises. The overall performance, or fully mission-capable rate for RRF ships while under MSC Operational Control, was 99.4 percent, surpassing its overall goal of 99 percent.

Safe Port - The RRF demonstrated additional security capabilities with the SafePort demonstration, on June 8, 2005, in San Francisco Harbor. The operational concept of SafePort is to safely access a "suspect container" and remove it from a post-Panamax containership at a safe anchorage location for homeland security. This exercise was conducted in-stream at anchor with the RRF ship *Keystone State* and the containership *Horizon Consumer*, after initial testing with the Matson Lines container vessel *Libue* dockside. The *Keystone State's* cranes were operated by the ship's crew, and the exercise was deemed highly successful in implementing a unified Incident Command System with MARAD, U.S. Coast Guard, U.S. Department of Energy, and other Federal and State agencies participating.

Ship Management Contracts - On July 27, 2005, the three-year procurement effort to obtain ship management services for the RRF program was completed. Twenty-one contracts were awarded to nine successful offerers for the management, maintenance and repair, activation, operation and deactivation of 54 RRF vessels. The total contract award value exceeded \$2.3 billion over a 10 year performance period; the \$2.3 billion figure includes options for extension for good performance. Innovation was the keynote of this procurement; it was the first performance-based services solicitation issued by MARAD and was the first major all-electronic solicitation in MARAD's history.

A list of successful offerers and the ships they manage is available at <http://www.marad.dot.gov/programs/RRF.html>

MARITIME SECURITY PROGRAM AND VOLUNTARY INTERMODAL SEALIFT AGREEMENT

The Maritime Security Program (MSP) and Voluntary Intermodal Sealift Agreement (VISA) make commercial ships and intermodal capability available to the U.S. Armed Services, and are designed primarily for sustainment sealift, that is, maintaining sealift capacity when the initial surge period has passed. VISA is sponsored jointly by MARAD and DOD, and includes nearly all the U.S.-flag oceangoing fleet. VISA companies commit specific vessel capacity, intermodal equipment, and management services to DOD. The VISA program is the means used by DOD to pre-plan the availability of militarily useful commercial vessels for DOD in times of emergency. In return for their participation, VISA companies receive priority consideration for the award of DOD peacetime cargoes under MARAD's Cargo Preference program.

MSP is a significant component of VISA; MSP participants are required to enroll 100 percent of their MSP ships and a comparable mix of intermodal resources and services in the VISA program, in return for which they receive payments. These two interlocking programs serve to maintain a U.S.-flag fleet in oceangoing commerce, both in peace and war. During FY 2005, MARAD maintained the enrollment of 47 ships in the MSP and 121 ships in the VISA program. A total of 62 VISA ships were used during FY 2005 to support Operation Iraqi Freedom (OIF). Forty-two MSP ships supported OIF operations. An additional six VISA ships, including four MSP ships, supported the rebuilding of Iraq.

MSP was scheduled for expansion at the end of FY 2005. As of October 1, 2005, the program was reauthorized and expanded to 60 ships instead of the previous 47. Preparations for expansion were made in FY 2005. On October 15, 2004, MARAD received MSP applications from 25 companies for 142 ships for the reauthorized MSP. On January 12, 2005, MSP Operating Agreements were approved for 12 companies and 60 ships. Of the 60 ships approved for the MSP, 47 were Participating Fleet vessels covered by MSP Operating Agreements on December 31, 2004. These 60 ships will operate in the international trade and, subject to the availability of appropriated funds, will receive \$2.6 million per ship per year for FY's 2006 through 2008, \$2.9 million per ship per year for FYs 2009 through 2011, and \$3.1 million per ship per year for FYs 2012 through 2015. A chart showing the 60 ships, their types, and their operating companies, is available at www.marad.dot.gov/Offices/MSP_Fleet.xls.

Of the additional 13 ships, 10 were re-flagged to the U.S. flag as a result of selection into the program. The MSP fleet will include 35 containerships, five geared containerships, 14 roll-on/roll-off vessels, two heavy lift ships, one lighter aboard ship, and three product tankers. MARAD published the Final MSP regulations in the *Federal Register* on September 22, 2005.

Performance Summary on Sealift Programs: Target was 94 percent of DOD required shipping capacity, complete with crews, available within mobilization timelines. Actual performance was 95 percent. Target was exceeded.

INVENTORY OF INTERMODAL EQUIPMENT

In FY 2005, MARAD began collaborating with MSP participants to determine the types and quantities of intermodal equipment available to the government in times of contingency needs. Generally, such types of equipment are containers, chassis and cranes. As part of the requirements to participate in the MSP, companies must make available their entire intermodal network. Annual intermodal equipment updates allow MARAD to determine trends in the types and quantity of owned and leased equipment. Military planners, for operational preparations, use this information in determining shortfalls of intermodal equipment needed for operational purposes. Prior to 2005, MARAD went directly to U.S.-flag carriers to get intermodal equipment inventories, but recent mergers and conference alliance changes have caused intermodal equipment inventory data to become less reliable. Through access to MSP participants, MARAD is now able to get accurate inventory data.

STRATEGIC PORTS

MARAD administers the Strategic Ports Program, under which 15 U.S. ports designated by DOD are available to the military during emergencies. The ports must handle military cargo securely, efficiently, and in a way that minimizes disruption of commercial cargo.

DOD, in conjunction with MARAD, negotiates a Port Planning Order with each strategic port, specifying which facilities will be needed to conduct a military deployment. Each port is expected to be able to make these facilities available to the military within 48 hours of notification.

Performance Summary: The target for availability of strategic port facilities within 48 hours was 93 percent; performance was 87 percent. Target not met.

While the target was not reached, the overall strategic objective was accomplished: military cargoes were not delayed. The problem was caused by commercial cargo growth, an external factor not controlled by MARAD. MARAD is working with DOD's Surface Deployment and Distribution Command on restructuring plans to accommodate anticipated growth.

NATIONAL DEFENSE RESERVE FLEET

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; other NDRF 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 Ship Sales Act of 1946 was enacted. As ships used for the war were retired, the program grew to a high point of 2,277 ships in 1950. Ship sales, donations, and disposal efforts have reduced the inventory while other initiatives have added newer ships to the program.

As of September 30, 2005, there were 255 vessels in the NDRF of which 58 were in the RRF, 54 were in long-term storage (retention), and 143 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. The total number of vessels in custody associated with the NDRF program at the end of FY 2005 was 273.

There were three NDRF anchorages as of September 30, 2005: 67 ships were in the James River Reserve Fleet (JRRF) at Ft. Eustis, Virginia; 46 remain in the Beaumont Reserve Fleet (BRF) at Beaumont, Texas; and 83 ships were in the Suisun Bay Reserve Fleet (SBRF) at Benicia, California. There were 77 vessels assigned to port facility locations. A current inventory of the NDRF may be found at http://www.marad.dot.gov/Offices/Ship/Current_Inventory.pdf.

MARITIME HERITAGE

MARAD is authorized to provide obsolete parts and equipment from NDRF ships to U.S. museums, memorial ship organizations, and other entities to preserve our maritime heritage. Transfers made during FY 2005 are shown in the following table.

| Organization Supported | Number of items |
|---|------------------------|
| U.S. Navy Museum, Washington Navy Yard, Washington, DC | 250 |
| Submarine USS <i>Torsk</i> – Baltimore Maritime Museum, Baltimore, MD | 50 |
| Battleship USS <i>Massachusetts</i> , Battleship Cove, MA | 1050 |
| Destroyer Escort USS <i>Orleck</i> , Albany, NY | 150 |
| Destroyer USS <i>Orleck</i> , Orange, TX | 150 |
| Texas Tech University, Vietnam War Archives, TX | 250 |

All items transferred came off obsolete NDRF ships. Types of items included bunk canvas, mess equipment and supplies, vintage typewriters, fittings and consumables, vintage radio and electronic equipment, bridge/navigational equipment and manuals, stateroom accessories, vintage personal safety equipment, tools, meters and gauges, machinery parts, and other miscellaneous equipment/parts.

MERCHANT MARINER AVAILABILITY

An essential component of assuring sufficient sealift is making sure that enough qualified mariners are available to sail the required number of ships. During FY 2005, MARAD continued to participate in contingency crewing meetings to maximize mariner availability and to facilitate the swift and efficient crewing of Government vessels during Operation Iraqi Freedom and future conflicts. In FY 2005, no ships were delayed or failed to sail as a result of crewing issues.

Merchant mariner availability is continually monitored. During FY 2005, the estimated number of willing and available mariners in the merchant mariner labor pool was approximately 105 percent of the number required to fully crew the commercial and government fleets. Despite the training of additional mariners during the past year, retirements and other losses have resulted in no net change to the total number of available mariners.

The final phase of the development of a Mariner Tracking System was completed during FY 2005. The result is a system that is capable of importing data from the U.S. Coast Guard (USCG) merchant mariner database and performing basic searches to identify qualified mariners. The system transitioned to MARAD's Information Technology system and is also compatible with the Mariner Service Compliance System. Development of an Internet interface that will allow mariners to update contact information is underway.

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



Aerial view of the United States Merchant Marine Academy, Kings Point, New York.

MARAD operates the U.S. Merchant Marine Academy at Kings Point, New York, to educate young men and women for service in the U.S. merchant marine, in the U.S. Armed Forces, and in the Nation's intermodal transportation system. Additional information on the Academy may be found at <http://www.usmma.edu/>

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

As a key component of the national security effort, Academy graduates incur an eight-year U.S. Naval Reserve commitment, unless they are accepted in another uniformed service. The critical maritime skills developed with their military training significantly increase 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 license may be maintained through active sailing, as documented by the U.S. Coast Guard, or by re-examination. The graduates are also committed to a five-year maritime employment service obligation. This maritime service obligation may be satisfied in the merchant marine as an officer aboard U.S. merchant ships, or in shoreside maritime or intermodal transportation

industry positions if afloat employment is not available and with the permission of the Maritime Administrator. Active military duty in the U.S. Armed Forces or service with the National Oceanic and Atmospheric Administration also satisfies the obligation.

The Class of 2005, which graduated on June 20, 2005, comprised 112 third mates and 110 third assistant engineers. The 29 women graduates in 2005 brought to 524 the total number of female graduates since the first coeducational graduating class in 1978. Within six months after graduation, nearly 100 percent of the 222 graduates had obtained employment in the maritime and transportation industry, afloat and ashore, or were serving on active military duty. Additional information on the U.S. Merchant Marine Academy may be found at <http://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 with practical knowledge of vessel operations, and are part of MARAD's assistance to the academies to train highly qualified licensed officers. Three of these training vessels were activated in FY 2005 to assist in the recovery from Hurricanes Katrina and Rita: the *State of Maine* assigned to Maine Maritime Academy, the *Empire State* assigned to State University of New York Maritime College, and the *Sirius* assigned to the Texas Maritime Academy.

Maritime Transportation Security Training

The Maritime Transportation Security Act of 2002 required the development of maritime security course standards and curricula to allow for the training and certification of maritime security professionals. MARAD is the lead agency in this work, collaborating with industry and other government agencies. These courses have been adopted as the global benchmark by the International Maritime Organization, forming the basis for uniform worldwide standards, which will, in turn, make security work more effective. During FY 2005, the United States Merchant Marine Academy developed six model courses based upon course standards and curricula developed in FY 2004. A seventh course, designed especially for military and law enforcement personnel, is being finalized. The model courses are used to assess and certify U.S. training providers under a voluntary certification/course approval program that MARAD implemented in February, 2005. During FY 2005, approximately 75 percent of the courses submitted for certification were approved.

In order to broaden security training participation nationwide, MARAD negotiated a Cooperative Agreement with the six State Maritime Academies to include jointly-developed maritime security training as part of their port and maritime industry curricula. This will also serve to standardize security training and make it more efficient, both nationwide and worldwide.

Great Lakes Fire Training Center



Three trainees putting out a fire at the Great Lakes Fire Training Center.

MARAD provides training in fighting ship, barge, and dockside fires to mariners and other personnel, offering basic and advanced firefighting classes through its Great Lakes Fire Training Center located in Swanton, Ohio.

In FY 2005, the Center trained 418 students from a wide array of organizations:

- 224 trainees completed the 40-hour combined basic/advanced marine firefighting training. This included crews of eight U.S. Coast Guard cutters as well as merchant mariners from many companies;
- 21 trainees completed the 16-hour basic firefighting training to comply with Standards of Training, Certification & Watchkeeping (STCW);
- 33 members of the U.S. Coast Guard completed a 16-hour basic class; and
- 140 trainees participated in live firefighting training sessions tailored to the needs of the attending groups:
 - Ohio Army National Guard Engineers;
 - Two State of Ohio Firefighter II Certification Classes;
 - City of Toledo, Ohio, Firefighters

- U.S. Naval Reserve Fleet Hospital-Great Lakes DET 28 (pre-deployment basic fire training);
- Sunoco, Inc.'s fire brigade; and
- United States Steel Corporation's fire brigade.

MARITIME RECRUITMENT/CAREERS OUTREACH

MARAD's Mariner Recruitment and Retention Working Group increases the awareness of the maritime industry for the general public about career opportunities in the maritime industry and the important role these careers play in ensuring our Nation has adequately trained and reliable crews for our sealift support in times of national emergency. In FY 2005, MARAD expanded its promotional efforts by awarding five maritime educational grants. The grants provide student scholarships for school-to-work programs, maritime and port curriculum development, and experiential learning in maritime academy campus environments.

MARAD's support enabled 30 students to participate in the California Maritime Academy's Summer Bridge Program. The program's mission is to enhance academic skills and to encourage the college enrollment of racial minorities and economically disadvantaged high school students.

Philadelphia City Sail (PCS) is another grant awardee that sponsors an annual School Ship and Summer Sail Program. Through PCS's program, students participate in adventures, explorations, and studies that center on maritime knowledge and skill development, which are applied to training exercises aboard the schooner *North Wind*. Twenty-five to 30 students will be able to enroll in this year's program as a direct result of the grant.

The Maritime Careers/Outreach Program enabled 20 teachers to participate in the St. Cloud State University Transportation Education Academy. The Academy's goal is to provide information to teachers concerning all facets of the transportation system and they, in turn, share the information with their students upon their return to the classroom.

The Hands-On Training Scholarship is a newly created scholarship enabled by a MARAD grant. The Coordinated Maritime Services' grant will be the scholarship source for the Maritime Industry Career Hands-On Training Scholarship. The goal is to have four students between the ages of 18 and 24 participate in classroom instruction and lectures, hands-on and lab-work training, and field trip tours of local shipyards and port facilities, among other interactive experiences.

FY 2005 marked the first opportunity for MARAD to promote maritime careers through a newspaper supplement in observance of Excellence in Science, Technology, Engineering, and Mathematics Education (ESTEME) Week. The observance encourages young people to pursue their curiosity and understanding of math, science, technology, and engineering, all of which are required for select maritime disciplines. Through the *Washington Times* newspaper, more than 120,000 copies of the "Newspaper in Education" supplement were published and distributed to thousands of students across the United States.

In FY 2005, MARAD also agreed to co-sponsor the American Sail Training Association Conference, which strives to encourage character building through sail training. The work

of this association serves to promote the awareness of our Nation's maritime heritage and an appreciation of the skills used in seafaring.

WAR RISK INSURANCE

MARAD administers the emergency War Risk Insurance Program. This standby 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 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 117 in conjunction with Operation Iraqi Freedom (OIF). MARAD has issued more than 330 policies covering more than \$10.4 billion in values and limits since the post-September 11 activation. As of September 30, 2005, there had been no losses.

MARAD's FY 2005 war risk insurance objective was to continue management of the War Risk Insurance Program and carry over as many vessels under war risk insurance policies as DOD required to sustain Iraq and Afghanistan rebuilding efforts. MARAD worked closely with Military Sealift Command during the year and accomplished this objective.

In addition to the active War Risk Insurance Program, MARAD also administers a standby binder program. As of September 30, 2005, there were 324 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 risk insurance programs have been issued. All binders are effective for 30 days following an automatic termination of commercial insurance.

| TYPE OF INSURANCE | TOTAL AMOUNT | PERCENTAGE AMERICAN | PERCENTAGE FOREIGN |
|--|-----------------|---------------------|--------------------|
| Marine Hull and Machinery Protection and Indemnity * | \$5,178,230,440 | 39% | 61% |
| War Risk Hull and Machinery | \$4,797,768,175 | 29% | 71% |
| War Risk Protection and Indemnity | \$4,797,768,175 | 29% | 71% |

**Protection and indemnity insurance coverage is obtained principally from assessable mutual associations managed in the British market and is unlimited, thereby making it impossible to arrive at the total amount or percentage figures for American and foreign participation.*

NATO PLANNING BOARD FOR OCEAN SHIPPING

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). MARAD chaired the 57th annual plenary meetings of PBOS on September 27 to 28, 2005, to facilitate the military's access to the commercial shipping market for sealift resources to support NATO military operations. Several procedures for providing civil sealift support to NATO military forces were revamped. PBOS also participated in NATO civil/military exercises and coordinated regularly with FEMA on NATO civil emergency planning activities.

PORT SECURITY GRANTS

MARAD has played a key role in the Port Security Grants Program since the program's inception in FY 2002. In October 2004, Congress appropriated \$150 million for the fifth round of grants in FY 2005. On September 13, 2005, port security grants were awarded to 79 entities. The largest grants were awarded to the ports of Houston, Long Beach, and Los Angeles for \$35 million, \$12 million, and \$11 million, respectively.

Although primary responsibility for the program now resides with the Department of Homeland Security, MARAD's regional offices continue to work with the U.S. Coast Guard to conduct the field-level evaluations of grant applications, and MARAD participates at the national review level.

COMMERCIAL MOBILITY



Tug Elena Hick pushing the Barbara Vaught barge.

The Maritime Administration's (MARAD) strategic objective of commercial mobility seeks to promote and facilitate a United States maritime transportation system that improves the safe and efficient movement of goods and people. This also supports Department of Transportation's (DOT's) strategic objective of mobility to advance accessible, efficient, intermodal transportation for the movement of people and goods.

MARAD's commercial mobility activities 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 the Nation's intermodal transportation system. Currently, key components of the Nation's inland waterway, seaport, and landside infrastructure are 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. In 2004, total U.S. international waterborne traffic (inbound/outbound) accounted for 1.505 billion short tons. According to statistics compiled by the U.S. Army Corps of Engineers, total domestic

waterborne commerce totaled 1.045 billion tons. DOT now projects that total freight volumes will increase by more than 50 percent in the next 20 years.

SHORT SEA SHIPPING INITIATIVE



Two tugs moving a Trailer Bridge barge.

MARAD is actively investigating and promoting the potential commercial viability of short sea shipping. Short sea shipping is defined as waterborne transportation that does not cross an ocean. Short sea transportation along our Nation's coasts and inland waterways, is recognized as a reliable, economical, and environmentally friendly transportation mode that may help alleviate growing road and rail congestion.

FY 2005 initiative activities included sponsoring a comprehensive maritime industry stakeholders conference, the Short Sea Shipping Cooperative Program (SCOOP), and participation in a study with the I-95 Corridor Coalition regarding the potential benefits of short sea shipping. MARAD's work with SCOOP and the I-95 Corridor Coalition is in the Cooperative Organizations chapter of this annual report.

Short Sea Shipping Conference

The Third Annual Marine Transportation System (MTS) Short Sea Shipping Conference was held in New York City on October 13-15, 2004. This highly successful and well attended conference brought together more than 250 marine stakeholders, including transportation planners and executives to focus on future strategies for the development and expansion of North American short sea shipping services. Conference attendees clearly discovered that there is an "information gap" among transportation providers and shippers regarding the benefits of short sea shipping, and this conference began the process of closing this gap.

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

The Gulf of Mexico Trade Corridor Transportation Study (Study) represents the first time that the Gulf of Mexico will be examined as an integrated economic region across international boundaries with consideration of the balance among economic development, trade, transportation, energy, and other infrastructure issues. The Study is funded by a grant administered by MARAD. The final report, to be issued in phases over the next three years, will offer a "master plan" for infrastructure and economic development, port and critical infrastructure security, and environmental stewardship on all sides of the Gulf of Mexico.

The initial findings of the Study clearly indicate what has been dramatically underscored by Hurricane Katrina's destruction, the breadth of the Gulf of Mexico's vital marine infrastructure, and how that infrastructure supports the Nation's economy. The Study will

focus on how to best apply the lessons of Hurricane Katrina to recovery efforts and how those efforts will impact future development of the Gulf of Mexico's transportation infrastructure--especially regarding the marine transportation system.

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 ocean-borne transportation, highway, rail, and pipeline transportation. The waterborne cargo moving on the MTS generates more than 13 million jobs and this 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). The MTSNAC advises the U.S. Secretary of Transportation on MTS issues. Its membership is comprised of leaders from 30 commercial transportation firms, trade associations, State and local public entities, marine terminal operators, labor groups, academics, and environmental groups. During FY 2005, MTSNAC completed and submitted to the Secretary its recommendations for investment in our Nation's MTS as part of a coherent, coordinated, and comprehensive intermodal transportation policy.

Through the work of its Education Subcommittee, MTSNAC developed a comprehensive report outlining the origins of the supply chain system and its contribution to the Nation's overall transportation system. This report is to be transformed into a multi-media tool to educate public policy makers in both the executive and legislative branches of the U.S. Government on the complex MTS.

MTSNAC also provided important input to the U.S. Commission on Ocean Policy Report (Ocean Policy Report) to the President of the United States. Recognizing the fragmented approach to the MTS, MTSNAC recommended that DOT be designated as the lead agency for planning and oversight of the MTS, and that the former Interagency Committee for the Marine Transportation System (ICMTS) be elevated to the cabinet level and be chaired by the Department. The U.S. Secretary of Transportation convened the first meeting of the successor organization, the Committee on the Marine Transportation System (CMTS), on July 11, 2005. In September 2005, the CMTS directed its coordinating board to create a strategic plan.

At the beginning of FY 2005, a key study for MARAD and MTS efforts, *The Marine Transportation System and the Federal Role: Measuring Performance, Targeting Improvement*, was published. This study, published by the Transportation Research Board of the National Academies of Science, recommends that DOT produce a conditions and performance report on the MTS. MARAD has begun preliminary work for this study.

Committee on the Marine Transportation System (CMTS)

At the beginning of FY 2005, a key study for MARAD and MTS efforts, *The Marine Transportation System and the Federal Role: Measuring Performance, Targeting Improvement*, was published. This study, published by the Transportation Research Board of the National Academies of Science, recommends that DOT produce a conditions and performance report on the MTS. MARAD has begun preliminary work for this study. Based upon direction from that meeting the CMTS in July 2005, the CMTS Executive Secretariat recommended the creation of three Integrated Action Teams. These teams will formulate a national strategy for the MTS, perform an assessment of the MTS, and develop a plan for data collection and information management.

DELAWARE RIVER MARITIME ENTERPRISE COUNCIL

In partnership with the Delaware River Maritime Enterprise Council, MARAD was involved with a project tracking military deployment movement from an inland port, to the Port of Philadelphia, to an overseas location in support of Operation Iraqi Freedom. Information about the movement was provided to local security and police organizations through the Regional Agile Port Information Distribution System, which included military, government, and commercial organizations. The project allowed participants to view the real-time location of the equipment as it proceeded to the port.

PORT OF ANCHORAGE

MARAD is the lead federal agency in a public-private partnership with the Port of Anchorage for redevelopment of the port complex. As the major gateway for the State of Alaska, the Port of Anchorage has seen steady growth in the past decade, and it is expected to continue growth into the future. MARAD is assisting the port with implementing major infrastructure improvements to accommodate larger ships with deeper drafts, newer, advanced container cranes, and an on-site railroad trailer and container yard to improve efficiency and reduce truck traffic, pollution, and energy use in the area. The road and rail connections in the project were completed in FY 2005. Other developments include new barge berths and transshipment areas to improve the flow of goods to rural Alaska, improved cruise ship facilities, and enhanced deployment areas for the Stryker Brigade, the 501st Airborne Division, and other strategic port needs.

This year, MARAD completed an environmental assessment for the Marine Terminal Redevelopment Project. Initial design engineering phases have been completed. Final design is expected to be completed by the spring of 2006, with the first phase of pier terminal construction beginning in the 2006 construction season. The total project is scheduled for completion by 2011.

MARITIME GUARANTEED LOAN (TITLE XI) PROGRAM

The purpose of the Title XI Program is to promote the growth and modernization of the U.S. merchant marine and U.S. shipyards. Title XI authorizes the U.S. Government to

guarantee the repayment of debt obligations, including unpaid interest, obtained in the private sector by

- (1) U.S. or foreign shipowners for the purpose of constructing or reconstructing U.S.-flag vessels or eligible export vessels in U.S. shipyards, and
- (2) U.S. shipyards for the purpose of financing advanced or modern shipbuilding technology.

The Title XI Program permits loan 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 2005

During FY 2005, MARAD issued one commitment for a Title XI loan guarantee. The commitment was issued to Hawaii Superferry, Inc., in the amount of \$139,731,000 for two 105-meter high-speed Roll-On/Roll-Off (RO/RO) ferry vessels to be built at Austal USA, LLC, in Mobile, Alabama. The two vessels will provide passenger, cargo, and vehicle ferry service among the four major Hawaiian Islands. The first vessel will be delivered in late 2006, with the second delivered in early 2009. Upon delivery of the second vessel, Hawaii Superferry will provide at least daily service to each of the four Hawaiian Islands, which are currently served only by airlines and barge.

Port Imperial Ferry Corp. (PIF) owned and operated 35 ferries in the New York City waterways transporting commuters daily between New Jersey and Manhattan. PIF financed 19 of these ferries through Title XI guarantees approved during fiscal years 1996 through 2002. Because its financial position had weakened, PIF arranged in March 2005 to sell 16 of the ferries to Billybey Ferry Company, LLC (Billybey). Billybey assumed the Title XI obligations related to the 16 vessels and is operating the ferries on their previous routes. MARAD's approval of the sale prevented a potential near-term default on the Title XI debt, maintained MARAD's collateral position, and provided for the continuation of a vital transportation mode in the New York City area.

MARAD closed on two commitments to guarantee debt obligations for three vessels: two double-hull heavy-oil tank barges and one ultra-deepwater semi-submersible multi-service vessel. In addition, MARAD closed on two conversions of financings from floating rate to fixed-rate obligations.

MARAD had ongoing Title XI litigation during the fiscal year. MARAD litigated issues in three bankruptcies related to five Title XI companies. MARAD also litigated seven cases to defend MARAD's sales of property, resolve conflicting lien priorities, and recover debts owed MARAD by defaulting Title XI obligors and related parties. MARAD foreclosed upon one vessel mortgage.

At the end of FY 2005, the Title XI loan guarantee portfolio was \$3.26 billion. Of this amount, \$3.12 billion was for loan guarantees outstanding and \$140 million was for the Hawaii Superferry commitment, which was not funded as of that date. The portfolio

consists of 84 projects, which 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 2005, there were 10 pending applications for over \$600 million in Title XI loan guarantees. Additional information on MARAD's Title XI Program can be found at <http://www.marad.dot.gov/TitleXI>.

All companies in MARAD's Title XI portfolio undergo periodic financial reviews, and financial reports are prepared for companies with a potential for default. These reports are presented to the DOT Credit Council, which is comprised of senior MARAD management staff and other DOT officials. A total of \$132 million in guaranteed projects, or four percent of the Title XI portfolio, has been identified as experiencing financial difficulties and, as such, these projects are receiving the highest level of monitoring. For the third straight year, the Title XI loan guarantee program did not experience any defaults during FY 2005.

During FY 2005, MARAD continued to implement the recommendations contained in program audits conducted by DOT's Inspector General and the Government Accountability Office. Included among these activities was funding for the development of a computer-based credit program portfolio management system, which will also be used by other DOT credit programs.

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 Government-owned vessels on charter to private operators.

In addition to ensuring that all insurance meets the requirements of the Title XI contracts with respect to amounts and conditions, MARAD monitors market compliance. 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 2005, with 39 percent being placed in the American market and 61 percent being placed in the foreign insurance markets. This compares with 36 percent American market placement in FY 2004.

DOT Management Challenge - Title XI

This program was the subject of the Government Accountability Office report, *Management Attention Needed to Strengthen Oversight of the Title XI Loan Guarantees*. The Inspector General's (IG) follow-up audit report dated September 28, 2004, states "MARAD has developed policies and procedures that address each of the five recommendations from our March 2003 audit report in a satisfactory manner." The IG subsequently indicated that the three additional recommendations contained in its September 28, 2004, follow-up audit have also been resolved.

RESEARCH AND DEVELOPMENT

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

Recognizing the need for more attention to maritime research and innovation, MARAD's Research, Technology, Demonstration, and Deployment (RTDD) Initiative encourages maritime research and innovation, identifying and encouraging collaboration and partnership opportunities to address the maritime industry's extremely low level of research investment. This deficiency was highlighted in a report to Congress. The report is available at <http://marad.dot.gov/R&D/images/R&D%20Report%2006-02.pdf>

In FY 2005, major changes in coordination of DOT research were made with the creation of the Research and Innovative Technology Administration under the Norman Y. Mineta Research and Special Programs Improvement Act. MARAD and other agencies within DOT have worked together to develop arrangements to significantly improve coordination of research by the different DOT agencies.

A first report to Congress, *Research Activities of the Department of Transportation: A Report to Congress*, was developed by the coordinated effort and was published in March 2005. It is available at http://www.rita.dot.gov/publications/research_activities_of_the_department_of_transportation_a_report_to_congress/ Efforts were made to engage stakeholders in connection with the creation of the new coordinated DOT activity through a broad request to all available sources. A number of maritime-related and intermodal research ideas and priorities were collected and documented at that time.

The RTDD effort continues to work with DOT's Technology Innovation Committees to describe and provide points of contact for each of the individual MARAD programs. DOT's *Guide to Transportation Technology and Innovation* brochure and companion web site, <http://t2.dot.gov> contain brief descriptions and points of contact for MARAD's RTDD-related program efforts along with other DOT research programs.

The National Maritime Enhancement Institute (NMEI) Program advanced in FY 2005, with the designation of an eighth NMEI. A University of Wisconsin-Superior and University of Minnesota-Duluth Consortium (GLMRI) applied and was found qualified and was designated an NMEI on June 1, 2005. The GLMRI Consortium began moving forward with a DOT-funded research effort on short sea shipping route evaluation focused on development in the Great Lakes.

MARAD, in conjunction with the Asian Pacific Economic Cooperation (APEC), is involved in a new consortium that will update an earlier maritime transportation constraints study and result in a web-based *Atlas of Global Commerce: Transportation Corridors, Infrastructure, and Constraints*. A proposal is under development and is being pursued by APEC transportation subgroups committees.

MARAD also continues to support the Society of Naval Architects and Marine Engineers (SNAME) Panel H-10 (Ship Controllability) efforts to improve ship operational safety. With MARAD chairing the panel, a coordinated paper was published in the widely distributed SNAME journal *Marine Technology* entitled, "Critical Needs for Ship Maneuverability: Lessons from the Houston Ship Channel Full-Scale Maneuvering Trials." This paper won the Vice

Admiral E. L. Cochrane Award given for the best paper published in *Marine Technology*. A related paper was also presented at the September Oceans 2005 Marine Technology Conference to encourage efforts in the area that improves safety and efficiency of commerce.

Research and Development Studies Funded

The Office of Intermodal Development awarded a contract to the Texas Transportation Institute in August 2005, to identify the environmental impacts of modal transportation. This is a follow-up to a 1994 MARAD study, *Environmental Advantages of Inland Barge Transportation*. The contractor will perform a study that will assess, analyze, and compare certain environmental impacts associated with each transportation mode, i.e., rail, truck, and barge, while quantifying the costs of these impacts associated with each mode.

MARAD awarded two grants to Inland Rivers Ports and Terminals (IRPT) to assist in building relationships and increasing awareness of the inland river system as part of the Nation's intermodal transportation system.

MARAD also works closely with industry in several research cooperatives. The activities and accomplishments of these cooperatives are outlined in the section on Cooperative Work.

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 that connect to the United States from waters beyond territorial limits of the US. 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 2005, one license was issued to Gulf Landing, LLC. Gulf Landing is located in the Gulf of Mexico, offshore of Louisiana. Additionally, three applications for licenses were filed during the year: Beacon Port (located offshore of Galveston, Texas), Neptune LNG, LLC, and Northeast Gateway (both located off the coast of Boston, Massachusetts). These projects are expected to add 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.

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. In FY 2005, MARAD received three port conveyance applications, which are currently under review.

GLOBAL CONNECTIVITY



U.S.-flag ships at the Port of Los Angeles, California

The Maritime Administration (MARAD), global connectivity objective mirrors the global connectivity strategic objective of Department of Transportation (DOT): to facilitate a more efficient global and domestic transportation system that enables economic growth and development.

BILATERAL AND MULTILATERAL MARITIME NEGOTIATIONS

The U.S. maritime industry contends with trade barriers imposed by foreign governments that restrict market access. These restrictions impinge on U.S. maritime companies' access to foreign transportation markets, add to costs, limit revenues, and impede efficient operation of the U.S. maritime industry in international trade. Removal of barriers improves the operating efficiency of U.S. shipping companies and improves U.S. carriers' participation in the movement of U.S. international trade. MARAD acts as the U.S. Government facilitator to resolve problems that the U.S. maritime industry encounters in foreign markets.

During FY 2005, MARAD conducted bilateral negotiations or consultations on maritime issues with the following countries: Brazil, China, India, Thailand, and Vietnam. These bilateral agreements are intended to achieve full-market access for U.S. carriers in specific markets where full access is not assured by major global trade agreements. MARAD works either directly, or in conjunction with the State Department and other government agencies, to negotiate these agreements, understandings, and arrangements.

As a result of MARAD's efforts, on September 30, 2005, U.S. Secretary of Transportation Norman Y. Mineta and Brazilian Ambassador Roberto Abdenur signed a new maritime agreement between the United States and Brazil, which provides for equal access to both markets, including government cargoes. The agreement must be ratified by the Brazilian Congress.

MARAD was fully involved in the Doha round of trade negotiations launched under the umbrella of the World Trade Organization with the intent of reaching a general agreement on trade-in services.

INTERNATIONAL PORT SECURITY INITIATIVES



Signing of the U.S./Brazilian Bilateral Agreement.

MARAD heads the U.S. delegation to the Organization of American States (OAS) 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 800 people have been trained in these courses since 1998.

Inter-American Port Security Training Program

In FY 2005, MARAD collaborated with the OAS Committee Against Terrorism to design, develop, organize, and execute five-day seminars in port security operations, policy, and strategy. Seminars on South America were hosted by Argentina, Ecuador, and Brazil; the seminar on Central America was hosted by El Salvador. More than 200 people from 19 OAS member countries completed this training.

Diplomatic Engagement with OAS

MARAD chairs the OAS Technical Advisory Group on Port Security, and provides subject matter expertise to the U.S. delegation to the Inter-American Drug Abuse Control Commission Experts Working Group on Maritime Narcotrafficking. MARAD also works on the process of implementation of relevant OAS policy instruments, such as the Strategic Framework for Inter-American Port Security Cooperation. This is a U.S. agenda item for the 2005 Summit of the Americas resulting from a joint effort by the Office of the Secretary of Transportation and MARAD.

U.S. Southern Command Joint Interagency Coordination Group

This group meets monthly to develop and maintain port security cognizance regarding the foreign governments and international commercial maritime industry in the Latin America/Caribbean Region.

CARGO PREFERENCE

In addition to assuring access to global markets for American manufacturers, farmers, and consumers, the U.S. commercial merchant marine plays an important role as the military's auxiliary navy, thus achieving the dual national policy set forth in the Merchant Marine Act of 1936 and reiterated in DOT's strategic goals of Global Connectivity and National Security. The U.S.-flag vessels must meet more stringent labor, construction, maintenance, environmental, and safety standards than many of their foreign-flag competitors and thus incur higher operating costs.

Economic incentives encourage retention of the vessels under U.S. registry. Although the U.S. Government provides limited direct assistance through the Maritime Security Program, the primary form of assistance to 118 U.S.-flag vessels is provided through the cargo preference laws. In FY 2005, these vessels created more than 5,500 merchant mariner jobs and a larger number of maritime and transportation-related jobs shore-side. The cargo preference laws generated over 10 million metric tons of cargo and \$1.3 billion of ocean freight revenue in FY 2005. Varying by corporate size, these cargoes represent from 7 percent to more than 50 percent of a carrier's annual revenues and are vital to retaining their vessels under the U.S.-flag.

The cargo preference laws are (1) The Military Cargo Preference Act of 1904 requiring 100 percent of military cargoes be carried on U.S.-flag vessels; (2) Public Resolution 17 of 1934 requiring 100 percent of Export-Import Bank-financed cargoes be transported on U.S.-flag vessels; (3) The Cargo Preference Act of 1954 requiring 50 percent of U.S. Government-financed cargoes be carried on U.S.-flag vessels; and (4) the Food Security Act of 1985 requiring 75 percent of humanitarian food aid be transported on U.S.-flag vessels.

Information on the cargo preference laws and regulations may be viewed at <http://www.marad.dot.gov/offices/cargo>. 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.

MARAD is tasked with ensuring that government agencies and their contractors comply with the cargo preference laws. With the exception of humanitarian food aid shipment by U.S. Agency for International Development (USAID) all government agencies and their contractors achieved compliance in FY 2005. MARAD is also charged with promoting the use of U.S.-flag vessels, monitoring international shipping agreements, and identifying discriminatory trade practices. Major programs include humanitarian food aid shipments by the U.S. Department of Agriculture (USDA); congressionally funded Iraqi reconstruction; Department of State embassy construction; Federal Transit Administration rail and bus equipment; Export-Import Bank-financed exports; foreign military sales; and DOD military

cargoes. There is also a multitude of smaller programs. The web site <http://www.marad.dot.gov/usflag> makes it easier for shippers and government agencies to find U.S.-flag commercial ships to transport their cargo to or from foreign nations.

MARAD reimburses USDA and USAID for the ocean freight cost differential (OFD) between using U.S.-flag vessels and foreign-flag vessels. In FY 2005, MARAD reimbursed USDA/USAID \$78,090,709.35 for “incremental” OFD invoices they submitted covering FY’s 2003, 2004, and 2005. MARAD also reimbursed USDA/USAID \$163,825,007.79 for “excess 20 percent” invoices they submitted covering FY’s 2002 and 2003.

Section 17 of the Maritime Security Act of 1996 (MSA 17) requires USDA's Commodity Credit Corporation to allocate up to 25 percent of bagged, processed, or fortified commodities under the Title II food aid program to Great Lakes ports on the basis of lowest landed cost without reference to the flag of the vessel. In FY 2005, approximately 337,340 metric tons of food aid cargo transited via the Great Lakes ports, more than ten-fold the amount prior to the law. Transportation organizations invested additional assets in the Great Lakes ports to meet the requirements of MSA 17. This increased tonnage strengthened the U.S. maritime transportation system including the infrastructure, industry, and labor in the Great Lakes.

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

The cargo preference team’s proactive approach on the Iraq Reconstruction program has enabled a close working relationship with the Iraq Project and Contracting Office and with the contracting officers working under the Baghdad-based U.S. Government Joint Contracting Command – Iraq. This working relationship ensures that the contractors are aware of their U.S. –flag transportation requirements are: (1) that the contractors that are awarded contracts are aware of their U.S.-flag transportation requirements; and (2) and assists MARAD in enforcing penalties for non-compliance. U.S.-flag carriers are getting maximum opportunity for cargo liftings. MARAD also worked with U.S.-flag carriers to establish U.S.-vessel shuttle service between Dubai and Iraqi ports.

The cargo preference laws have been a definite part of U.S. national defense and economic security policy for more than a hundred years. These laws and programs directly improve and strengthen the U.S. maritime transportation system, including infrastructure, industry and labor, to meet the economic and security needs of the nation. For example, of the \$1.3 billion in revenue earned by U.S.-flag vessel owners that was generated by the cargo preference laws, a large part was utilized for domestic rail, truckers, stevedores, longshoremen, freight forwarders, shipping agents, tug boat operators, pilots, port authorities, and various other maritime-related organizations. Furthermore, revenue for U.S.-flag vessel owners generated by cargo preference laws creates local revitalization in

many ports throughout the United States. This revenue helps sustain the conditions that meet the economic and security needs of the Nation.

FAIR AND REASONABLE GUIDELINE RATES

MARAD'S regulations require that any agriculture cargoes carried on U.S.-flag commercial vessels for U.S. government shipping agencies be fixed at fair and reasonable rates. MARAD calculates the fair and reasonable or "guideline rate," and offerings made by vessel operators above the calculated rate are adjusted downward to the guideline rate.

In FY 2005, 2.3 million metric tons were fixed on U.S.-flag vessels subject to guideline rate calculation. During this time the offered freight rate exceeded the fair and reasonable rate 29 times. This resulted in the lowering of freight rate offerings by \$4.3 million. Eighty-nine percent of all rates calculated were completed within one business day.

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, to organizations on matters in which MARAD has an interest. This broad function includes financial reviews of applicants for MARAD programs. In FY 2005 reviews were conducted in the following cases:

- Deepwater Ports: MARAD is the delegated authority for the issuance of licenses to own, construct, and operate deepwater ports in the United States, as outlined in the Commercial Mobility section of this report. The Financial Approvals group determines whether applicants meet all financial commitments associated with the project. In FY 2005, the group conducted the required completeness reviews for three applications.
- Maritime Security Program and Marine Hull Insurance Program: Analysis conducted in FY 2005 found that the financial positions of all participating companies were stable and acceptable for continued participation in both programs.
- Ship Donation Program: Detailed financial analysis of two independent non-profit agencies applying for participation in this program found both to be financially sound and acceptable. A successful Ship Donation Program contributes to the future release of National Defense Reserve Fleet vessels from MARAD, and to the preservation of the Nation's maritime heritage while allowing significant cost savings to the Federal Government.

OPERATING COSTS

The Operating Costs Group is responsible for conducting extensive analysis of both U.S. - flag and foreign-flag vessel crewing practices and the associated costs. MARAD produces detailed information regarding the crew nationalities and their associated vessel operating costs according to the size of the various cargo-carrying vessel types serving the U.S. markets and determines cost comparisons between U.S.-flag and foreign-flag vessels. This

information is published for internal and external entities, and is also made available to Members of Congress and other government entities upon request.

During FY 2005, members of the Operating Cost team entered more than 8,700 records into the office's Crew Manifest Database. A revision of the publication *Foreign-Flag Crewing Practices: A Review of Crewing Practices in U.S. -Foreign Ocean Cargo Shipping*, based on data covering the period July 2003 through June 2004, is currently being prepared and is expected to be published during FY 2006.

AGILE PORT

MARAD is working with the Center for the Commercial Deployment of Transportation Technologies, commercial companies, and military organizations to demonstrate the simultaneous discharging and loading of a large container ship in the Pacific Northwest. The demonstration will be used 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 by bringing together those parties needed to complete this effort.

MARAD also signed a Memorandum of Understanding with the City of Dallas and the Port of Houston to cooperate in the development of an agile port system for the State of Texas. Emphasis will be on developing an agile port corridor and facility in Dallas to expedite the efficient flow of cargo through the State. This initiative is part of a larger initiative called the Dallas NAFTA Trade Corridor.

OPERATING-DIFFERENTIAL SUBSIDY

MARAD is required by Congress to report on 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 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 2005, one payment of \$517,242 was made.

ENVIRONMENTAL STEWARDSHIP



The Maritime Administration (MARAD) strategic objective on the environment is to promote maritime and intermodal transportation solutions that enhance environmental stewardship, support the U.S. Department of Transportation strategic objective of environmental stewardship, and to promote transportation solutions that enhance communities and protect the natural and built environment.

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.

SHIP DISPOSAL

FY 2005 was the third year MARAD received direct appropriations for the Ship Disposal Program, receiving \$19.5 million to dispose of obsolete vessels. MARAD used four performance measures and goals in FY 2005 for the Ship Disposal Program.

- (1) The number of contract awards of obsolete vessels from the National Defense Reserve Fleet (NDRF) site for subsequent disposal. The target was 15; the actual number of contracts awarded for obsolete, non-retention ships was 20, exceeding the FY 2005 goal by five.

- (2) The number of obsolete vessels removed from the NDRF site for subsequent disposal. The goal was 15 vessels; the actual number of vessels removed in FY 2005 was 18, exceeding the FY 2005 goal by three.
- (3) The number of obsolete vessels disposed of from the NDRF sites. The goal was 15 ships; the actual number of vessels disposed in FY 2005 was 13. Adjustments have been made in the consistency of the funding stream, and those should improve performance.
- (4) The cost-per-ton for obsolete vessel disposal actions from the (NDRF). The target cost was \$170 per ton; the actual cost-per-ton figure for FY 2005 was \$109, exceeding the goal.

Taken together, the FY 2005 results from these measures indicate a reduced likelihood of environmental damage from the obsolete ship inventory now and into the near future.

In April 2005, the Government Accountability Office (GAO) issued a report, *Maritime Administration: Improved Program Management Needed to Address Timely Disposal of Obsolete Ships*. The report stated that MARAD needed a more integrated ship disposal program. MARAD has adopted the GAO's recommendations, and is moving forward in continuing to dispose of obsolete ships. The report had three recommendations for improving MARAD's ship disposal program and MARAD has acted on all three.

First, MARAD created a Ship Disposal Comprehensive Management Plan that implements disposition of all existing obsolete ships and future transfers in a timely manner, maximizing the use of all available disposal methods. Second, MARAD continues to communicate its disposal plan and impediments to Congress. And third, since January 2005, MARAD has been using the Federal Acquisition Regulation Test Program for Certain Commercial Items.

MARAD implemented the use of Standing Quotations in FY 2005 as the primary procurement method for soliciting ship disposal services. The use of Standing Quotations is a simplified acquisition procedure for the competitive procurement of commercial services.

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.

Aquatic Nuisance Species /Ballast Water Initiative

Aquatic Nuisance Species are plants, animals, bacteria, and pathogens, which have been introduced into new ecosystems, and have a harmful impact on those ecosystems. Such species have been introduced into the United States by a number of means, including the discharging of shipboard ballast water. The best-known example is that of the zebra mussel,

which has disturbed native species, clogged intake pipes for water supplies, and may pose serious human health risks.

In keeping with project goals for FY 2005, MARAD signed a Memorandum of Agreement with the National Oceanic and Atmospheric Administration for the purpose of obtaining funds to convert a MARAD-owned barge into a ballast water technology testing platform. The platform is to be used for testing of ballast water technologies in the Great Lakes region. Conversion of the barge is scheduled for early FY 2006.



Ballast water testing platform being converted for testing technologies.

With the goal of increasing outreach in the area of developing ballast water standards and testing

requirements, MARAD became a member of the Aquatic Nuisance Species Task Force in FY 2005. The Task Force is an intergovernmental organization dedicated to preventing and controlling aquatic nuisance species, and implementing the Non-indigenous Aquatic Nuisance Prevention and Control Act of 1990 and the National Invasive Species Act of 1996. MARAD launched a web site to provide information on recent developments and activities regarding ballast water, <http://www.marad.dot.gov/ballast/>.

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 initiated a cooperative agreement with the University of Delaware. The first project funded under the agreement focuses on an emissions incentive study for marine vessels and port activities. In addition, MARAD is the technical representative on several projects funded by the DOT Center for Climate Change and Environmental Forecasting. Those projects include a “well-to-hull” marine vessel emissions model, a short sea shipping emissions analysis “Emissions Analysis of Freight Transport Comparing Land-Side and Water-Side Short Sea Routes: Development and Demonstration of a Decision Making Tool,” a large diesel engine retrofit study, and a vessel emissions inventory analysis.

DREDGING

MARAD continues to be a member of the National Dredging Team (NDT) and Regional Dredging Team which address issues such as beneficial uses of dredged material, sediment management, emerging dredging issues, and strengthening regional teams. Federal agencies participating on the NDT are the U.S. Army Corps of Engineers, U. S. Environmental

Protection Agency, National Oceanic and Atmospheric Administration, U.S. Fish and Wildlife Service, U.S. Coast Guard, U.S. Navy, and MARAD.

PILOT EMERGENCY MANAGEMENT SYSTEM PROJECT

In 2005, MARAD accomplished its goal of starting the implementation of an Emergency Management System (EMS) program by developing 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 four other facilities, i.e., the Beaumont Reserve Fleet, the Suisun Bay Reserve Fleet, the Fire Training Center, and the U.S. Merchant Marine Academy, in 2006 and 2007. The final EMS will provide MARAD with a new system that documents environmental risks as they relate to environmental compliance, significant environmental aspects, and legal obligations.

ORGANIZATIONAL EXCELLENCE



The President's Management Agenda focuses on five areas of management across the government where improvement is needed 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 electronic government, or e-government.

IMPROVED FINANCIAL MANAGEMENT

Clean Audit Opinion

In FY 2005, MARAD's audited financial statement received an unqualified (clean) opinion from DOT's Office of the Inspector General. This reflects that MARAD has been running successful accounting operations, systems, and reporting.

Monitoring Improper Payment

MARAD's payment practices and history were audited by a third party, hired by the Office of the Secretary. This audit showed MARAD had zero improper payments during the FY 2005 review. This is one of the factors for successful financial management.

Managing Travel Expenses

DOT has selected GovTrip to provide a web-based, end-to-end travel management service. MARAD completed testing, setup and modification of GovTrip to meet MARAD's financial management requirements. GovTrip is fully integrated with DOT's financial system, and its use allows the electronic flow of travel data supporting obligation and disbursement of travel-related funds, including electronic transfer of reimbursements to the traveler's bank account.

Payroll Migration

In FY 2005, MARAD's payroll system was successfully migrated to the Department of Interior's Federal Personnel and Payroll System, an effort which contributes toward streamlining and consolidating payroll services across the Federal Government.

Managerial Cost Accounting

MARAD identified efficiency financial measures and coding schemes for all strategic goals and elements scored by MARAD's Performance and Accountability Report. This also supports the objective of integrating budget and performance.

Consolidation of Accounting Operations

MARAD supported DOT's initiative for migrating accounting data processing function to the Enterprise Service Center in Oklahoma City. This resulted in a 50 percent reduction in personnel numbers, as measured by Full-Time Equivalents (FTE's) during FY 2005, and the remaining MARAD personnel focuses on Financial Reconciliation, Reporting and Analysis rather than processing.

BUDGET AND PERFORMANCE INTEGRATION INITIATIVE

MARAD produced an integrated performance budget request during FY 2005 for the FY 2007 budget year. This budget request was organized in a manner that continued to improve the readability and usefulness of the document. The FY 2007 budget request provided increased program level detail, both numeric and written text, to improve the reader's understanding of the funding request. As part of its budget development process, MARAD conducted two new Program Assessment Rating Tool (PART) reviews. The United States Merchant Marine Academy received a PART assessment rating of 83 percent and the State Maritime Schools program received a rating of 89 percent.

The FY 2006 budget request totaled 68 pages of resource exhibits and narrative justification. This represented a reduction of 72 pages, or 51.4 percent, from the number of pages in the MARAD FY 2005 President's budget request. In addition to being far more concise, the FY 2006 budget also displays improved organization with a more finite 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 PART. The Maritime Security Program received a PART assessment rating of 91 percent. This is one of the higher PART ratings received by a Federal program as a result of a PART review.

COMPETITIVE SOURCING

In June 2005, MARAD completed a commercial activity competition using streamlined competitive procedures in OMB Circular A-76. This study on approximately 30 administrative positions at Headquarters covering administrative and clerical; human resources; supply; and public affairs support services resulted in MARAD employees retaining their jobs. The staff in these support functions established a most efficient organization (MEO) that reorganized and redefined positions to develop its Government cost estimate. An independent team separately developed an industry cost estimate based on research of the commercial market. The MEO prevailed in the competition when its estimate beat the private-sector estimate.

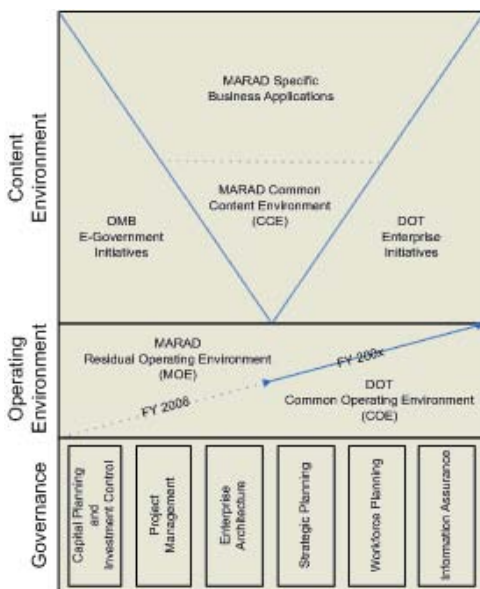
Implementation began in December 2005, with the issuance of the Letter of Obligation and start of the 60-day phase-in period. The MEO anticipates full operational performance of required services and was scheduled for February 2006.

This competition followed a larger competition completed in FY 2003, when MARAD employees retained the task of maintaining vessels moored at the three National Defense Reserve Fleet Anchorage Facilities.

EXPANDED ELECTRONIC GOVERNMENT

In FY 2005, the concentration for the Office of the Chief Information Officer (OCIO) has been threefold: 1) governance, 2) operating environment, and 3) content environment. This structured focus allows the OCIO and information technology (IT) to play a key role in transforming the mission and business of the Maritime Administration.

Governance



- Capital Planning and Investment Control (CPIC): MARAD created the position of IT Business Manager whose focus is on IT strategic planning and portfolio management. MARAD published its first comprehensive policy on CPIC, as well as an administrative manual containing procedures and processes for implementing the CPIC process. MARAD gathered data on agency-wide IT investments and conducted its first Investment Review Board (IRB) meeting to ensure IT investments are aligned with the MARAD mission, are managed throughout their life cycle, and deliver the expected results. MARAD will mature its

- portfolio over time to realize the greatest return on investment for IT expenditures.
- **Project Management:** MARAD published its first comprehensive IT policy on System Development Life Cycle (SDLC) management, as well as an administrative manual containing procedures and processes for implementing the SDLC process. Systematically, the OCIO will assess each IT investment against this policy and bring each investment into compliance.
 - **Enterprise Architecture (EA):** The OCIO produced MARAD's first modernization blueprint and selected a tool set for capturing and analyzing its EA. MARAD is building from several previous efforts to ensure the EA is actionable and strongly tied to the agency's mission.
 - **Strategic Planning:** MARAD published its first Electronic Government (E-Government) Plan outlining objectives for the OCIO during the next five years. Each year during this period, MARAD will publish an annual performance plan detailing the strategies and goals the OCIO will pursue to meet the objectives.
 - **Workforce Planning:** MARAD chaired the DOT effort to develop and implement guidelines for validating major IT project managers. Internally, MARAD is raising the bar by establishing standards for its IT workers and ensuring all are trained in core areas of governance.
 - **Information Assurance:** MARAD began integrating information assurance processes and mechanisms into the SDLC and will continue this work into FY 2006.

Operating Environment

- **Common Operating Environment (COE):** MARAD began migration to the DOT COE that will provide common infrastructure services to Headquarters personnel. This year MARAD migrated electronic mail services and active directory services to DOT. MARAD also relocated many servers and other hardware to the DOT computer facility. These efforts will help MARAD transition to the new DOT Headquarters building with less effort and disruption of services.
- **MARAD Residual Operating Environment (MOE):** MARAD continued to provide infrastructure services to the region offices and continued its connectivity to the U.S. Merchant Marine Academy. In the Western Region, MARAD cooperated with Federal Highway Administration (FHWA) to relocate offices and build an integrated infrastructure for co-located organizations. The MARAD OCIO became heavily involved in deploying networks and business applications to the Ready Reserve Force (RRF) ships and will continue to support these deployments through operations and support.

Content Environment

- **OMB E-Government Initiatives/DOT Enterprise Initiatives:** MARAD supported OMB initiatives, as they are being implemented in DOT, including consolidation of personnel and payroll systems, on-line training management systems, electronic rulemaking, international trade data, business gateway, integrated acquisition, and financial management.
- **MARAD Common Content Environment (CCE):** MARAD continued its deployment of foundation tools, such as Documentum, to establish a robust content management

service capability, allowing users to maintain content in a structured manner. This eliminates the need for daily IT support in areas such as web publication. The CCE also provides standard toolsets for developing business applications, helping to ensure that our applications fit our enterprise architecture and integrate well together.

- **MARAD Specific Business Applications:** MARAD continued to automate administrative workflows and business systems using tools in the CCE as well as other e-government initiatives. The MARAD OCIO has changed its focus from infrastructure support to customer service in the area of specific mission needs, including such areas as national security, cargo preferences, and Title XI management. This type of strategic focus allows the MARAD OCIO to bring increased business value to the organization by ensuring that IT is aligned with the mission.

STRATEGIC MANAGEMENT OF HUMAN CAPITAL

MARAD's Human Capital Council (HCC) was implemented two years ago so that senior management could analyze and evaluate human capital needs and accomplishments as prescribed by the President's Management Agenda. Specifically, the Council is charged with reaching a consensus on workforce allocation and development, making recommendations to the Administrator to ensure the ability to execute critical missions and goals. Through the HCC, MARAD is able to focus on organizational employment opportunities to help it become a high-performing diverse organization prepared to meet today's workplace challenges and opportunities.

In addition, MARAD consistently supports the DOT in accomplishing the Human Capital initiatives of the Department, which continues to earn a Green Status from the Office of Personnel Management.

MARAD's employment totaled 828 at the end of FY 2005. During that fiscal year, MARAD hired a total of 66 employees; 24 percent of the hires were female, 36 percent were minority employees, and 8 percent were people with disabilities.

CIVIL RIGHTS

Representatives from MARAD served on the ONEDOT Committee tasked with reviewing and evaluating DOT's Civil Rights function to determine if the existing structure, composition and initiatives are strategically aligned with the Department of Transportation's current and future needs, as identified in the Department's Strategic and Human Capital Plans.

MARAD completed its national initiative to educate employees on equal employment opportunity programs, the concept of diversity, harassment, sexual harassment and the Notification of Federal Employees Antidiscrimination and Retaliation (No Fear) Act. The training was offered to all headquarters and regional staff, as well as, the faculty and staff of the U.S. Merchant Marine Academy. The training was specifically designed for MARAD and facilitated by experienced contract civil rights professionals.

MARAD, through its Women's Council, continues to sponsor a visionary, creative, mentoring program: *WAVES*-Working to Achieve Your Vision of Excellence and Success.

This program is designed to provide all employees with a formal or informal experience for personal and career growth by providing various training opportunities, workshops and brown bag discussions. With the support of the Office of Human Resources, *WAVES* was able to bring in trainers and presenters from Federal and State agencies and the private sector to share expert knowledge in key areas of growth as well as the expert knowledge shared by MARAD's own executives.



*WAVES Women's Council Members
Left to right: Patricia Thomas, Mary Nash,
Tracey Ford, and Phyllis Stephenson*

LEGAL SERVICES AND AGENCY DECISIONS

MARAD is required to report on certain activities under the Suits in Admiralty Act.

Admiralty Actions

The United States is currently seeking compensation for damages

caused to its vessels in two separate legal actions. One of these matters, the damages to the *Mount Washington*, *Equality State*, and the *Diamond State*, has been tried and the parties are awaiting the decision of the court. Another, involving damages caused by a tug and tow to a MARAD vessel, is awaiting trial.

Admiralty Claims

An Admiralty Extension Act claim has been filed by various insurance companies seeking compensation for pollution damages to certain vehicles in Belgium at an estimated cost of \$5 million. This claim is currently under review.

Admiralty Personal Injury Matters

At the end of the recording period, 12 personal injury plaintiff actions were pending in the courts. Most of these claims involved seafarers injured aboard MARAD vessels.

Since the end of the recording period, MARAD has received two claims for personal injuries arising out of MARAD's operations on behalf of FEMA relating to Hurricane Katrina. The statute of limitations for admiralty actions against the United States is two years. Additional claims are possible.

Freedom of Information Act

MARAD began the fiscal year with 44 carryover Freedom of Information Act (FOIA) requests for access to records, and received 171 new requests. Seventy-seven requests were

processed during FY 2005, and 72 requests were pending at year's end. There was only one FOIA administrative appeal, which was upheld in its entirety.

Ship Disposal

Environmental issues continue relating to the recycling of non-retention National Defense Reserve Fleet vessels. Litigation is related primarily to vessels in the James River Reserve Fleet.

In FY 2003, MARAD entered into a contract with a United Kingdom (U.K.) recycling facility for 15 vessels. The U.S. Environmental Protection Agency (EPA) issued a letter of enforcement discretion indicating that it would not legally challenge the export provided certain conditions were satisfied. Various environmental groups challenged the export of the vessels in U.S. District Court.

In October 2003, the U.S. District Court allowed four vessels to leave the United States. Since the date of that decision, the parties filed cross motions for summary judgment. In March 2005, the District Court ruled in favor of the United States. The environmental groups filed a motion for reconsideration of the Court's decision. In November 2005, the District Court denied the motion for reconsideration.

Within the U.K., challenges were also mounted against the validity of the U.K. recycler's various environmental permits. These challenges ultimately resulted in a judicial finding that the U.K. recycler's amended Waste Management License was not issued in accordance with proper U.K. administrative procedures. The existing local planning 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 planning approvals. A decision on these licenses is pending.

MARAD has also petitioned the EPA for an administrative rule under the Toxic Substances Control Act approving the export of any 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. Another citizen suit has been filed seeking to compel the removal from the James River of non-retention NDRF vessels. A consent order has been entered in that case. Under the consent decree, MARAD "agrees to proceed without unreasonable delay, to the extent consistent with applicable procedures, to consider proposals which have been received from qualified, responsible vendors for the disposal of non-retention vessels from the National Defense Reserve Fleet that are responsive to any MARAD disposal service acquisition or sales solicitation and, subject to the availability of appropriated funds and consistent with applicable law and procedures, to award contracts that are responsive to such proposal for as many non-retention vessels available for disposal as possible on or before September 30, 2006."

Asbestos

Former and current MARAD general agents and ship managers continue to tender for defense asbestos-related suits arising out of the operation of vessels by MARAD and its predecessor agencies. There are approximately 2,500 suits filed by seafarers and other individuals pertaining to the U.S. Government. In these suits, plaintiffs allege exposure to asbestos aboard government-owned vessels that were operated for MARAD and its predecessor agencies. The tenders arise primarily out of litigation involving more than 70,000 similar merchant seafarers' asbestos suits that are consolidated before the United States District Court for the Northern District of Ohio.

Administrative Procedures

During the past year, MARAD's award of certain Maritime Security Act contracts was challenged in United States District Court for the Eastern District of New York. This challenge was subsequently withdrawn with prejudice.

MARAD's decision to guarantee the financing of certain ferries under Title XI of the Merchant Marine Act of 1936 Title XI was challenged in the District Court for Hawaii. These ferries are intended to be operated in Hawaii as an inter-island, high-speed ferry service. This legal challenge was based on whether MARAD's National Environmental Policy Act (NEPA) analysis was sufficient. The District Court ruled in MARAD's favor.

MARAD is the responsible agency within the U.S. Department of Transportation for the issuance of licenses to construct, own, and operate deepwater port liquefied natural gas facilities. MARAD works in conjunction in this area with the U.S. Coast Guard, other federal agencies, and State and local authorities. After accounting for comments and input from all of these authorities, MARAD issued a license to an LNG energy company for construction, ownership, and operation of a facility 38 miles off the coast of Louisiana. Plaintiffs have challenged the award of this license on the grounds that MARAD has not complied with NEPA because the environmental impact statement used relied on inadequate environmental information. This matter is currently pending before the United States Court of Appeals for the Fifth Circuit, the court with original jurisdiction under the statute.

Division of Maritime Programs

The Division of Maritime Programs is responsible for implementation of the American Fisheries Act of 1998. This legislation increased the level of U.S. citizen ownership and control required for a vessel to be eligible for documentation by the U.S. Coast Guard with a fishery endorsement. In addition, subsequent legislation set out the requirements for lenders to meet in order to perfect a first preferred mortgage on such vessels. There are approximately 300 such vessels for which detailed information must be submitted by the vessel owner and analyzed by MARAD. More information may be found on the MARAD web site at <http://www.marad.dot.gov/afa/afa.html>.

The Division of Maritime Programs in the Chief Counsel's Office provides legal advice and services for MARAD's approval of foreign transfers of interests in U.S. vessels. Under Section 9 of the Shipping Act of 1916, a U.S.-flag vessel may not be transferred to foreign

registry, and transfer of ownership or control of a U.S. citizen owned U.S.-flag vessel to a non-citizen may not be accomplished, without MARAD approval.

Another principal activity advised by the Division of Maritime Programs includes the Maritime Security Program described earlier. The Division of Maritime Programs also reviews and approves the U.S. citizenship of all participants in MARAD programs where U.S. citizenship is required. This program is implemented through 47 grant agreements, by which 47 vessels were provided an operating payment in return for a militarily useful vessel being available to the U.S. Government in times of war or national emergency. Maersk Line Limited presently obtains the service of 15 such vessels through time charter arrangements, but is seeking a transfer to itself of the underlying operating agreements. The MSP contractor, U.S. Ship Management, Inc., disputed any rights to transfer the operating agreements without its consent. At the end of the reporting period, MARAD was proceeding to sort out the respective legal rights of each party.

COOPERATIVE WORK

An important part of the work of the Maritime Administration (MARAD) is as a facilitator and provider of expertise, drawing on the synergy created by cooperative work among different government agencies, non-governmental organizations, and private industry. The accomplishments of these organizations often support multiple goals in MARAD's strategic plan.

Ship Operations Cooperative Program

MARAD is the lead partner for the Ship Operations Cooperative Program (SOCP), which works to promote and facilitate a maritime transportation system by improving safety and the efficient movement of goods and people. The SOCP is a cost-shared government/industry/labor partnership whose objective is to improve competitiveness, ship safety, productivity, profitability, training, environmental responsiveness, and quality of ship operations. Currently, there are 45 members, including commercial ship owners/operators, government organizations, educational institutions, labor organizations, researchers, classification societies, and others. SOCP focuses on projects in four categories: industry improvement projects; facilitation of dialog regarding industry issues; SOCP product development; and product and process testing/evaluation.

Industry Improvement Projects - Since the implementation of the 1995 Amendments to the International Convention on the Standards of Training, Certification, and Watchkeeping (STCW), SOCP has focused on helping members to understand and meet STCW requirements. In FY 2005, the SOCP developed the Mariner Administrative Card (MAC) System and prepared for a demonstration to highlight the potential capabilities for tracing mariner information such as training, sea service, and employment history, as well as other pertinent information, while enhancing maritime security.

Facilitation of Dialog on Industry Issues - SOCP produces a newsletter that is disseminated to the maritime industry and hosts a Web site at <http://www.socp.org>. During

FY 2005, the SOCP conducted three membership meetings that provided valuable information to the maritime industry and promoted conversations regarding significant issues such as maritime security, ballast water management, and mariner staffing and training. The SOCP meetings were webcast live and then archived on the SOCP Web site. SOCP developed an online survey to gauge the industry perspective and ultimately generated a recommendation that was sent to MARAD to provide a maritime user perspective on the issue.

SOCP Product Development - In FY 2005, SOCP developed and produced a Crew Endurance Management (CEM) multimedia product designed to introduce the maritime industry to the concept of CEM. The CEM interactive training product is available on compact disc or online at the SOCP Web site and distributed to SOCP members at cost and marketed to the rest of the maritime industry. In addition, the SOCP Web site was updated to provide a more user friendly structure as well as enhanced graphics.

Product and Process Testing/Evaluations - A vendor at a SOCP meeting held in July 2005 demonstrated an access control system that was eventually incorporated onto the *State Of Maine* training vessel and implemented for the cadets and crew. SOCP has also been involved in testing Alternate Watch Schedules (AWS), and the potential for diminished performance based on the traditional three-watch schedule. An SOCP member company volunteered its ship, the Master, and three deck officers to test AWS. At the conclusion of the test period, AWS benefits were identified and the participating company expressed a desire to continue using the system.

SOCP also continued its work with the Pacific Coast Maritime Consortium's School-to-Work Program through funding for student mariner credentialing documents. Many students have been unable to fund various documents required in order to become merchant mariners. SOCP's working group was able to provide passport and merchant mariner document funding for nine students.

Cargo Handling Cooperative Program

MARAD, through the Cargo Handling Cooperative Program (CHCP), is working with intermodal industry organizations to initiate an intermodal freight information flow optimization project. The goal is to identify bottlenecks to the flow of information and data between transportation modes. The CHCP is working with its members to document the relationship between the physical movement of cargo and the transfer of data from one mode to the next. The project will identify the areas and impacts of not having data flow with cargo movement throughout a typical system chain event. This project will be followed by an attempt to further define the need for data interchange efficiencies.

Adopt-A-Ship

MARAD and the U.S. Propeller Club sponsor the Adopt-A-Ship Program, which continues to gain popularity. The program facilitates the "adoption" of a ship by a classroom of students in grades five through eight. The students and the ship's officer

and crew have a “pen pal” relationship, which enables the students to learn through the ship’s travels. Teacher feedback indicates the students learn about geography, science, mathematics, and language through the program. Each year, additional classrooms and teachers register in the program. At present, 83 ships are enrolled, three more than 2004; 69 teachers are currently enrolled – an increase of nine teachers over 2004. Information about Adopt-A-Ship is available on the MARAD Web site, http://www.marad.dot.gov/education/adopt_a_ship.

Short Sea Shipping Cooperative Program

MARAD acts as the official sponsor of the Short Sea Shipping Cooperative Program (SCOOP), a public-private cooperative that was formed for the purpose of advancing short sea shipping in North America. At the end of FY 2005, SCOOP grew to over 51 members from the private sector and 14 non-dues paying associates, mostly from educational institutions.

More can be learned about the Short Sea Shipping Cooperative Program at <http://www.shortsea.us/>

Support for the I-95 Corridor Coalition

The I-95 Corridor 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 sought to explore alternatives to supplement road and rail freight transportation. Two years ago the Coalition’s Executive Board approved a MARAD proposal to study Short Sea Shipping freight alternatives along the I-95 corridor. The study, completed in FY 2005, highlighted suitable routes for expanded Short Sea Shipping operations. The study also recommended further analysis to identify the proper cargo types and flow patterns to maximize short sea shipping freight transportation opportunities.

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 members of the Cooperative agreed to focus their 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:

- An effort by the University of Virginia’s Accelerated Master’s Program in System Engineering to examine the economic, operational, institutional, legal and regulatory,

and technical factors that affect inland river container services and to develop near- and long-term requirements for expanding this service.

- A meeting of the Cooperative was held on May 27, 2005, in New Orleans, in conjunction with a joint meeting of the American Association of State Highway Transportation Officials' (AASHTO) Standing Committee on Water Transportation and the Heartland Intermodal Partnership. Discussions centered on the need to establish the economic feasibility of inland river transport of container on barge service.

Heartland Intermodal Partnership

MARAD leads the Heartland Intermodal Partnership (HIP), a coalition of senior public- and private-sector professionals from across the 24-states of the nation's heartland. Its mission is to support economic competitiveness of the region's business, industry and labor by improving intermodal transportation. HIP's executive committee includes State departments of transportation, public planning organizations, railroads, trucking companies, ports, and barge and river interests, as well as representatives from MARAD and other DOT modal agencies. The Executive Committee's special meeting took place in May, 2005, convened jointly with the Standing Committee on Water Transportation (SCOWT) of AASHTO. The meeting focused on dealing with increasing congestion, especially in the flow of commodities, in the years ahead.

National Maritime Enhancement Institute

The National Maritime Enhancement Institute (NMEI) program recognizes and encourages non-profit institutions with focused research and education programs contributing to advancement and innovation in the maritime industry. In FY 2005, the Great Lakes Maritime Research Institute (GLMRI), a partnership between the University of Wisconsin-Superior and the University of Minnesota-Duluth, was designated as a National Maritime Enhancement Institute (NMEI). The GLMRI will host relevant research affiliates from other Great Lakes universities to serve as project researchers. Research affiliates will be invited to serve on the GLMRI Oversight Committee. An external advisory board, made up of regional maritime experts, will act as a steering group for focused research efforts. MARAD serves on this advisory board.

REGION OFFICES

The Maritime Administration (MARAD) has five region offices: Norfolk, Virginia; New York, New York; San Francisco, California; Chicago, Illinois; and New Orleans, Louisiana. The Central Region office in New Orleans was evacuated to Port Arthur, Texas, for Hurricane Katrina. Then it had to be evacuated from Port Arthur because of Hurricane Rita. Nonetheless, the Central Region staff provided the bulk of the support for the 10 MARAD ships helping in hurricane recovery and relief.

Region offices provide outreach and interface with industry and the general public; in three cases, they also perform much of the hands-on work for operating the Ready Reserve Force and the National Defense Reserve Fleet sites. The five regional offices and the three one-

person offices in Seattle, Washington; Long Beach, California, and St. Louis, Missouri also provide critical expertise in evaluating applications for port security grants, a process in which MARAD cooperates with the lead agency, the Department of Homeland Security. Members of regional staffs also maintain contact within the maritime industry and with professional organizations, port officials, vessel owners, intermodal companies, trade associations, government agency officials and MARAD's customer base to promote agency goals and objectives.

North Atlantic Region

Partner agencies for the North Atlantic Region office in New York City include not only the U.S. Coast Guard and U.S. Army Corps of Engineers, but also other Federal, State, and local responders, including the Port Authority of New York and New Jersey, the New York City Economic Development Corporation, the North Jersey Transportation Planning Authority Freight Committee, the National Cargo Bureau Operations Committee, and area Maritime Exchanges, which provide regional emergency communications and port access information and support to MARAD.

The North Atlantic Region Director is also a member of the Advisory Committee of the Comprehensive Port Improvement Plan for the Port of New York and New Jersey, a 20-year program designed by key regional decision-makers to act as a roadmap guiding the long-term strategic development of the port. This includes infrastructure improvements to accommodate an explosion in trade with Asia.

As members of the Port of New York and New Jersey Port Recovery Steering Committee of the Area Maritime Security Committee, the North Atlantic Region office staff is working to establish plans to prioritize the movement of vessels, international cargo, and first-responder operations following a transportation security incident. Region office staff also served as senior evaluators and as members of the design team for a major table top security exercise focused on the protection of cruise ships, as well as their passengers and crews, in the Port of New York and New Jersey. Conducted by the Area Maritime Security Committee of the Port, the exercise tested the applicability and effectiveness of the port's area maritime security plan in responding to a transportation security incident involving an attack on a large passenger liner.

In accordance with MARAD's role in port security, the North Atlantic Region director also acted as MARAD's senior representative and participating committee member in a special awards ceremony on September 17, 2005, in which the Secretary of Transportation presented USDOT 9/11 Maritime Lifesaving Medals to more than 700 members of the New York and New Jersey maritime industry who risked their lives to evacuate 500,000 persons from Lower Manhattan on September 11, 2001.

Short Sea Shipping and Improved Intermodal Operations -The North Atlantic Region office actively participates with the Port Authority of New York and New Jersey to support the ongoing container-on-barge service between the Port of Newark, New Jersey and the Port of Albany, New York. Port officials in these ports requested MARAD assistance in extending Federal Government aid to this successful intermodal Short Sea Shipping initiative, which is helping to remove up to 7,500 trucks from the New York State Thruway

each year. In another effort to reduce traffic congestion and boost overall transportation capacity in the New York and New Jersey region, MARAD has also encouraged studies by the North Jersey Transportation Planning Authority aimed at establishing 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.

Great Lakes Region

MARAD's Great Lakes Region Office, located near Chicago, does a large part of its work coordinating with other agencies to facilitate waterborne transportation on the Great Lakes and the inland waterways. This office provides leadership for the Heartland Intermodal Partnership, the Great Lakes Maritime Research Institute, and the evaluation and selection process for port security grants. All of these activities are outlined elsewhere in this report.

MARAD's Great Lakes Region Office is a charter member of the Great Lakes Dredging Team and the Great Lakes Waterways Management Forum. MARAD is an observer to the Great Lakes Commission, a bi-national compact organization that is dedicated to promoting sound public policy on a range of regional issues that include environmental protection, resource management, transportation, and sustainable development.

Great Lakes Regional Working Group - MARAD's Great Lakes Region Office represents DOT on this Working Group. Its purpose is to raise the profile of the Great Lakes nationally as a world class resource in need of protection and restoration. The Task Force/Working Group has established a process for collaboration among the Federal, State, and local governments; tribal nations; and non-governmental organizations.

Missouri River Master Manual Revision - MARAD has reviewed and commented on the Final Environmental Impact Statement for the Master Water Control Manual. Unless a stable, reliable navigation channel is maintained on the Missouri River, commercial navigation may have to abandon the river and a major tributary of the inland navigation system will be lost. The Final Environmental Impact Statement allows for the possibility of an artificial spring rise, which would release water needed during the summer. The statement also suggests mid-season draw down, which may negatively impact Missouri River and Mississippi River commercial navigation. These conditions contribute to the unreliable nature of the commercial navigation channel and make it difficult for transportation contracts to be negotiated.

South Atlantic Region

MARAD's South Atlantic Region Office in Norfolk, Virginia, is in charge of a large segment of the Ready Reserve Force, and of the National Defense Reserve Fleet site at Fort Eustis, Virginia, referred to as the James River Reserve Fleet (JRRF).

In FY 2005, the JRRF accomplished the following goals:

- Successfully met all goals and requirements as outlined in the FY 2005 work plan, making improvements of the day-to-day operations according to the Reserve Fleet Manual and the Performance Work Statement;

- Managed and tracked a \$1.3 million operational budget, completed three major dry docking availabilities (starting a fourth), and four major topside availabilities (with no added help from other resources) were completed within budget and without causing major scheduling impact to fleet services; and
- Increased customer service relations on a day-to-day basis exercising good judgment and leadership working closely with JRRF employees; South Atlantic Region Management; MARAD Chief, Division of Reserve Fleet; Ship Managers; State environmental officers; U.S. Coast Guard; Commander, Fort Eustis; and U.S. Navy and U.S. Marine Corps organizations to meet operational goals and training objectives.

PUBLICATIONS, REPORTS, AND WEB SITES

Maritime Labor-Management Affiliations Guide

2005



Left: MARAD's Labor - Management Affiliations Guide

In addition to its Annual Report to Congress, MARAD has a variety of publications for the general public and reports to Congress, which are also available to the general public.

MARAD also maintains on its Web site, <http://www.marad.dot.gov>, information of interest to the specialist and general public alike. The Office of Congressional and Public Affairs issues a monthly newsletter, *MARAD Update*, which is available through a link on the home page of the Web site.

Office of Statistical and Economic Analysis

Web site: http://www.marad.dot.gov/Marad_Statistics/index.html provides comprehensive water transportation information for MARAD and public use.

International Maritime Statistics Forum (IMSF) Web site:

<http://www.marad.dot.gov/imsf/index.html> An informal organization interested in improving the quality of maritime statistics and expanding the amount and scope of statistics available. Members include carriers, data providers, universities, research and other international organizations that have an interest in and need for maritime statistics. This site is being supported by the MARAD as a service to the IMSF. However, the contents of the site are solely the responsibility of the organization and in no way reflects any official position of the Maritime Administration or the U.S. Government.

Joint MARAD and U.S. Army Corps of Engineers Web site:

<http://www.marad.dot.gov/statistics/usfwts/index.html> Provides official monthly, quarterly, and annual U.S. Foreign Waterborne Transportation Statistics.

The Office of Statistical and Economic Analysis also provides daily newsletters on marine-related issues; sources of information are CI-Online News Alert and Fairplay–Daily News.

Customer Satisfaction Report

MARAD conducts a series of surveys each year to produce its Customer Satisfaction Report. Program areas evaluated in FY 2005 were the Cargo Preference Program, Environmental Activities Program, Ship Disposal Program, and the Vessel Transfer Program. MARAD addresses suggestions and concerns raised by participants in the survey to enhance its customer satisfaction on a continuing basis. The FY 2005 Customer Satisfaction Report may be accessed at <http://www.marad.dot.gov> . Forms to participate in the Customer Satisfaction Survey are available at <http://www.marad.dot.gov/survey/>.

Office of Sealift Support

The *Maritime Labor-Management Affiliations Guide* contains information on industry and labor organizations, maritime businesses, and other organizations concerned with the maritime industry.

Cargo Preference

The Cargo Preference Office issues a monthly newsletter, *News4U*, with news of interest to shippers.

It also administers a Web site outlining the Cargo Preference program and its guidelines: http://www.marad.dot.gov/offices/cargo_pref.html.

For information on U.S.-Flag Service (Destinations from U.S. to Foreign Countries), click on <http://www.marad.dot.gov/usflag/>.

For the Humanitarian Food Aid Report, click on <http://www.marad.dot.gov/offices/CAPOS%20Reports/>.

For information on Public Resolution - 17 Waivers, click on <http://www.marad.dot.gov/offices/pr17waiver.html>.

In FY 2005, the Office of Cargo Preference enhanced its Web site to speed up the process of finding a U.S.-flag vessel applicable to a shipper's needs in transporting cargo. An assistance form, composed of six questions, is available at http://www.marad.dot.gov/offices/cargo/Assistance_Form.html

Maritime Law: Office of the Chief Counsel

Office of Chief Counsel staff coordinates Web sites and publishes annually a *Compilation of Maritime Laws*. This is also available on:

<http://www.marad.dot.gov/Publications/genref.htm> - This publication covers amendments through the Second Session of the 108th Congress for The Merchant Marine Act, 1936, the Maritime Security Act of 2003, the Shipping Act of 1984, and related Acts.

Freedom of Information Act Web site: <http://www.marad.dot.gov/Business/foia.html>

This site grants the right to access of many government records about how MARAD and DOT operate. Under the Freedom of Information Act, any person has a right to a copy of certain records.

Ethics Training Web site: <http://intramarad.dot.gov/ethics.html> This site offers required Annual Agency Ethics Training, *Prohibitions Relating to Political Activities and Ethics Guidance on Post Employment Matters*, *Negotiating for Future Employment*, and *Retention of Records*.

American Fisheries Act Web sites: <http://www.marad.dot.gov/afa/afa.html> and <http://www.marad.dot.gov/afa.html> - The American Fisheries Act Program charged MARAD the American Fisheries Act of 1998 (AFA) with the responsibility of determining whether vessels of 100 feet or greater in registered length comply with the new ownership, control, and financing requirements imposed by the AFA and are therefore eligible to be documented with a fishery endorsement.

Office of Policy and International Trade

MARAD Web site for MTSA Course Certification - Maritime Security Training.

<http://www.marad.dot.gov/MTSA/MARAD%20Web%20Site%20for%20MTSA%20Course.html>

A web site servicing U.S. training providers of several standardized maritime security training courses designed for maritime security professionals who work on vessels and in seaports of the United States.

Publication: *Information Concerning Employment and Training in the U.S. Merchant Marine*. A brief outline of maritime careers available, typical salaries, and contact information.

Brochure: *Your Maritime Service Obligation*. This pamphlet provides information on service obligations of Federal and State Maritime Academy graduates. Information is also available on the MARAD Web site: <https://mcs.marad.dot.gov>.

Business Opportunities

Virtual Office of Acquisition (VOA) Web site at <https://voa.marad.dot.gov/>

Provides for access to agency business opportunities, allows for on-line proposal dissemination, proposal submission and evaluation and award posting. VOA further provides links to pertinent acquisition guidance and allows industry to post questions and comments.

Research and Development

Web site: <https://www.marad.dot.gov/research>. This Web site includes news and current events, MARAD initiatives, and lists of resources.

Office of Advanced Technology: Newsletters

Energy Technologies - An energy technologies-focused newsletter that provides an overview of current activities and future plans to foster and highlight energy-related improvements in the maritime industry, such as new technologies and fuels to improve marine power plant efficiency and to reduce air emissions. In addition, the publication provides guidance and information on related regulatory and policy issues.

New Generation Polar Research Vessel – A newsletter that informs readers of recent and pending activities conducted in conjunction with the National Science Foundation and related to the design of a new polar research vessel.

Ship Operations Cooperative Program

The Ship Operations Cooperative Program (SOCP) Web site www.socp.org is administered by the Office of Associate Administrator for Financial Approvals and Cargo Preference. The SOCP Web site serves as an information source to SOCP members and maritime industry. The Web site contains information on upcoming and past SOCP meetings, live Web cast, and current and completed SOCP projects i.e., Mariner Administrative Card, SOCP Advisory Working Groups, and Industries Improvement). In addition, the SOCP Web site is host to the National Maritime Center/U.S. Coast Guard STCW-95 draft policy letters, where they are posted for maritime industry review and comment before they are finalized.

Office of Ports and Intermodal Activities/Public Affairs Office

Glossary of Shipping Terms. Updated 2005.

Shipbuilding

U.S. Private Shipyards – Major Shipbuilding and Repair Base.

Great Lakes

Great Lakes Region brochure: in the process of being updated – A highlight of MARAD's Great Lakes Region's office locations, the programs/activities of each office, and contact information.

Combined Basic/Advanced Marine Firefighting Training: expected completion and printing in August 2006 – A description of MARAD's fire fighting school's programs, location, and contact information.

U.S. Great Lakes Merchant Seaman Employment Fact Sheet, January 2005: This document focuses on assisting merchant seamen gain employment on U.S -flag vessels within the Great Lakes. (Handout and listing on MARAD Web site)

Reports to Congress

Report to Congress on the Performance of Ports and the Intermodal System. (June 2005) A report directed by Congress on the performance of the intermodal system with respect to the efficiency of the most congested ports.

Report to the House and Senate Committees on Appropriations on the Interoperability of Information Resources Among Strategic Ports (Part One – Assessment of Current Capabilities), October 2004.

Report to the House and Senate Committees on Appropriation on the Interoperability of Information Resources Among Strategic Ports (Part Two – Vision and Opportunities for Improvement), February 2005.

Report to Congress on the Progress of the Vessel Disposal Program, April 2005.

Report to Congress on Maintenance and Repair Reimbursement Pilot Program, March 2005.

Report to Congress on Title XI Defense Priority, August 2005.

Report to Congress on Title XI Organizational Framework, September 2005.

U.S. Department of Transportation (MARAD)
Combined Statement of Budgetary Resources
For the years September 30, 2005 and 2004
(Dollars in Thousands)

| | FY 2005 Total <u>Budgetary</u> | FY 2005 Total Non-Budgetary Financing Accounts | FY 2004 Total <u>Budgetary</u> | FY 2004 Total Non-Budgetary Financing Accounts |
|---|--------------------------------------|--|--------------------------------------|--|
| Budgetary Resources (Note 18): | | | | |
| 1. Budget Authority: | | | | |
| 1a. Appropriations Received | \$ 870,440 | \$ - | \$ 361,230 | \$ - |
| 1b. Borrowing Authority | 282,260 | - | 573,912 | - |
| 1c. Contract Authority | - | - | - | - |
| 1d. Net Transfers (+/-) | - | - | - | - |
| 1e. Other | - | - | - | - |
| 2. Unobligated Balance: | | | | |
| 2a. Beginning of Period | 111,215 | 328,170 | 572,541 | - |
| 2b. Net Transfers, Actual (+/-) | - | - | - | - |
| 2c. Anticipated Transfers Balances (+/-) | - | - | - | - |
| 3. Spending Authority From Offsetting Collections: | | | | |
| 3a. Earned | | | | |
| 1. Collected | 464,771 | 58,517 | 610,314 | - |
| 2. Receivable from Federal Sources | (927) | - | (89,221) | - |
| 3b. Change in Unfilled Customer Orders (+/-) | | | | |
| 1. Advance Received | 16,124 | - | (7,792) | - |
| 2. Without Advance from Federal Sources | (850) | 37,900 | (36,490) | - |
| 3c. Anticipated for Rest of Year, Without Advances | - | - | - | - |
| 3d. Previously Unavailable | - | - | - | - |
| 3e. Transfers from Trust Funds | - | - | - | - |
| 3f. Subtotal | \$ 479,118 | \$ 96,417 | \$ 476,811 | \$ - |
| 4. Recoveries of Prior Year Obligations | 3,255 | 119 | 17,844 | - |
| 5. Temporarily Not Available Pursuant to Public Law | - | - | - | - |
| 6. Permanently Not Available | (\$78,112) | - | (317,206) | - |
| 7. Total Budgetary Resources | \$ 1,168,176 | \$ 424,706 | \$ 1,685,132 | \$ - |

U.S. Department of Transportation
Combined Statement of Budgetary Resources
For the years ended September 30, 2005 and 2004
(Dollars in Thousands)

| | FY 2005 | FY 2005 Total | FY 2004 | FY 2004 Total |
|--|------------------|---------------------------|------------------|---------------------------|
| | Total | Non-Budgetary | Total | Non-Budgetary |
| | Budgetary | Financing Accounts | Budgetary | Financing Accounts |
| Status of Budgetary Resources: | | | | |
| 8. Obligations Incurred | | | | |
| 8a. Direct | \$ 555,945 | \$ 30,032 | \$ 829,182 | \$ - |
| 8b. Reimbursable | 453,741 | - | 416,565 | - |
| 8c. Subtotal | \$ 1,009,686 | \$ 30,032 | \$ 1,245,747 | \$ - |
| 9. Unobligated Balance: | | | | |
| 9a. Apportioned | - | - | - | - |
| 9b. Exempt from Apportionment | 6,367 | - | 164 | - |
| 9c. Other Available | - | - | - | - |
| 10. Unobligated Balance Not Available | 152,123 | 394,674 | 439,221 | - |
| 11. Total Status of Budgetary Resources | \$ 1,168,176 | \$ 424,706 | \$ 1,685,132 | \$ - |
| Relationship of Obligations to Outlays: | | | | |
| 12. Obligated Balance, Net, as of October 1 | \$ 149,858 | \$ (168) | \$ 73,051 | \$ - |
| 13. Obligated Balance, Transferred, Net (+/-) | - | - | - | - |
| 14. Obligated Balance, Net, End of Period: | | | | |
| 14a. Accounts Receivable (-) | (39,592) | - | (40,519) | - |
| 14b. Unfilled Customer Orders from Federal Sources (-) | (90,227) | (38,482) | (91,659) | - |
| 14c. Undelivered Orders (+) | 293,049 | 678 | 237,164 | - |
| 14d. Accounts Payable (+) | 50,682 | 4 | 44,704 | - |
| 15. Outlays: | | | | |
| 15a. Disbursements (+) | 944,153 | 29,644 | 1,276,975 | - |
| 15b. Collections (-) | (480,895) | (58,517) | (602,521) | - |
| 15c. Subtotal | \$ 463,258 | \$ (28,873) | \$ 674,454 | \$ - |
| 16. Less: Offsetting Receipts | - | - | - | - |
| 17. Net Outlays | \$ 463,258 | \$ (28,873) | \$ 674,454 | \$ - |

U.S. Department of Transportation (MARAD)
Consolidated Statement of Financing
For the years ended September 30, 2005 and 2004
(Dollars in Thousands)

| | <u>Total</u> | <u>Intra-Bureau</u> | <u>FY 2005</u> | <u>FY 2004</u> |
|---|----------------------------|---------------------|----------------------------------|----------------------------------|
| | <u>Consolidated Amount</u> | <u>Eliminations</u> | <u>Total Less</u> | <u>Total Less</u> |
| | | | <u>Intra-Bureau Eliminations</u> | <u>Intra-Bureau Eliminations</u> |
| Resources Used to Finance Activities: | | | | |
| Budgetary Resources Obligated | | | | |
| 1. Obligations Incurred | \$ 1,039,718 | | | \$ 1,245,747 |
| 2. Less: Spending Authority From Offsetting Collections & Recoveries | 578,909 | | | 494,655 |
| 3. Obligations Net of Offsetting Collections and Recoveries | \$ 460,809 | | | \$ 751,092 |
| 4. Less: Offsetting Receipts | - | | | - |
| 5. Net Obligations | \$ 460,809 | | | \$ 751,092 |
| Other Resources | | | | |
| 6. Donations and Forfeitures of Property | \$ - | \$ - | \$ - | \$ (28,961) |
| 7. Transfers In/Out Without Reimbursement (+/-) | (42,819) | - | (42,819) | - |
| 8. Imputed Financing from Costs Absorbed by Others | 7,765 | - | 7,765 | 6,159 |
| 9. Other | - | - | - | - |
| 9a. Other | - | - | - | - |
| 9b. Other | 8,118 | - | 8,118 | (28,639) |
| 9c. Other | (26,936) | \$ - | (26,936) | (51,441) |
| 10. Net Other Resources Used to Finance Activities | \$ 433,873 | \$ - | \$ 433,873 | \$ 699,651 |
| 11. Total Resources Used to Finance Activities | | | | |
| Resources Used to Finance Items Not Part of the Net Cost of Operations: | | | | |
| 12. Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided (+/-) | \$ 2,526 | \$ - | \$ 2,526 | \$ 9,076 |
| 13. Resources that Fund Expenses Recognized in Prior Periods | 232,809 | - | 232,809 | 196,419 |
| 14. Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations | | | | |
| 14a. Credit Program Collections Which Increase Liabilities for Loan Guarantees or Allowances for Subsidy | (58,517) | - | (58,517) | (72,715) |
| 14b. Other | (2,504) | - | (2,504) | (1,718) |
| 15. Resources That Finance the Acquisition of Assets or Liquidation of Liabilities (+/-) | 28,270 | - | 28,270 | 31,565 |
| 16. Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations (+/-) | 80,140 | - | 80,140 | 720,426 |
| 17. Total Resources Used to Finance Items Not Part of the Net Cost of Operations | \$ 282,724 | \$ - | \$ 282,724 | \$ 889,053 |
| 18. Total Resources Used to Finance the Net Cost of Operations | \$ 151,149 | \$ - | \$ 151,149 | \$ (189,402) |

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation
Consolidated Statement of Financing
For the years ended September 30, 2005 and 2004
(Dollars in Thousands)

| Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period: | FY 2005 | | FY 2004 | |
|---|---------------------------|---------------------------|--------------------------------------|---------------------------|
| | Total Consolidated Amount | Intra-Bureau Eliminations | Total Less Intra-Bureau Eliminations | Total Consolidated Amount |
| Components Requiring/Generating Resources in Future Periods: | | | | |
| 19. Increase in Annual Leave Liability | \$ 455 | \$ - | 455 | \$ 329 |
| 20. Increase in Environmental and Disposal Liability | - | - | - | - |
| 21. Upward/Downward Reestimates of Credit Subsidy Expense (+/-) | 19,287 | - | 19,287 | 6,000 |
| 22. Increase in Exchange Revenue Receivable from the Public | - | - | - | - |
| 23. Other | 27,438 | - | 27,438 | - |
| 23a. Other | - | - | - | - |
| 23b. Other | - | - | - | - |
| 23c. Other | - | - | - | 335,317 |
| 24. Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods | \$ 47,180 | \$ - | 47,180 | \$ 341,646 |
| Components Not Requiring or Generating Resources: | | | | |
| 25. Depreciation and Amortization | \$ 80,585 | \$ - | 80,585 | \$ 84,917 |
| 26. Revaluation of Assets or Liabilities (+/-) | - | - | - | - |
| 27. Other | - | - | - | - |
| 27a. Other | - | - | - | - |
| 27b. Other | - | - | - | - |
| 27c. Other | - | - | - | - |
| 28. Total Components of Net Cost of Operations That Will Not Require or Generate Resources | \$ 80,585 | \$ - | 80,585 | \$ 84,917 |
| 29. Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period: | \$ 127,765 | \$ - | 127,765 | \$ 426,563 |
| 30. Net Cost of Operations | \$ 278,914 | \$ - | 278,914 | \$ 237,161 |

The accompanying notes are an integral part of these statements.

National Maritime Day, 2005

A Proclamation by the President of the United States of America

America's merchant mariners make our Nation more secure and our economy stronger. Throughout our history, they have promoted commerce and protected our freedom. On National Maritime Day, we honor the dedicated service of the United States Merchant Marine.

Each year, the men and women of the U.S. maritime transportation system move more than 2 billion tons of cargo along our waterways and across the open seas. Many of the raw materials Americans purchase are transported by merchant vessels, and merchant mariners ship agricultural products and finished goods in and out of the United States every day.

Merchant mariners have also served in every conflict in our Nation's history. The U.S. Merchant Marine helps provide our Nation's Armed Forces with crucial supplies and equipment. These brave men and women demonstrate courage, love of country, and devotion to duty, and we especially honor those who have made the ultimate sacrifice in defense of our Nation. The United States is safer and the world is more peaceful because of the work of our merchant mariners, and we are grateful for their service.

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.

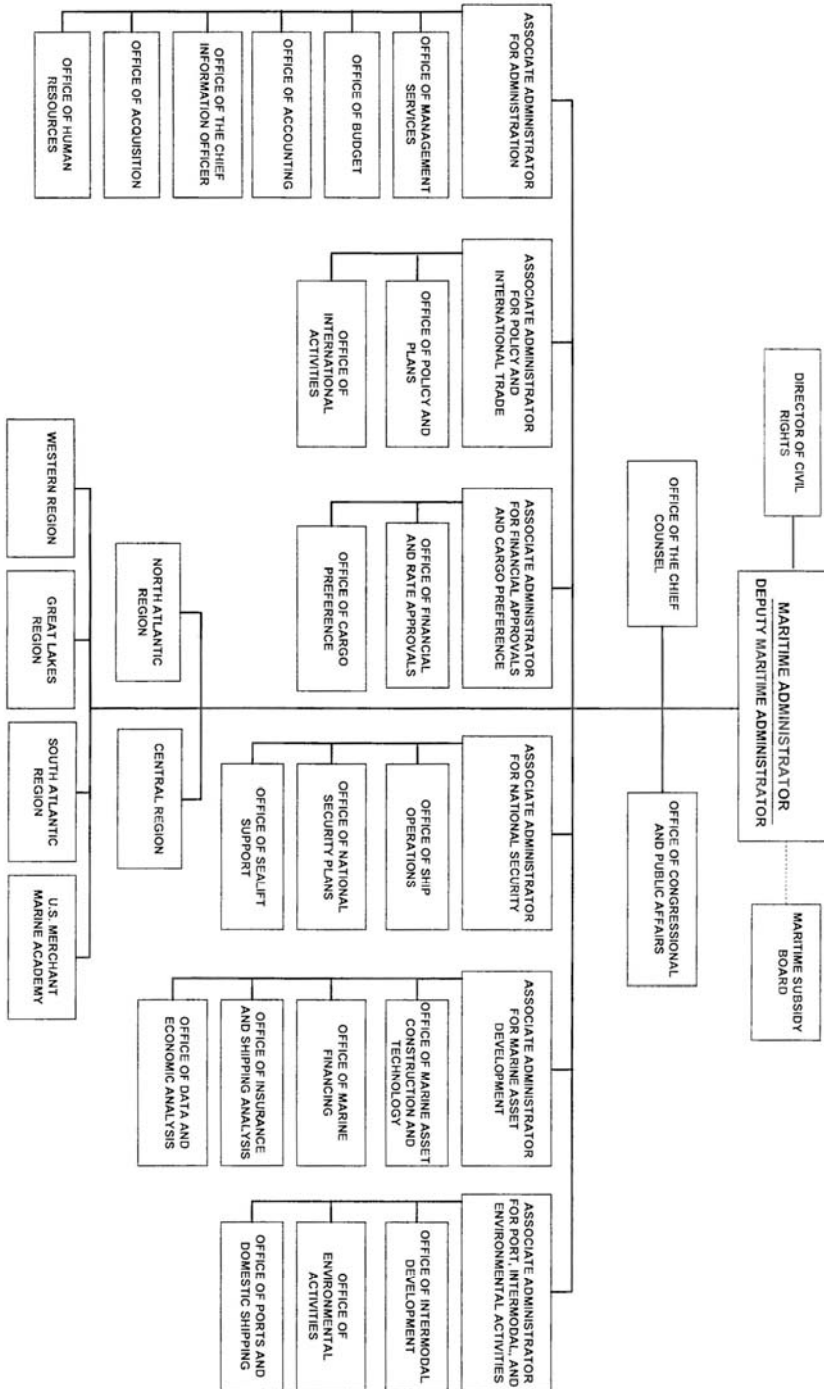
NOW, THEREFORE, I, GEORGE W. BUSH, President of the United States of America, do hereby proclaim May 22, 2005, as National Maritime Day. I call upon the people of the United States to celebrate this observance and to display the flag of the United States at their homes and in their communities. I also request that all ships sailing under the American flag dress ship on that day.

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

GEORGE W. BUSH

###

MARITIME ADMINISTRATION





U.S. Department of Transportation

Maritime Administration

400 7th Street, SW

Washington, DC 20590

<http://www.marad.dot.gov>