MARAD '98

1998 Annual Report

May 1999

U.S. Department of Transportation
Rodney E. Slater
Secretary

Maritime Administration
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Maritime Administrator

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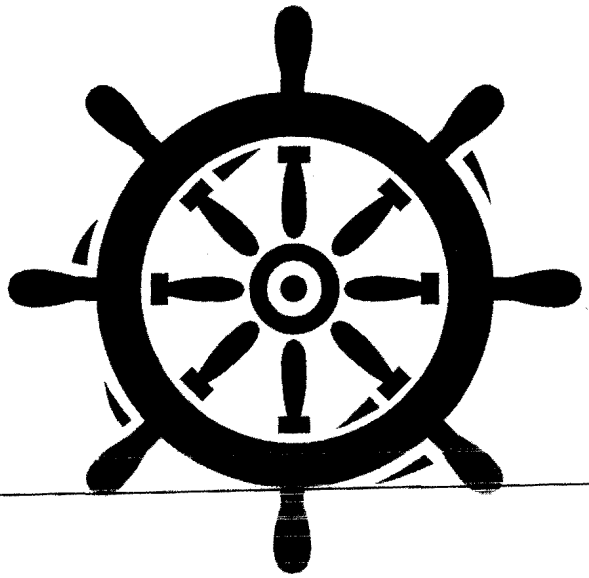
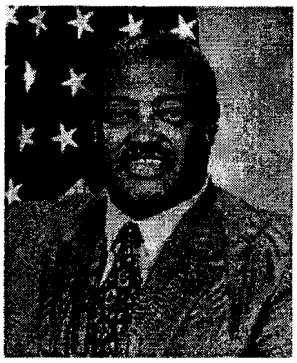




Introduction

The annual report of the Maritime Administration (MARAD) for the fiscal year which ended on September 30, 1998, is submitted to Congress in accordance with Section 208 of the Merchant Marine Act of 1936, as amended.

MARAD '98 includes nine chapters on MARAD programs and activities and includes specific reports required by law on acquisition of obsolete vessels in exchange for vessel trade-in, war risk insurance activities, scrapping or removal of obsolete vessels owned by the United States, and U.S.-flag carriage of Government-sponsored cargoes.

This report details MARAD's efforts to support the Nation's maritime policy and the goals of the Administration.

CLYDE J. HART, JR.
Maritime Administrator

Major Maritime Accomplishments in FY 1998

Maritime Security Program (MSP)

During fiscal year (FY) 1998 there were two major MSP-related achievements: Transfer of ownership and control of 12 MSP operating agreements and increase in the number of MSP ships operating from 29 to 45. The transfer actions resulted in U.S. citizenship being maintained with limited foreign participation through trust arrangements specifically permitted under the Maritime Security Act of 1996. The transfer transactions were complicated by the fact that two of the MSP companies had been acquired by foreign entities. Another residual benefit of the MSP was the fact that, after successfully negotiating the transfer of its MSP operating agreements, one company chose to reflag three additional large and highly efficient modern containerships to U.S. registry without the benefit of receiving MSP payments.

Voluntary Intermodal Sealift Agreement (VISA)

During FY 1998, MARAD, in partnership with the U.S. Transportation Command (TRANSCOM) and the maritime industry, made substantial progress toward agreement on VISA capacity commitments and a compensation package for payment to VISA participants during the activation of VISA. On August 17, 1998, MARAD published in the *Federal Register* a notice of open season for enrollment in VISA during FY 1999. Existing VISA participants and other U.S.-flag ship operators who had not previously enrolled in VISA were encouraged to enroll/reenroll to receive priority consideration for peacetime military cargoes or to fulfill their obligations to participate in VISA under the MSP. As of September 30, 1998, 35 U.S.-flag carriers had enrolled in VISA. The 10 MSP participants represent 70 percent of the FY 1999 VISA capacity.

U.S. Shipyard Orderbook

As of January 1, 1998, the U.S. shipyard orderbook for commercial self-propelled vessels of 100 gross tons (GT) or over (naval and fishing vessels excluded) stood at 208 ships (669,889 GT), 125 of these are 1,000 GT or greater. Between October 1, 1997 and January 1, 1998, 37 ships (22,183 GT) were delivered and 24 ships (22,203 GT) were ordered. Barges are not included in the vessel count.

During the first quarter of FY 1998, there was a net increase of 30,669 GT (4.8 percent) and 26 vessels (barges not included) in the order book. Data independent of shipyard surveys indicate that one tanker (11,000 GT) for export was delivered on March 27, 1998; the commercial-ship contracts for the construction of three product carriers (91,245 GT) were canceled in March; and two ferries (17,244 GT) were delivered during May and June 1998, leaving the order book at 550,400 GT as of August 1, 1998.

Maritime Guaranteed Loan (Title XI) Program

In FY 1998, Title XI applications totaling $734 million in loan guarantees were approved (this included the refinancing of an existing Title XI transaction and one shipyard modernization project). The newly approved projects covered construction of 67 vessels, including one semi-submersible drill rig, two jack-up drill rigs, 13 tugs, 30 open hopper barges, 12 deck barges, two power barges, two platform-supply vessels, one warehouse barge, one split-hull hopper barge, and three product tankers.

Ship Scrapping

MARAD issued two Invitations for Bid (IFB) for the sale of Government-owned ships for scrapping--one for 13 ships and one for 25 ships. Eight ships were approved for scrapping in Brownsville, TX. MARAD also participated on the Department of Defense (DOD) Interagency Ship Scrapping Panel. On September 25, 1998, Vice President Gore issued a memorandum to DOD and Department of Transportation for a moratorium on the export of ships for scrapping until October 1, 1999.

Ready Reserve Force (RRF)

The RRF provides the military with the assured availability of surge sealift capacity, and is maintained by MARAD in various states of readiness to meet the rapid response requirements of DOD. During FY 1998, 36 RRF ships were ordered activated by DOD as no-notice tests of their readiness. All 36 vessels were successfully made ready for sea by MARAD within their required times. Over a nine-day period in mid-September 1998, 29 RRF ships were activated on a no-notice basis. This represented the largest RRF series of test activation exercises ever conducted by DOD. Three additional ships were activated for participation in the military missions: *Cobra Gold 98*, *Computex 98*, and Foal Eagle/Freedom Banner 98. Two of these ships will remain deployed indefinitely as part of DOD's Afloat Prepositioning Force (APF). The operational reliability of deployed RRF ships was 99 percent in FY 1998. MARAD also continued an in-house program of maintenance sea trials, activating 30 selected ships to test overall ship material condition as well as the Ship Manager's maintenance and management procedures. MARAD's RRF program remains the most cost-effective element of DOD's sealift programs.

Bilateral Maritime Agreements

In November 1997, MARAD achieved a breakthrough agreement with the Government of Japan, which committed to reform its port practices. If fully implemented, the agreement will eliminate the monopoly control over port services that is exerted by the Japan Harbor Transport Association through the so-called "prior consultation" system, and will pave the way for approval of stevedoring and terminal operating licenses for U.S. and other non-Japanese companies.

Great Lakes

MARAD worked with the U. S. Department of Agriculture and the U.S.-flag ocean carriers to implement Section 17 of the Maritime Security Act. Under new rules, U.S.-flag carriers are providing intermodal service via American Great Lakes ports. In the first 6 months of operation, Sea-Land Service, Inc., and American President Line, Ltd., generated $1.6 million in new direct payments to the region for stevedoring on the Great Lakes, created new jobs, and saved the U.S. Government $4 million in transportation costs.

Ports and Waterways Infrastructure

In March 1998, MARAD and the U.S. Coast Guard (USCG) began a Marine Transportation System (MTS) initiative to define the current and future needs. Working in partnership with 13 other Federal agencies responsible for managing some part of the U.S. waterways, ports, and their intermodal connectors, MARAD and USCG conducted seven regional listening sessions, with over 500 participants, to hear the concerns of stakeholders with regard to the problems and successes of the waterway system. In July 1998, the Acting Maritime Administrator and the Coast Guard Commandant testified before the House Transportation and Infrastructure Committee on highlights of the MTS initiative to date.

Mariner Training and Safety

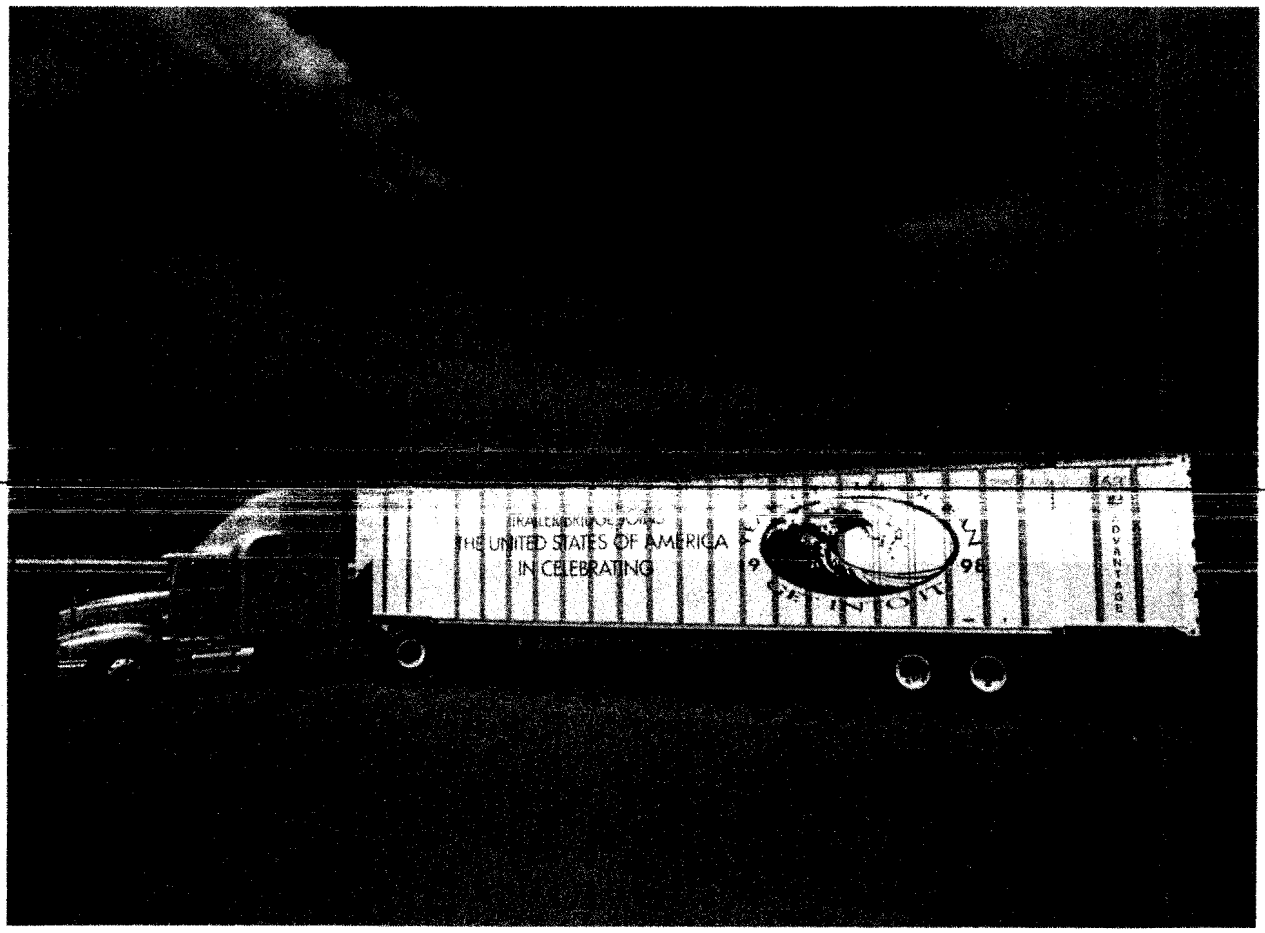
In FY 1998, a joint MARAD/USCG team reviewed the training proposals of the U.S. Merchant Marine Academy and the six State maritime academies to assure compliance with the International Convention on Standards of Training, Certification, and Watchkeeping (STCW) for Seafarers. Conditional approval was granted to four of the seven institutions by the end of August 1998. This project responded to July 1995 International Maritime Organization (IMO) amendments to the STCW of 1976, which sets standards for work and rest periods, and deals with comprehensive standards for certification and training for licensed and unlicensed shipboard personnel.

The United Nations International Year of the Ocean

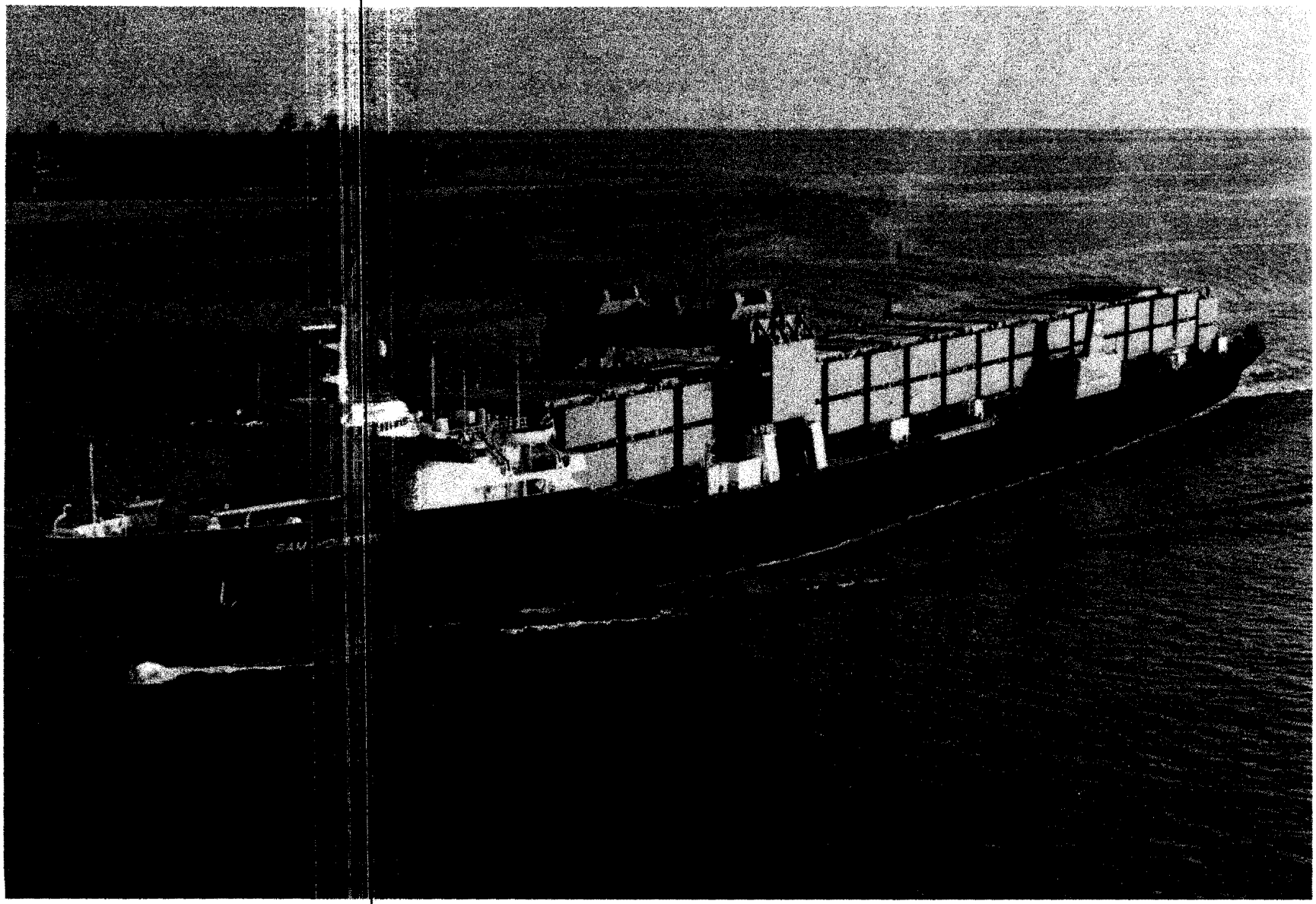
The United States and the American maritime industry celebrated the United Nations (UN) declared "International Year of the Ocean" (YOTO) in FY 1998. The UN's intention was to raise public awareness about and celebrate what has been accomplished in understanding and managing the sea and enhancing its exploration, utilization, and conservation. This year-long celebration provided an excellent opportunity for the United States and the American maritime industry to promote public awareness and understanding of the economic and national defense importance of the American merchant marine.

President Clinton and Vice President Gore attended the National Oceans Conference held in Monterey, CA in June 1998. The Department of Transportation was represented at the conference by Secretary Slater, who facilitated a panel on oceans and commerce, and the Acting Maritime Administrator.

The YOTO logo and themes were included in department and agency speeches, news releases and public relations packages developed throughout the year . In addition, industry organizations included the YOTO logo in publications, newsletters, and information distributed throughout the year. Moreover, the Port Authority of New York and New Jersey named the Waterfront Museum, Lehigh Barge #79 as the region's YOTO craft at its annual SPLASH (a public waterfront access program which heightens the awareness of the maritime industry) in September. Trailer Bridge, a Florida-based shipping company, placed the YOTO logo on two of its 53 foot containers. The logo was seen in every port in which the vessels moored. It also was viewed by thousands of citizens on and off of the beach in Jacksonville, FL.



Trailer Bridge container shown with the Year of the Ocean logo.



Shown here, the container ship SAM HOUSTON, is part of the Maritime Security Program fleet.

Chapter 1

National Security

The Maritime Administration (MARAD) is responsible for assuring that merchant shipping is available in times of war or national emergency. MARAD administers programs to meet sealift requirements determined by the Department of Defense (DOD) and conducts related national security activities.

The Agency also maintains inactive, Government-owned vessels in the National Defense Reserve Fleet (NDRF), and its Ready Reserve Force (RRF) component. The RRF was created to maintain a surge shipping and resupply capability available on short notice to support deployment of a multi-division force.

MARAD also conducts national security planning, training, and operations in areas such as emergency communications, naval control/civil direction of shipping, war risk insurance, and port emergency operations.

Maritime Security Program (MSP)

The Maritime Security Program (MSP) assists in maintaining an active, privately owned, U.S.-flag and U.S.-crewed liner fleet in international trade which is available to support DOD sustainment in a contingency. The MSP is a 10-year program established under the Maritime Security Act of 1996, and provides funding up to $100 million annually for up to 47 vessels to partially offset the higher operating costs of remaining under U.S. registry.

The MSP is working as intended to help America retain an active U.S.-flag merchant fleet comprising modern, efficient, and militarily useful commercial dry cargo vessels that can support national security requirements and maintain a competitive U.S.-flag presence in international commerce. During fiscal year (FY) 1998, the MSP fleet logged over 14,000 operating days across the oceans of the world. MSP operators and participating vessels are shown in Chart 1.

The MSP also helps retain a labor base of skilled and loyal American seafarers who are available to crew the U.S. Government-owned strategic sealift fleet, as well as the U.S. commercial fleet, both in peace and war.

The MSP leverages relatively modest Federal support dollars to retain access to a robust U.S. commercial maritime capitalization base valued at more than $8.5 billion.

The MSP has replaced the Operating-Differential Subsidy (ODS) Program which compensated U.S. carriers on a reimbursable basis for the higher costs of operating ships under the U.S. flag as compared to those of foreign-flag competitors. As an incentive for U.S.-flag operators to further reduce costs and increase efficiency, Congress established MSP funding levels at fixed amounts well below that of ODS.

Chart 1: Maritime Security Program Participants

American Ship Management, LLC	9 containerships
Central Gulf Lines, Inc.	3 RO/RO vessels
Crowley American Transport, Inc.	3 container/RO/RO vessels
First American Bulk Carrier Corp.	2 containerships
First Ocean Bulk Carrier Corp.	3 containerships
Farrell Lines Incorporated	3 containerships
Maersk Line, Ltd.	4 containerships
OSG Car Carriers, Inc.	1 RO/RO vessel
Sea-Land Service, Inc.	15 containerships
Waterman Steamship Corp.	4 LASH vessels
Total	47 vessels

The MSP provides financial assistance of $2.1 million per year per vessel, which is less than half the cost of the ODS program. MSP operators are being challenged to further reduce costs and become more efficient to accommodate these reduced payments.

Another important element of the MSP is the reflagging of new and more efficient vessels to U.S. registry. Since MSP implementation in 1996, a total of 12 modern commercial liner vessels, all less than 10 years old, have been reflagged to U.S. registry for participation in the MSP. Additionally, three other containerships less than 5 years of age were reflagged to the U.S. under MSP related legislation. The addition of these 15 ships will greatly benefit the goal of modernizing the U.S. merchant fleet and enhance its competitiveness and sealift readiness into the 21st century.

FY 1998 saw significant activity in the effects of "globalization." Two MSP participants [American President Lines, Ltd. (APL and Lykes Bros. Steamship Co., Inc., (Lykes)] underwent business restructurings with foreign companies which required them to establish U.S. citizen trust agreements to continue in the MSP. Following intense negotiations between the companies and MARAD, arrangements were satisfactorily executed to allow the companies the flexibility to compete globally, while protecting the U.S. Government's and taxpayers' interests. Nine of the former APL MSP ships were transferred to a new U.S. firm, American Ship Management, LLC, and three of the former Lykes MSP ships were transferred to new subsidiaries of another MSP operator, First American Bulk Carrier Corp. (See Chapter 9.)

As of September 30, 1998, 9 of 10 MSP carriers were receiving MSP payments for 45 vessels.

Voluntary Intermodal Sealift Agreement (VISA)

The Voluntary Intermodal Sealift Agreement (VISA) Program is sponsored by MARAD under its authorities for voluntary agreements contained in the Defense Production Act of 1950 and the Merchant Marine Act, 1936, as amended. VISA was approved as the DOD's principal commercial sealift readiness program on January 30, 1997.

VISA's principal purpose is to provide DOD with "assured access" to commercial intermodal capacity to move ammunition and sustainment cargo. This capacity can also supplement U.S. Government-owned/controlled/ chartered capacity used for initial deployment or "surge" of unit equipment.

VISA's objective is to maximize DOD's use of the multibillion dollar, state-of-the-art, U.S. commercial intermodal transportation system to serve America in peace and war while minimizing disruption to commercial operations. VISA's activation will be time-phased to streamline the availability of capacity to coincide with DOD requirements. Commercial operators can volunteer capacity in VISA Stages I and II, but in Stage III participants must commit at least 50 percent of their capacities for non-MSP vessels and 100 percent capacity for MSP enrolled vessels. By using a time-phased approach to provide capacity to meet varying levels of crisis, carriers can plan options ongoing commercial arrangements during contingencies while concurrently meeting DOD's transportation requirements.

MSP/ VISA Linkages

The importance of the link between VISA and the MSP is clearly apparent. More than 80 percent of the militarily useful U.S.-flag commercial dry cargo shipping capacity is enrolled in VISA Stage III and over 70 percent of that capacity comes from MSP vessels.

In FY 1998, MARAD published a notice in the *Federal Register* and on its Internet Home Page on the VISA enrollment "Open Season" for FY 1999. As a result, all 27 existing VISA participants re-enrolled and eight new U.S.-flag vessel operating companies had enrolled as of September 30, 1998. The companies commit specific vessel capacity, intermodal equipment, and management services. As a condition for receiving Government financial support, the MSP participants are required to enroll 100 percent of their MSP vessel capacity and a comparable mix of intermodal resources and services in VISA. Over 110,000 20-foot equivalent units (TEUs) of capacity committed to DOD stems from MSP obligations. Other U.S.-flag vessel operators are encouraged to commit non-MSP resources to VISA as a condition of receiving priority for award of DOD peacetime ocean freight contracts. VISA participants are listed in Chart 2.

By partnering with the U.S.-flag commercial maritime industry, the U.S. Government leverages "assured access" to a total global intermodal network that includes not just vessels but also logistics, management services, infrastructure, terminals and equipment, communications, and cargo-tracking networks, as well as a cadre of well-trained, professional U.S. seafarers and shore-side employees.

Through VISA's Joint Planning Advisory Group (JPAG), Government and industry: identify and discuss DOD's requirements; recommend concepts of operations to meet requirements; test and exercise program arrangements; and comply with antitrust requirements for pooling/teaming arrangements.

In FY 1998, MARAD co-chaired two JPAG meetings to discuss and analyze industry capabilities and DOD requirements. For the first time, VISA was actively played in a DOD joint war game called *Turbo-challenge 98* (TC-98). The JPAG was activated, and industry and Government VISA representatives developed intermodal transportation solutions to support the war game. Problem areas requiring further attention were identified and cooperative efforts to develop solutions continued. Additionally, MARAD and DOD's U.S. Transportation Command (TRANSCOM) completed steps to finalize VISA vessel capacity enrollment procedures to accurately portray each participant's capacity commitment for VISA Stage III.

As of September 30, 1998, work neared completion on implementation of a revenue-based methodology for prelodged compensation rates to be used during VISA activation. Procedures to equitably compensate VISA participants for activated capacity and resources and for the risks associated with meeting emergency requirements will be completed during FY 1999.

Chart 2: VISA Participants as of September 30, 1998

Alaska Cargo Transport, Inc.
American Auto Carriers, Inc.
American Automar, Inc.
American President Lines, Ltd.
American Ship Management, Inc.*
Central Gulf Lines, Inc.*
Crowley American Transport, Inc.*
Crowley Maritime Services, Inc.
Dixie Fuels II, Ltd.
Double Eagle Marine
Farrell Lines, Inc.*
First American Bulk Carrier Corp.*
Foss Maritime Company
Lynden
Lykes Lines Limited, LLC.
Maersk Line Limited*
Matson Navigation Company, Inc.
Maybank Shipping Company, Inc.
McAllister Towing &Transportation
Moby Marine Corp.
NPR, Inc.
OSG Car Carriers, Inc.*
Osprey Shipholding Corp., LLC.
Resolve Towing & Salvage, Inc.
Sea-Land Service, Inc.*
Seacor Marine International, Inc.
Sealift, Inc.
Smith Maritime
Totem Ocean Trailer Express, Inc.
Trailer Bridge, Inc.
Trico Marine Operators, Inc.
Troika International, Ltd.
Van Ommeran Shipping (USA)LLC
Waterman Steamship Corp.*
Weeks Marine, Inc.

* MSP Participants

National Defense Reserve Fleet (NDRF)

NDRF ships, except the Ready Reserve Force (RRF) component, are in a deep lay-up condition and can be activated to help meet U.S. shipping requirements during a national emergency.

Most inactive NDRF ships are in three reserve fleet sites: 97 at Ft. Eustis, VA, 46 at Beaumont, TX, and 89 at Suisun Bay, CA. Some vessels are either under layberth contract in major U.S. port cities, or at-sea on DOD missions. (See Tables 1 and 2).

Table 1: NATIONAL DEFENSE RESERVE FLEET 1945-1998

Fiscal Year	Ships	Fiscal Year	Ships	Fiscal Year	Ships
1945	5	1963	1819	1981	317
1946	1421	1964	1739	1982	303
1947	1204	1965	1594	1983	304
1948	1675	1966	1327	1984	386
1949	1934	1967	1152	1985	300
1950	2277	1968	1062	1986	299
1951	1767	1969	1017	1987	326
1952	1853	1970	1027	1988	320
1953	1932	1971	860	1989	312
1954	2067	1972	673	1990	329
1955	2068	1973	541	1991	316
1956	2061	1974	487	1992	306
1957	1889	1975	419	1993	302
1958	2074	1976	348	1994	286
1959	2060	1977	333	1995	296
1960	2000	1978	306	1996	303
1961	1923	1979	317	1997	307
1962	1862	1980	303	1998	307

Table 2: NATIONAL DEFENSE RESERVE FLEET--SEPTEMBER 30, 1998

Home Port	NDRF Retention[1]	NDRF Non-Retention[2]	Reimbursable Custody[3]	Totals
James River, VA	26	36	35	97
Beaumont, TX	34	10	2	46
Suisun Bay, CA	16	23	50	89
Other Locations	72	3	0	75
Totals	148	72	87	307

[1]Vessel being maintained for emergency activations, for historic display, or for spare equipment. Number shown includes RRF ships.

[2]Vessels pending disposal

[3]Vessels not in the NDRF program, and owned by other Government agencies or by the Title XI program.

As of September 30, 1998, 148 of the 220 vessels in the NDRF program were being maintained for emergency activations, historic display, or spare parts; and 72 were pending disposal. An additional 87 vessels were owned by other Government agencies or by the Title XI program. The latter group of 87 are provided custodial services on a cost-reimbursable basis, in various degrees of preservation. The year-end total number of ships in the custody of the NDRF program was 307.

The RRF was established as the surge component of the NDRF in 1976 by a Memorandum of Agreement between the DOD and MARAD. These ships are kept in a high state of readiness to enable them to be activated in 4, 5, 10, 20 or 30 days to meet surge military sealift requirements in the event of war or military deployment, as experienced in *Operations Desert Shield and Desert Storm,* and more recently in Haiti, Somalia, and Croatia.

Ready Reserve Force (RRF)

As of September 30, 1998, there were 91 vessels in RRF status. Five older breakbulk ships were downgraded during the year to NDRF status. This action was precipitated by funding considerations and existing plans to remove these ships from the RRF program as more U.S. Navy surge assets come on-line, namely the Large Medium Speed RO/ROs (LMSRs).

To meet the readiness needs of DOD, MARAD outports and provides Reduced Operating Status (ROS) crews for 4 and 5 day ships. The outporting program provides lay berths for RRF ships near the expected loading ports for defense cargoes. At year's end, 64 RRF vessels were assigned to outport locations: 26 on the East Coast, 10 on the Gulf Coast, 25 on the West Coast, and three shallow-draft tankers in Japan.

The highest priority RRF vessels are maintained in ROS which permits reliable activation within 4 or 5 days at their berth sites, allowing expedited loading of critical surge DOD equipment. These vessels have 9 or 10 person ROS merchant mariner crews aboard carrying out a planned maintenance program. They become a part of the sailing crew on operational vessels. Vessel outporting and use of ROS crews greatly enhance the probability of successful activation. This has been demonstrated in all recent vessel call-ups. RRF vessels have consistently exceeded activation requirements and there have been no failures on ships with ROS crews.

Problems with Ship Manager Contracts (SMC) awarded by MARAD in June 1998 resulted in a rescission to permit correction of the process. Companies in the competitive range were permitted to amend their technical proposals and submit revised price proposals. Based upon the corrective actions proposed by MARAD, the General Accounting Office dismissed the filed protests. Revised proposals were received and evaluated. New SMC's will be awarded as soon as possible. (See Chapter 9.)

RRF Sea Trial and Dock Trial Program

MARAD continued a regular program of planned maintenance activations for RRF vessels. High priority vessels, those in 4 and 5 days readiness status, undergo an annual sea trial (4-day), or alternate annually between a sea trial and a dock trial (5-day). Lower priority vessels are sea trialed on a biennial basis (10-day), or alternate between sea trial and dock trial over a 5 year cycle (20-day).

This program was established to enhance the reliability of ships ordered activated by DOD for missions by providing a detailed inspection of the vessel's material condition under operating conditions. This program enables MARAD to better schedule maintenance and repair and make decisions on allocation of resources.

During FY 1998, 57 vessels were successfully sea trialed. The continuing success of MARAD's activation of vessels for DOD missions can be attributed in large part to the pro-active sea trial and dock trial program.

RRF Operations

DOD continued to employ the RRF crane ship GOPHER STATE in the prepositioned fleet during FY 1998 to support the U.S. Army's Prepositioning Stock Program (APS-3).

The roll on/roll off (RO/RO) vessels CAPE DECISION, CAPE DOUGLAS, CAPE HENRY, CAPE HORN, CAPE HUDSON, CAPE WASHINGTON, and CAPE WRATH completed 8,975 days of continuous operation and were returned to MARAD's control.

In FY 1998, RRF ships operated at a 99 percent fully mission capable level. The Chief of Staff of the U.S. Army, General Dennis J. Reimer, signed a "Certificate of Appreciation" to each ship commending the exceptional service and outstanding performance of the vessels and crews that "significantly enhanced the readiness posture of our power projection Army."

The OPDS tankers AMERICAN OSPREY and POTOMAC continued to support the Afloat Prepositioning Force (APF), operating from Guam and Diego Garcia, respectively. The OPDS tanker PETERSBURG was activated to participate in Exercises *Foal Eagle/Freedom Banner 98* in The Republic of South Korea, and will then relieve the AMERICAN OSPREY in the APF.

The RO/RO CAPE INSCRIPTION was activated to participate in Exercise *COBRA GOLD 98* in Thailand.

Exercise *Comptuex 98-2* involved activation of the breakbulk-underway replenishment vessel CAPE JACOB to support the U.S. Navy's requirement to transfer ordnance at sea in exercises held offshore Roosevelt Roads, Puerto Rico. The ship remained in ROS and is to continue ammunition transfer exercises and then will be assigned to the prepositioned fleet.

Turbo Activations (TA) are no-notice tests conducted by DOD of MARAD's RRF ship readiness. In FY 1998 there were five separate tests involving 36 RRF ships.

TA 98-1 tested the readiness of four ships by simultaneous activating the RO/RO vessels CAPE ISABEL, at Long Beach, CA and METEOR, at Oakland, CA; plus the breakbulk vessels CAPE BORDA and CAPE BOVER at Alameda, CA. All four vessels were ready for sea and accepted by MSC ahead of their respective activation requirements.

TA 98-2 consisted of the no-notice simultaneous activation of the RO/RO vessels CAPE HENRY, CAPE HORN at San Francisco, CA, and the barge carrier CAPE FLORIDA at Beaumont, TX. All three vessels in this test were tendered ahead of their required activation time frame.

TA 98-3 involved the simultaneous no-notice activation of five RRF ships. The tanker MISSION BUENAVENTURA and breakbulk vessel CAPE JOHN, both at Beaumont, TX; the barge carrier CAPE FEAR at Suisun Bay, CA; and the breakbulk ships CAPE JUBY at James River, VA, and CAPE GIRARDEAU at Alameda, CA. All ships were ready for sea prior to their activation deadlines.

The most extensive of the FY 1998 no-notice readiness tests was TA 98-4, involving fourteen of the highest-priority vessels in four and 5 day ROS. The ROS-4 day RO/RO vessels CAPE ISABEL at Long Beach, CA; CAPE TEXAS and CAPE TRINITY at Houston, TX; ADMIRAL CALLAGHAN at San Francisco, CA; and the CAPE WRATH at Baltimore, MD; were activated in an average of less than 3 days. The ROS-5 days ships - the breakbulker CAPE BLANCO, at Alameda, CA; the tanker MOUNT WASHINGTON, at Houston, TX, the Seabee- barge carriers CAPE MAY at Newport News, VA; and CAPE MOHICAN at San Francisco, CA; and the crane ships CORNHUSKER STATE at Newport News, VA; DIAMOND STATE and EQUALITY STATE at Houston, TX; and GEM STATE and KEYSTONE STATE at Alameda, CA, were all activated in an average of just under 4 days.

The fifth no-notice test, TA 98-5, called for the test activation of 9 ships, four in ROS-4, two in ROS-5, and three in RRF-10 day status. The ships activated were the CAPE DECISION and CAPE EDMONT at Charleston, SC; CAPE HORN at San Francisco, CA; CAPE INTREPID at Tacoma, WA; CAPE WASHINGTON and CAPE ANN at Baltimore, MD; CAPE BRETON at Alameda, CA; and the three small tankers ALATNA, CHATAHOOCHEE and NODAWAY at Tsuneishi, Japan. All were activated on time.

RRF Command Post Exercise

Breakout-97 was the eighth MARAD Command Post Exercise (CPX) designed to test the procedures and coordination necessary to activate the entire RRF to meet strategic sealift requirements. Periodic testing is necessary in view of the dynamics of the RRF program, including changes in fleet composition, location and readiness status, acquisition and downgrading of ships, and changes to the seafaring manpower and shipyard/ship repair facility bases.

The post-exercise analysis of *Breakout 97* indicated that sufficient labor was available to crew the RRF and adequate shipyard or ship repair facilities were available as activation sites. Management of daily activation Situation Reports (SITREPS) was enhanced by the use of a prototype Activation Tracking System (ATS) software to collect activation information and automatically format SITREPS for transmission as electronic mail attachments.

Emergency Operations

MARAD Advisories rapidly disseminate information on Government policy, danger and safety issues pertaining to vessel operations and other time-sensitive maritime matters.

In FY 1998, MARAD began posting *MARAD Advisories* on its Home Page which provides immediate access to the shipping industry and the public. During the year, MARAD issued five advisories to the U.S. maritime industry and other maritime interests. They updated the mine danger areas in the Persian Gulf; announced new AMVER communications procedures; provided the presidential proclamation of National Maritime Day; provided notice of a Naval Control of Shipping exercise in the Pacific Ocean area; and announced a worldwide anti-U.S. terrorist threat.

Special Warnings to Mariners are coordinated by the State Department with MARAD and DOT to announce official Government proclamations affecting shipping. During FY 1998 a new special warning regarding the danger to shipping in Sri Lanka and that government's rules for authorizing ship entry into Sri Lankan waters was issued.

Both *MARAD Advisories* and *Special Warnings to Mariners* are published in the *Weekly Notice to Mariners* issued by the National Imaging and Mapping Agency (NIMA) to ensure the widest possible distribution to the maritime community. MARAD also

responded to inquiries from U.S. and foreign shipping companies for information on maritime safety issues.

The Agency also participated as the National Shipping Authority (NSA) in the Allied Naval Control and Protection of Shipping (NCAPS) exercise RIMPAC 98. NCAPS exercises test operational doctrine related to regional or localized conflicts and the NSA's ability to locate and contact specific U.S.-flag and effective United States control ships that are in or are approaching "shipping danger areas."

In addition, MARAD provides instructions to U.S. merchant ships on emergency call-up of the U.S. Navy if under attack or faced with a hostile situation, and Ship Hostile Action Report procedures, through the NIMA publication "RA 117 - Radio Aids to Navigation."

Piracy and Attacks on Merchant Shipping

Oceangoing ships continue to be victims of piracy on the high seas and in ports around the world. International maritime organizations, such as the International Maritime Bureau's Regional Piracy Center in Kuala Lumpur and the Center for Seafarer's Rights, published reports indicating that the most active areas of piracy continue to be in the waters around South East Asia and the ports and harbors of Brazil. MARAD actively participates with Government and industry partners, such as the Office of Naval Intelligence and the Maritime Security Council, on sharing information, threat dissemination and incident reporting.

The Agency is prepared to rapidly alert U.S. mariners to new high-danger areas, and has a *MARAD Advisory* in effect that offers advice on effective countermeasures to deter pirates from boarding vessels at sea and in port.

MARAD also promotes the use of the NIMA "Navigation Information Network" and "Anti-Shipping Activities Message" systems to report these incidents into a computerized database available to all mariners.

Logistics

MARAD significantly improved the level of RRF vessel logistics readiness in FY 1998. Major supply overhauls were completed for the PETERSBURG and CAPE JACOB; the OPDS vessel CHESAPEAKE was near completion. Significant logistics service upgrades were performed on the BEAVER STATE and the CAPE RISE. Repair parts and other support materials valued at $3.5 million were procured from Federal and commercial supply sources for placement in ship inventories.

Additional material was screened and recovered from vessels being transferred from the RRF under the auspices of the MARAD Reutilization Material (MRM) program. Through the screening of excess material made available from the DOD, several thousand line items of parts having applicability to RRF ships were added to the MARAD Shore-based Spares (SBS) stock. Spare part support levels for 332 shipboard equipments were established under the MARAD provisioning program. This ensures vital repair part availability for 657 critical equipments aboard 12 RRF ships.

The Agency increased the capabilities of its shipboard and shore-based logistics support management systems. Transaction-based financial management was fully implemented for the entire SBS system. In addition, a remote management module was developed and prototype installation and testing completed in one warehouse in preparation for implementation throughout the system.

All RRF parts accountable property and SBS inventories over 600,000 line items of material), were assigned monetary values, using actual purchase data when available. The new MARAD Reutilization Material (MRM) screening program was implemented in the SBS Warehouse, Central Region.

RRF Roll-On/Roll-Off Capacity Upgrade Program

The DOD Mobility Requirements Study (MRS) established a RRF force level of 36 RO/RO ships; however, the RRF includes only 31 RO/ROs. DOD has not received funding for the purchase of additional foreign-built RO/ROs for the RRF.

The MRS also established total lift requirements and at the beginning of FY 1998 the aggregate capacity shortfall was 550,000 square feet. In cooperation with DOD, MARAD studied increasing the capacity of various RO/RO classes to make up the shortfall. An initial upgrade to five ships, the two CAPE V's and the three CAPE R's, was begun during FY 1998, with the first ship, CAPE VICTORY, completed at the end of the reporting period. These first five upgrades will add about 140,000 net square feet of RO/RO capacity.

Additional upgrades are being studied to make up the remaining shortfall. Ship classes being studied are the CAPE W's, CAPE

H's, CAPE I's, and the single ship CAPE ORLANDO.

RRF Special Mission Ships

Within the RRF a number of ships have been equipped with features and equipment to perform specific missions. These ships include auxiliary crane ships, offshore petroleum discharge system tankers, heavy lift ships (modified barge carriers of the LASH and SEABEE type), general cargo ships equipped with Sealift Enhancement Features, and aviation logistics support ships.

Auxiliary Crane (T-ACS) Ships

Between 1984 and 1997, MARAD converted 10 container ships, of 4 separate classes, into T-ACS. Crane ships are outfitted with two or three independent twin boom, pedestal mounted, rotating heavy lift cranes, which may be operated singly or in tandem. These cranes permit the T-ACS to off-load containers and other outsize cargo from non-self sustaining cargo ships either instream (to barges), or in underdeveloped or damaged ports. One T-ACS, the GOPHER STATE, has been deployed with the Afloat Prepositioning Force (APF) since 1994

Offshore Petroleum Discharge System (OPDS) Tankers

MARAD maintains five OPDS equipped tankers. They are capable of discharging petroleum products from four miles offshore without benefit of fixed shore facilities. During FY 1998, all of the OPDS ships were either in active service, or ROS. The POTOMAC and AMERICAN OSPREY remained deployed overseas in the Afloat Prepositioning Force, while the PETERSBURG, MOUNT WASHINGTON, and CHESAPEAKE were in ROS. Two of the ships, PETERSBURG and CHESAPEAKE, are being outfitted with OPDS Utility Boats (OUB), a conversion which will make the ships self-sustaining when performing OPDS operations.

In September 1998, the PETERSBURG completed the OPDS Utility Boat (OUB) conversion, and sailed to participate in exercise *Foal Eagle* off South Korea. Following the exercise, the ship will proceed to Guam and relieve the AMERICAN OSPREY as an APF tanker. The AMERICAN OSPREY will return to the continental United States and go into RRF-30. At a future date, the CHESAPEAKE will deploy to the APF, relieving the POTOMAC.

Sea Barge Clipper (SEABEE) Ships

MARAD maintains three SEABEE ships. Two have the capability to carry DOD's Joint Logistics Over the Shore (JLOTS) equipment. The JLOTS cargo includes Land Craft Air Cushion (LCAC), Side Loadable Warping Tugs (SLWT), LARC-60's, tug boats, causeway sections, and other DOD equipment to support JLOTS initiatives. In FY 1998 the CAPE MAY and the CAPE MOHICAN successfully completed no-notice activations.

LASH Vessels

MARAD maintains four LASH ships, each of which is outfitted with a 455 light ton lighterage gantry crane to handle LASH barges. The CAPE FEAR is outfitted with a self-sustaining 30 ton container crane. All LASH ships have the capability to carry a limited amount of containers.

The CAPE FAREWELL can support the DOD JLOTS initiatives. This vessel's LASH crane is outfitted within the cantilever lifting frame (CLF) which enables the ship to lift and carry oversized DOD cargo. In the future, DOD intends to exercise the CLF to lift the NAVY's (LCAC) air cushion craft.

The CAPE FLORIDA and CAPE FEAR successfully completed no-notice tests.

Sealift Enhancement Features (SEF)

SEFs are modifications to general cargo vessels to increase their military utility. Eleven RRF breakbulk cargo ships are equipped with varying SEF outfits.

Modular Cargo Delivery Stations (MCDS) enable the equipped ship to both transfer and receive cargo during Underway Replenishment (UNREP) operations. In FY 1998 the second at-sea test of the MCDS system was completed. The CAPE JACOB participated in exercise *Comptuex 98-2* in support of the USS ENTERPRISE battle group. The exercise took place in August 1998, off the coast of Puerto Rico.

Aviation Logistics Support (T-AVB) Ships

The two T-AVBs, WRIGHT and CURTISS, were transitioned into the RRF at the beginning of FY 1998. Funding for their maintenance will be fully transitioned into the RRF maintenance and repair account in FY 1999. The WRIGHT (T-AVB 3) is outported in Baltimore, MD, and the CURTISS (T-AVB 4) in Port Hueneme, CA.

The T-AVBs are general cargo/container ships which have

been modified to embark aviation Intermediate Maintenance Activity (IMA) units to support the repair of Marine Corps fixed-wing and rotary-wing aircraft. The ships were formerly maintained by MARAD in "RRF-like" status under a special agreement with the DOD.

The WRIGHT participated in exercise *Carolina Dragon 98-1* off the coast of North Carolina in May 1998. A marine Corps air wing activated the afloat IMA aboard the ship as part of the exercise.

State Maritime Academy Schoolships

As provided by the Maritime Education and Training Act of 1980, MARAD furnishes schoolships to the state maritime academies and colleges in California, Maine, Massachusetts, New York, and Texas for training young men and women to become licensed merchant marine officers (See Chapter 7). MARAD is responsible for maintaining the five schoolships in full regulatory compliance, and in a state of good repair. Routine and preventative maintenance is carried out by academy crew and cadets. Two of the five schoolships, the EMPIRE STATE (NY) and PATRIOT STATE (MA), are also designated as troopships in the RRF.

Schoolship Maintenance and Repair (M&R) Program

In mid-FY 97 the TV STATE OF MAINE, the last of five schoolship replacements (in a program which began with the delivery of PATRIOT STATE in 1985) was delivered to the Maine Maritime Academy.

During FY 1998 significant efforts were made at both MARAD and the academies to transition management of the schoolship M&R program to RRF standards and practices. This effort focused on the full implementation of the RRF Maintenance and Repair Tracking System (MARTS) for recording deficiencies and budget preparation, and a phased implementation of RRF logistics management techniques. Also implemented during FY 1998 were a regular condition survey program, standardized voyage reporting requirements, and a rationalized drydocking schedule which funds two routine drydockings in each fiscal year. The GOLDEN BEAR and TEXAS CLIPPER II were drydocked in FY 1998.

Material accomplishments in FY 1998 included the completion of Global Maritime Distress and Safety Systems installations, and planning for safety of life at sea enclosed lifeboat installations on the GOLDEN BEAR and PATRIOT STATE.

The PATRIOT STATE was temporarily taken out of service at the end of July 1998, due to hull structure deterioration, discovered during a series of material condition surveys and inspections conducted throughout the reporting period. Investigations into the best means to effect repairs were ongoing at the end of FY 1998. The PATRIOT STATE is scheduled for routine, regulatory drydocking during FY 1999.

Integrated Computerized Deployment System

The Integrated Computerized Deployment System (ICODES) is a new computer assisted, cargo stow planning system, used by onboard and shore-based stow planners in the development of detailed cargo loadout information for the ships' masters. DOD has designated ICODES as the official computerized cargo stow planning system for surface vessels carrying dry cargo for the U.S. armed forces, including ships of the RRF, ships owned by and chartered to the MSC, and ships in the Marine Corps Amphibious fleet.

Beginning in FY 1997, under a Memorandum of Agreement with the Military Traffic Management Command (MTMC), MARAD is the primary developer of customized data for the approximately 150 ships designated to be served by the ICODES system. This task involves ship verification surveys, generation of computer aided design formatted drawings of the cargo spaces, and entry of pertinent ship characteristics data in order to assess acceptable trim and stability and longitudinal strength in the as-loaded condition.

Over the past year, MARAD has completed the development, or the updating, of data for two RO/RO vessels and four LASH carriers in the RRF and, in coordination with Naval Sea Systems Command, three Large Medium Speed (LMSR) RO/RO vessels recently constructed or converted at National Steel and Shipbuilding Co.

The data for eight MSC owned Fast Sealift Ships, and another 20 ships chartered to MSC were updated. In addition, drawings were completed for three classes of Marine Corps Amphibious vessels, and another two classes were surveyed. Ongoing work includes the development of data for the remainder of designated ships, including all RO/RO vessels of the Voluntary Intermodal Sealift Agreement (VISA) fleet, and the distribution of a catalog depicting the essential information on all vessels.

Scrapping or Disposal of Obsolete Vessels

On May 18 and June 7, 1998, respectively, contracts were awarded for the scrapping of 8 vessels and 3 ships for scrapping to ship breaking companies in Brownsville, TX.. However, only two vessels were removed from NDRF sites because of a depressed scrap steel market and difficulties in preparing the vessels for towing.

A 25 ship disposal solicitation, designed to encourage development of domestic shipbreaking was issued on September 18, 1998. At the end of the year, there were 6 pending transfers to memorial organizations, 4 pending competitive sales to the commercial market, and 4 pending transfers to States for artificial fish reefs.

War Risk Insurance

MARAD administers the standby emergency War Risk Insurance Program in accordance with the statutory authority of Title XII of the Merchant Marine Act, 1936, as amended. The program encourages the continued flow of U.S. foreign commerce during periods when commercial insurance cannot be obtained on reasonable terms and conditions. It protects vessel operators and seafarers against losses resulting from war or warlike actions.

As of September 30, 1998, the War Risk Revolving Fund (Fund) asset total was approximately $27,500,000. One new assured received six binders during FY 1998. The fund earned $1,757,000 in investment income. Program expenses for FY 1998 totaled $46,810.

As of September 30, 1998, there were 261 binders on vessels and barges providing eligibility for hull, protection and indemnity, and second seamen war risk insurance. No binders related to MARAD's standby war risk cargo insurance and builder's risk insurance programs have been issued. All binders are effective for 30 days following an automatic termination of commercial insurance.

Statutory authority covering the Title XII War Risk Insurance Program expired on June 30, 1995. On February 10, 1996, Public Law 104-106 extended the program for 5 years until June 30, 2000.

In addition to the standby war risk program, MARAD activated the war risk program at the request of the President for two vessels in the February 1998 confrontation with Iraq.

RRF Claims Settlement

MARAD continued to act as the claim agent for government-owned RRF vessels during FY 1998. From the inception of Desert Shield/Desert Storm in August 1990, through the end of September 1998, some 590 formal, written administrative claims for personal injury had been presented.

As of September 30, 1997, approximately 25 administrative claims remained pending. In addition, MARAD was assisting the U.S. Department of Justice in seeking the resolution of approximately 80 claims where litigation against the United States was brought by or on behalf of the claimant. Among claims pending resolution as of the end of FY 1998 were those for mariners who crewed RRF vessels in continuing support of Operation Joint Endeavor to Croatia.

Title XI and other Insurance Compliance

MARAD monitors the contractual requirements for marine insurance coverage placed in the commercial market on all existing Title XI vessels on which MARAD holds the mortgage, together with vessels subsidized by the Government and Government-owned vessels on charter to private operators. One aspect of this compliance is to assure that the American marine insurance market has the opportunity to compete for placement of marine insurance on these vessels. As indicated in Table 3, MARAD approved marine hull and machinery insurance during FY 1998, with 45 percent being placed in the American market and 55 percent being placed in foreign insurance markets. This compares with 64 percent American market placement for hull and machinery insurance during FY 1997.

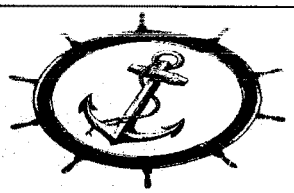


Table 3: MARINE AND WAR RISK INSURANCE APPROVED IN FY 1998

Kind of Insurance	Total Amount[1]	Percentage	
		American	Foreign
Marine Hull & Machinery	$1.201.297,801	48%	52%
Marine Protection and Indemnity [2]			
War Risk Hull and Machinery	$ 714,468,276	48%	52%
War Risk Protection & Indemnity	$ 714,468,276	48%	52%

1 The reduced amount of insurance approved by MARAD in 1998 reflects the approval of multi-year policies in prior years.

2 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.

Chart 3: Vessels Participating in the Maritime Security Program

Company	Ship Name	Ship Type
ASM	APL KOREA	CONT C11
ASM	APL PHILIPPINES	CONT C11
ASM	APL SINGAPORE	CONT C11
ASM	APL THAILAND	CONT C11
ASM	PRESIDENT ADAMS	CONT C10
ASM	PRESIDENT JACKSON	CONT C10
ASM	PRESIDENT KENNEDY	CONT C10
ASM	PRESIDENT POLK	CONT C10
ASM	PRESIDENT TRUMAN	CONT C10
CENTRAL GULF	GREEN LAKE	CAR CARRIER
CENTRAL GULF	GREEN POINT	CAR CARRIER
CENTRAL GULF	GREEN BAY	CAR CARRIER
CROWLEY	SEA LION	CONT/RORO
CROWLEY	SEA WOLF	CONT/RORO
CROWLEY	SEA FOX	CONT/RORO
FABC	TILLIE LYKES	CONT
FABC	TYSON LYKES	CONT
FARRELL LINES	ENDEAVOR	CONT
FARRELL LINES	ENDURANCE	CONT
FARRELL LINES	ENTERPRISE	CONT
FOBC	LYKES LIBERATOR	CONT
FOBC	LYKES DISCOVERER	CONT
FOBC	LYKES NAVIGATOR	CONT
MAERSK	MAERSK CALIFORNIA	CONT
MAERSK	MAERSK COLORADO	CONT
MAERSK	MAERSK TENNESSEE	CONT
MAERSK	MAERSK TEXAS	CONT
OSG	OVERSEAS JOYCE	CAR CARRIER
SEA-LAND	SEALAND ENDURANCE	CONT D9J
SEA-LAND	SEALAND DEFENDER	CONT D9J
SEA-LAND	SEALAND QUALITY	CONT ACV
SEA-LAND	SEALAND PERFORMANCE	CONT ACV
SEA-LAND	SEALAND INTEGRITY	CONT ACV
SEA-LAND	SEALAND ATLANTIC	CONT ACV
SEA-LAND	SEALAND INNOVATOR	CONT D9J
SEA-LAND	SEALAND EXPLORER	CONT D9J
SEA-LAND	SEALAND PATRIOT	CONT D9J
SEA-LAND	OOCL INSPIRATION	CONT ACV
SEA-LAND	OOCL INNOVATION	CONT ACV
SEA-LAND	NEWARK BAY	CONT ACV
SEA-LAND	NEDLLOYD HOLLAND	CONT ACV
SEA-LAND	GALVESTON BAY	CONT ACV
SEA-LAND	SEALAND LIBERATOR	CONT D9J
WATERMAN	SAM HOUSTON	LASH
WATERMAN	STONEWALL JACKSON	LASH
WATERMAN	ROBERT E. LEE	LASH
WATERMAN	GREEN ISLAND	LASH

Chapter 2

Shipbuilding and Ship Conversion

Shipbuilding Initiatives

Title XI Guarantees

Title XI of the Merchant Marine Act, 1936, as amended, established the Federal Ship Financing Guarantee Program. As originally enacted, Title XI authorized the Federal Government to insure private sector loans or mortgages made to finance or refinance the construction or reconstruction of American-flag vessels. Title XI was amended in 1972 to provide direct Government guarantees of the underlying debt obligations, with the Government holding a mortgage on the equipment financed.

On November 30, 1993, the National Shipbuilding and Shipyard Conversion Act of 1993 (Shipbuilding Act) was enacted (Title XIII, Subtitle D of the National Defense Authorization Act for Fiscal Year 1994) [Public Law 103-160]. It expanded the existing Title XI program by authorizing the Secretary of Transportation to guarantee obligations issued to finance the construction, reconstruction, or reconditioning of eligible export vessels. It also authorized guarantees for shipyard modernization and improvement.

The Shipbuilding Act established a National Shipbuilding Initiative (NSI) program to support the industrial base for national security objectives. The NSI's aim was to help reestablish the American shipbuilding industry as a self-sufficient internationally competitive industry.

Under Title XI, the U.S. Government insures or guarantees full payment to the lender of the unpaid principal and interest of the obligation in the event of default by the vessel owners or general shipyard facility.

As of September 30, 1998, the total of Title XI guarantees in force aggregated approximately $2.9 billion, covering approximately 731 vessels and 95 individual shipowners.

Congressional authorization for the Title XI program has a cap of $12 billion, with $11.15 billion allocated to the Maritime Administration (MARAD) and $850 million authorized to guarantee the financing of fishing vessels and fisheries facilities by the National Oceanic and Atmospheric Administration. Title XI guarantees for eligible export vessels are limited to $3.0 billion.

Program participants are charged a one-time filing and investigation fee plus a guarantee fee which is paid at the time of funding. There was one default in FY 1998. There were fourteen voluntary payoffs on Title XI guaranteed loans in FY 1998.

Three of the twelve Title XI applications approved in FY 1998 involved offshore drilling unit projects. The FY 1998 approvals are shown on Table 4. As of September 30, 1998, there were 18 Title XI applications pending.

During FY 1998, the Federal Ship Financing Fund (Fund) had a net income of $2 million. The cash balance of the Fund on September 30, 1998, was approximately $4.0 million. Treasury investments of the Fund on September 30, 1998, were $45 million. The Fund has been self-supporting since July 1989. There was one default in FY 1998.

MARITECH

The NSI also contains funds for industry-initiated research and development (R&D) projects under the MARITECH program. MARITECH is a 5-year $220 million Federally funded program (extended for 1 year through FY 1999) cost-shared with the industry to encourage the shipbuilding industry. It is intended to direct and lead the development and application of advanced technology to improve industry competitiveness and to preserve the industrial base.

The program is jointly funded by the Government and industry. It is administered by MARAD and the Defense Advanced Research Projects Agency (DARPA), Department of Defense. All Federal funding for MARAD administered projects is provided by DARPA to MARAD on a reimbursable basis.

MARITECH assists the industry in competing in the international marketplace with the development of competitive ship designs, markets and marketing strategies, modern commercial shipbuilding processes and procedures, and manufacturing and information technologies for ship design and production.

The MARITECH program has been well received. In the first 5 years, 66 projects were awarded. MARAD

administers over 60 percent of the MARITECH projects valued at $174 million. These projects represent more than 200 private sector participants from 40 states and nine foreign countries.

Additionally, the projects represent R&D for various ship types: double hull tankers, passenger vessels, dry and bulk carriers, containerships, shallow draft, self-sustaining vessels, high speed, low wake ferries, and offshore service craft, which has resulted in over 36 new commercial ship designs.

MARITECH, coupled with Title XI, has produced extremely positive results. For example, 17 commercial oceangoing vessels were added to the U.S. shipbuilding order book, with a value of over $750 million and support for over 2,000 shipyard jobs.

The MARITECH program and the expanded Title XI program have assisted the U.S. shipbuilding industry to modernize and improve its operations to more effectively compete internationally. U.S. shipbuilders are positioned to offer competitive prices for new construction projects in the international market.

Shipyards have improved and enlarged their marketing approach to include the expanded Title XI program, developed commercial ship designs, and have entered into partnerships with international shipbuilders. The combined efforts of the Government and the private sector have led to the signing of contracts for the export of U.S.-built commercial ships, and more are expected.

The program is fulfilling President Clinton's vision of strengthening the American shipbuilding industry in the international commercial market, as well as maintaining the Nation's defense readiness and vital shipbuilding industrial base.

National Maritime Resource and Education Center (NMREC)

To further U.S. shipyards' international competitiveness MARAD, through NMREC, is working closely with both national and international standards developing organizations, such as the International Maritime Organization (IMO), the U.S. Coast Guard (USCG), the International Organization of Standardization (ISO), the American National Standards Institute (ANSI), and the American Society for Testing and Materials (ASTM), to assist in the adoption of consensus ship construction and quality standards.

NMREC's principal mission is to promote elimination of unnecessary regulation, encourage development and use of consensus technical standards for the maritime industry, and support U.S. participation in both national and international standards writing organizations.

Since President Clinton's shipyard revitalization plan was introduced, MARAD has acted as a facilitator for the shipbuilding, ship repair, and marine supply industry with the USCG to define areas for deregulation. In this connection, MARAD holds periodic meetings with USCG to maintain close cooperation in achieving reduction in regulations and support for the adoption of both national and international consensus standards.

The Agency also has established the Marine Industry Standards Library, the NMREC section of MARAD's website to provide shipbuilding and shipbuilding standards information to industry, and a Ship Operations Data Modeling Information Service to collect and provide information to the U.S. maritime industry.

In addition, MARAD has actively participated in consensus technical standards promotion and development including: serving as a partner/facilitator with USCG in adopting consensus international standards in lieu of regulations; acting as a member of ANSI, the U.S. national standards writing organization; and serving as a member of the Executive Committee of the ASTM Committee on Shipbuilding & Marine Technology, as well as various ASTM standards writing subcommittees.

MARAD, through NMREC, serves as a member of the U.S. Technical Advisory Group (USTAG) to the ISO; heads the U.S. delegations to ISO/TC8 Subcommittees on Marine Environmental Protection, Piping and Machinery; is a member of the Executive Control Board of the National Shipbuilding Research Program (NSRP) of the Society of Naval Architects and Marine Engineers (SNAME); and is a member of the Government/Industry Advisory Board of the Gulf Coast Region Maritime Technology Center.

Support services and information available through NMREC include Marine Industry Standards Library conferences and seminars, Ship Operations Data Modeling Information Service, MARAD's Guideline Specifications for Merchant Ship Construction, MARITECH project information, Title XI approved and pending lists, and other related maritime links.

MARAD also provides an ISO 9000 field consultant, trained and available to guide and assist industry in obtaining ISO 9000 certification. The Agency has participated in shipyard

assessments/audits with registries such as American Bureau of Shipping, Det Norske Veritas, Lloyd's Register, and Underwriters Laboratories. In addition, ISO 9000 presentations have been given to SNAME workshops and conferences through NSRP.

MARAD also serves on the Executive Steering Group to the Government/Industry Quality Liaison Panel (G&IQLP). The Panel was created by the Government and industry to encourage participation of interested Federal agencies and industry associations in the development and deployment of uniform quality management systems and advanced quality concepts. The main mission of the G&IQLP is consistent satisfaction of customer expectations through a Government and industry association partnership using world-class quality processes and practices to enhance international competitiveness.

Another NMREC role is to engage in outreach to the shipbuilding industry by providing information and market leads to assist in increasing international sales.

In this latter connection, the Agency also sponsors conferences on international standards, international marketing, Title XI loan guarantees, competitiveness benchmarking of foreign versus U.S. shipyards, cruise ship construction in the U.S., marine environmental protection, safety reform in the shipbuilding industry, and on challenges facing the ship repair industry.

Global Shipbuilding and Marketing

The Agency participates in national and international trade missions and trade exhibitions to promote the U.S. shipbuilding industry in the world marketplace. In September 1998, MARAD co-sponsored with industry the U.S. Pavilion at the Shipbuilding, Machinery and Marine Technology show in Hamburg, Germany.

MARAD plans to participate in NOR-SHIPPING '99 in June 1999 in Norway. This international conference is expected to contain the largest single U.S. presence ever in a trade show.

Capital Construction Fund

The Capital Construction Fund (CCF) Program was established under the Merchant Marine Act of 1970. It assists operators in accumulating capital to build, acquire, and reconstruct vessels through the deferral of Federal income taxes on certain deposits, as defined in Section 607 of the Merchant Marine Act, 1936, as amended.

The CCF Program enables operators to build vessels for the U.S. foreign trade, Great Lakes, noncontiguous domestic trade (e.g. between the West Coast and Hawaii), and the fisheries of the United States. It aids in the construction, reconstruction, or acquisition of a wide variety of vessels, including containerships, tankers, bulk carriers, tugs, barges, supply vessels, ferries, and passenger vessels.

During calendar year 1997, $140 million was deposited into these accounts. Since the program was initiated in 1971, fund holders have deposited $6.5 billion in CCF accounts and withdrawn $5.4 billion for the modernization and expansion of the U.S. merchant marine. As of September 30, 1998, a total of 142 companies were parties to CCF agreements. (See Table 7.)

Construction Reserve Fund

Like the CCF, the Construction Reserve Fund (CRF) encourages upgrading of the American-flag fleet. This program allows eligible parties to defer taxation of capital gains on the sale or other disposition of a vessel if net proceeds are placed in a RRF and reinvested in a new vessel within 3 years.

The CRF is used predominately by owners of vessels operated in coastwise trades, the inland waterways, and other trades not eligible for the CCF Program. Its benefits are not so broad as those of the CCF.

The number of companies with CRF balances increased from 11 to 15 during FY 1998 (See Table 8). The total monies on deposit increased from $30.5 million to $70.9 million.

Metrication

MARAD accomplished its goal of converting to the System International (SI) measurement (metric) by 1997. The Agency is continuing its efforts to collect information and reference material for dissemination internally and externally. The annual reports *Outlook for the U.S. Shipbuilding and Repair Industry* and *The Report on Survey of U.S. Shipbuilding and Repair Facilities* now are published using the SI system.

Shipbuilding Base

The U.S. Major Shipbuilding Base (SB) is used to track shipbuilding capability and activity in the United States. It includes privately owned shipyards that are open, with one or more shipbuilding positions consisting of an inclined way, a launching platform, or a building basin capable of accommodating a vessel 122 meters in length or over. With few exceptions, these shipbuilding facilities are also major repair facilities with drydocking capability. Using this definition, as of January 1, 1998, there were 18 major shipbuilding facilities in the United States.

Shipyard Activity

As of September 30, 1998, there were 9 commercial oceangoing vessels larger than 1,000 gross tons on order from commercial shipyards in the United States. Orders for 6 of these vessels were facilitated by MARAD's Title XI program. Newport News Shipbuilding and Drydock Co. is constructing five 46,500-deadweight ton (dwt) double hull product tankers for Hvide Van Ommeren Inc. Alabama Shipyard, Inc. is constructing one 16,000 dwt chemical tanker for Dannebrog Reden AS.

Avondale Industries, Inc. is constructing three Millennium Class 125,000 dwt crude carriers for Arco Marine and Todd Pacific Shipyards Corp. in Seattle, WA is constructing one 1,695 dwt non-oceangoing 140 meter ferry capable of carrying 750 day passengers and 120 vehicles.

Chart 5 shows the locations of the shipyards constructing commercial vessels greater than 1,000 gross tons at the end of FY 1998.

Moreover, in FY 1998, Alabama Shipyard, Inc. delivered one chemical carrier, *Amalienborg.* Todd Pacific Shipyards Corp. completed one of the non-oceangoing ferries, the *Wenatchee* and Halter Marine Inc. completed the construction of one non-oceangoing ferry, the *Kennicott.* Chart 6 shows the commercial shipbuilding order book at the end of each calendar year since 1975, and as of September 30, 1998.

Shipyard Improvements

The U.S. shipbuilding and ship repair industry invested more than $271 billion in FY 1998 to upgrade and expand facilities. During the last 10 years, the industry has invested more than $2 billion in capital improvement projects.

Much of this investment went to improve efficiency and competitiveness, including new shipyard layouts, new under roof fabrication buildings, new pipe shops, new panel lines and the purchase of new cranes and transporters, building basins, floating drydocks, cranes, automated equipment and highly mechanized production systems. The emphasis has been on introducing modular techniques, fabrication of larger subassemblies, and pre-outfitting of ship components.

Information received by MARAD indicates that U.S. shipyards planned to spend approximately $256 million for improvements in FY 1998. The industry's capital investments since 1970 have totaled approximately $6.1 billion. Chart 7 shows capital investments in the shipbuilding and repair industry since 1985.

ONE DOT Ship Design and Shipyard Activities

MARAD, in cooperation with other Department of Transportation modes, is working on a series of ship design and shipyard related programs. These programs include:

☞ Golden Gate National Recreation Area (GGNRA) Ferry Feasibility Study–The National Park Service and the Federal Highway Administration (FHWA) have asked MARAD to program manage a study determining the feasibility of a new ferry service in the San Francisco Bay area. The service could visit the various National Park sites around the Bay area, including Alcatraz, Presidio, Muir Woods, Fort Mason, and Fort Baker. The study will be submitted to the Bay Area Council for inclusion in a larger planning document.

☞ GGNRA Ferry Natural Gas Feasibility Study–The Federal Transit Administration (FTA) has appointed MARAD as the program manager of a study to determine if the potential GGNRA ferry service could utilize natural gas as its operating fuel. Operation logistics, specifications, cost benefits and environmental benefits of such an operation will be analyzed.

☞ MV KINGS POINTER Alternative Fuel Demonstration - MARAD is seeking to utilize the United States Merchant Marine Academy training vessel, as a demonstration platform for marine alternative fuels. To date the Research and Special Programs Administration (RSPA), the USCG, the FTA, and Brookhaven Laboratories have expressed interest in participating. Technical and emission results of the demonstration would be distributed throughout the industry. The vessel

may also become a platform for eventual fuel cell testing.

☞ Interagency Marine Fuel Cell Program–MARAD is the program administrator for interagency work with the USCG, RSPA, Department of Energy, Department of Navy and the National Oceanic and Atmospheric Administration. The interagency group seeks to develop fuel cell power plants specifically for marine applications. The working group has awarded two fuel cell plant design contracts, a ship interface design contract and a fuel cell market analysis contract.

☞ TEA21 Ferry Study – FHWA is the lead agency for providing this mandated report to Congress. MARAD, FTA and the USCG will be assisting. FHWA will rely on MARAD for required input specific to ferry designs, alternative fuel possibilities and the establishment of a national ferry database.

Chart 4: Major Commercial New Construction on Order as of September 30, 1998

Contract Shipyard	Ship Type	Contract Price ($Mil)	Gross Tons	Contract Award Date	Delivery Date
Newport News	Product Tanker	$ 38.2	30,415	10/94	10/98
Newport News	Product Tanker	38.2	30,415	07/95	10/98
Newport News	Product Tanker	38.2	30,415	07/95	11/98
Newport News	Product Tanker	49.3	30,415	02/96	01/98
Newport News	Product Tanker	49.3	30,415	02/96	07/99
Alabama	Chemical Tanker	26.7	11,000	12/95	10/98
Avondale	Crude Carrier	166.0	82,525	06/97	1/00
Avondale	Crude Carrier	166.0	82,525	06/97	8/00
Avondale	Crude Carrier	166.0	82,525	09/98	4/01
Todd	Ferry	60.5	4,340	06/95	12/98
Total		$798.4	415,990		

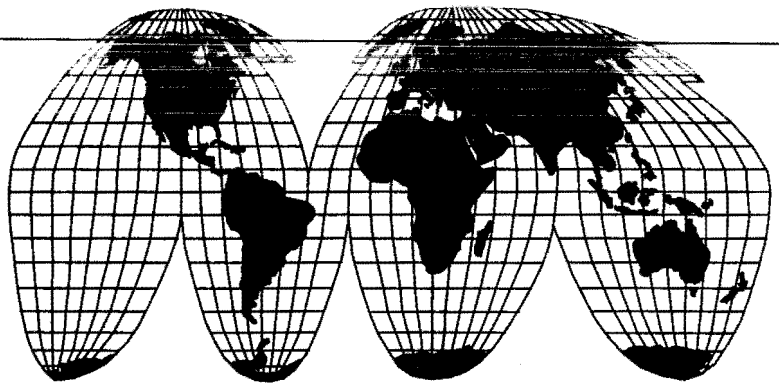


Chart 5: U.S. COMMERCIAL SHIPBUILDING ORDERBOOK
(1,000 GT AND OVER)
SEPTEMBER 30, 1998

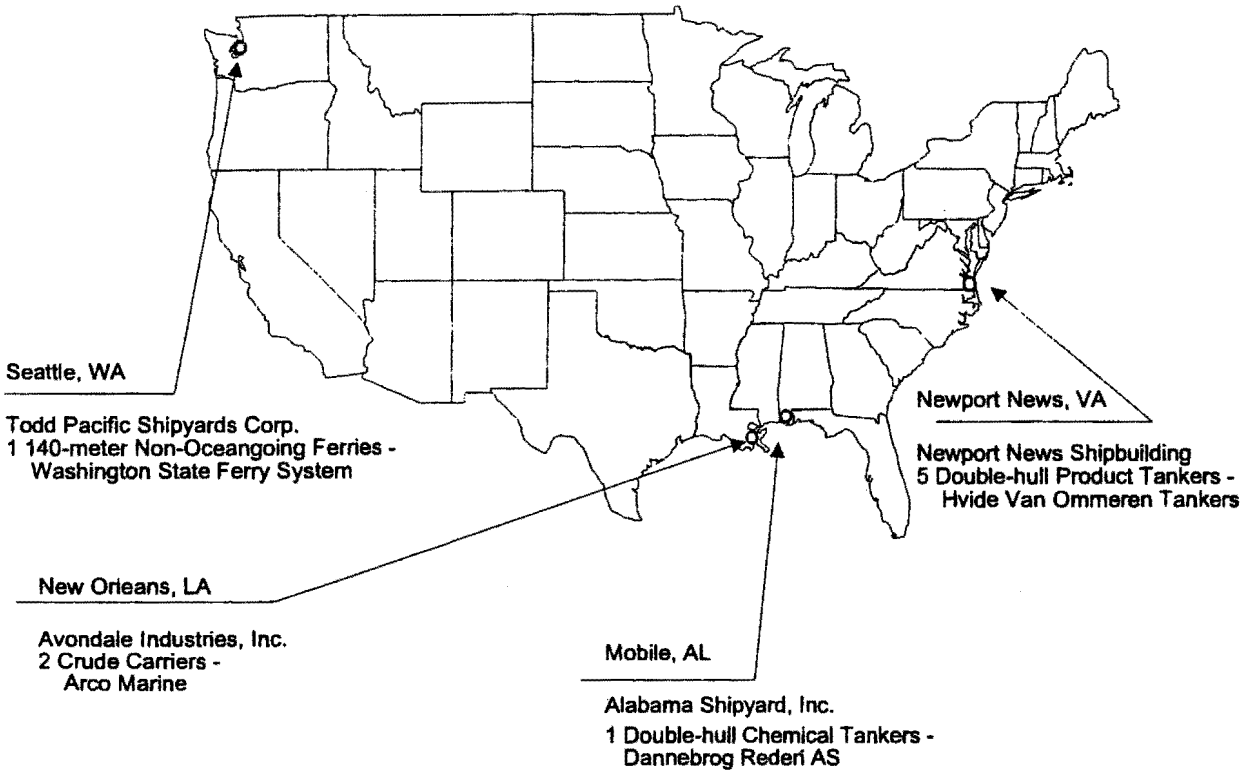


Chart 6: COMMERCIAL SHIPBUILDING ORDERBOOK HISTORY
(AS OF DECEMBER 31, 1998)
SHIPS OF 1,000 GROSS TONS AND OVER

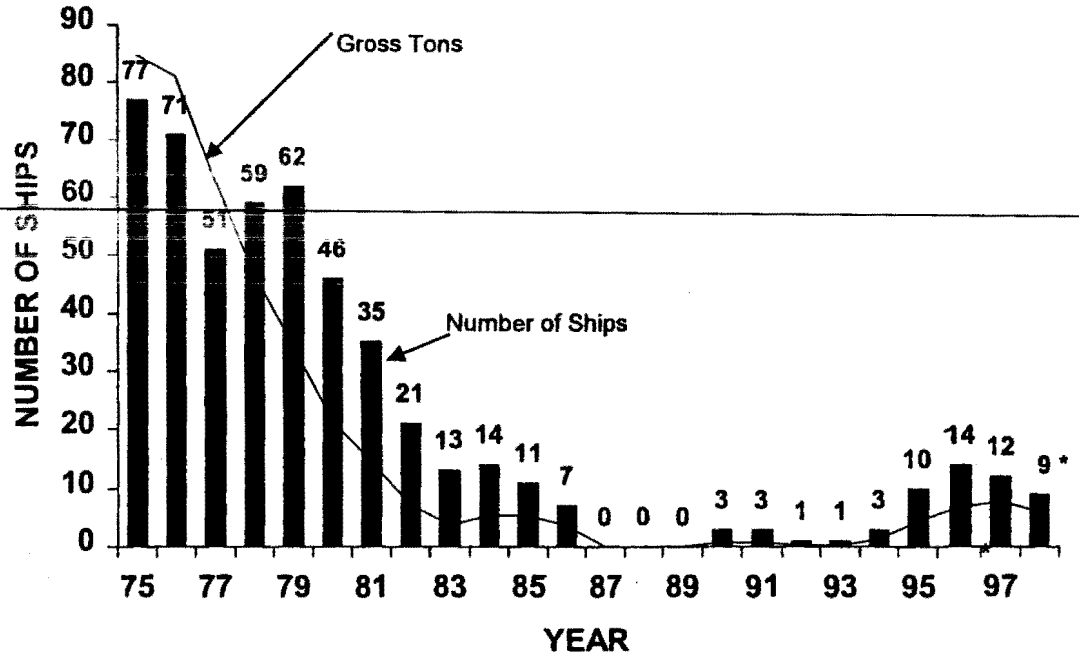


Chart 7: CAPITAL INVESTMENTS
U.S. SHIPBUILDING AND REPAIR INDUSTRY

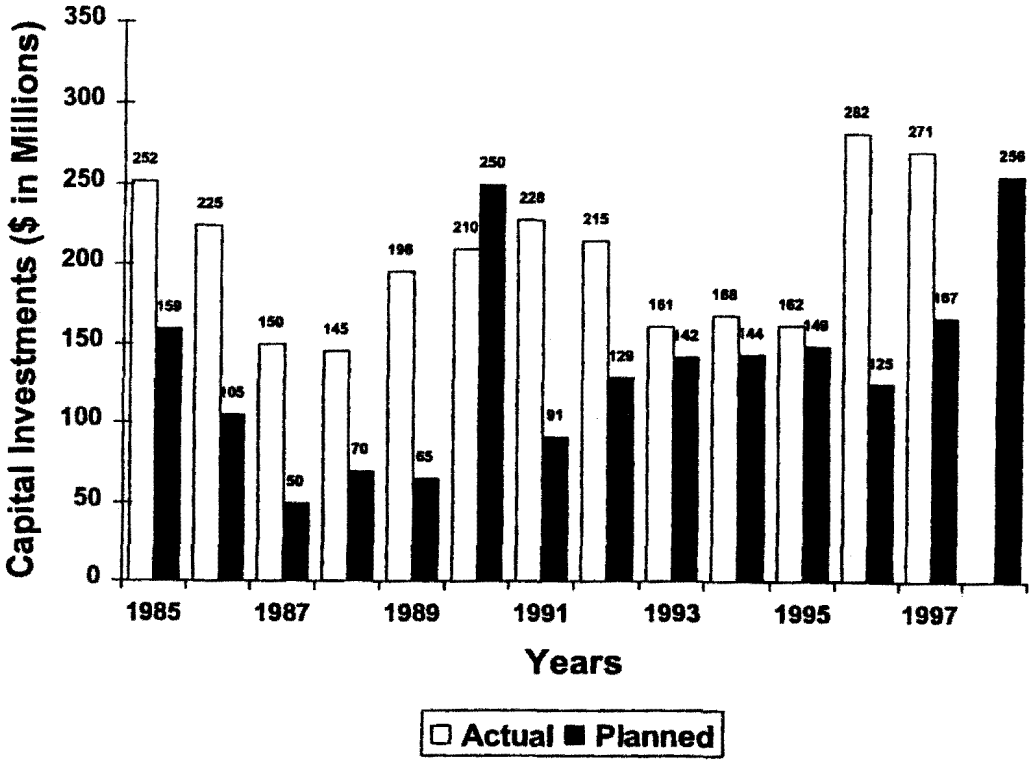


Table 4: TITLE XI APPROVED GUARANTEES IN FY1998

Company	No. Vessels	Type	Guarantee Amount
Noble Drilling Corporation*	1	Semi-Submersible Mobile Offshore Drilling Unit	$96,892,000
Tugz International L.L.C..	3	1Twin Z-drive Reserve Tractor Harbor/Escort/Towing Tugs	$14,029,000
Canal Barge Company, Inc.	30	Steel Open hopper Barges	
	2	260-foot Deck Barges	
	10	120-foot Deck Barges	$11,654,000
Attransco, Inc. (Refinancing of Title XI Debt)	3	Tank Vessels	$48,819,622
HAM Marine, Inc.	N/A	Shipyard Modernization	$24,817,000
Western Power Co.*	2	Power Barges	$67,009,000
Marine Cranes	1	Split-hull ABS Loadline Hopper Barge	$4,083,000
Maybank Navigation Co., LLC	1	Warehouse Barge	$4,000,000
Vessel Management Services, Inc.	10	Medium-High Horsepower Tugboats	$75,536,000
Perforadora Central, S.A. de CV*	1	Jack-up Mobile Offshore Drilling Unit	$70,774,000
Astro Offshore corporation*	2	Platform Supply Vessels	$31,468,000
Rowan Companies, Inc.	1	Self-Elevating Mobile Offshore Drilling Unit	$171,007,000
Lighship Tankers III-V, LLC	3	46,095-Deadweight Tank Vessels	$139,023,000
TOTAL	70		$734,294,622

*Export transactions.

Table 5: MARITIME GUARANTEED LOAN PROGRAM (TITLE XI) PROGRAM SUMMARY
Principal Liability (Statutory Limit $11.25 Billion) -- SEPTEMBER 30, 1998

Vessel Type		Contracts in Force: Outstanding Vessels Covered	Contracts in Force: Amount (Millions)
Ocean Tugs & Barges		144	264,655,387.07
Bulk		51	856,607,107.25
Passenger		10	109,512,412.00
Offshore Drilling Industry		17	595,537,000.00
Inland		479	116,341,000.00
Liner		5	184,765,000.00
Other		5	60,558,000.00
Power Generating Vessels		11	543,105,000.00
Shipyards		NSC*	106,858,000.00
Dredging Equipment		9	28,354,119.10
TOTALS		731	$2,857,293,126.44

*No ship count

Table 6: WORLDWIDE SHIP DELIVERIES - CALENDAR YEAR 1997

(Note: Tonnage in Thousands)

	Total	All	Tanker		Dry Bulk		Containership		Roll-on/Roll-off		Cruise/Passenger		Other	
	No.	DWT	No.	DWT	No.	DWT	No.	DWT	No.	DWT	No.	DWT	No.	DWT
Country of Construction	983	36,335	18	8,812	289	18,484	248	6,846	36	339	8	38	220	1,816
Japan	383	15,103	-	3,302	167	9,183	66	1,910	15	152	-	-	64	556
Korea(South)	180	12,907	4	3,736	65	6,615	66	2,469	6	87	-	-	-	-
China	85	2,009	-	416	32	974	16	102	-	-	1	1	27	516
Taiwan	22	1,202	-	2	8	958	13	242	1	4	-	-	-	-
Germany	65	1,192	-	28	-	-	44	1,038	4	21	2	7	13	98
Poland	37	825	-	133	1	48	26	578	-	-	-	-	6	66
Denmark	12	516	-	111	-	-	4	385	-	-	-	-	5	20
Spain	15	318	-	275	-	-	1	13	2	7	-	-	4	23
Italy	14	307	-	100	2	150	-	-	4	43	2	14	-	-
Netherlands	47	240	-	13	-	-	1	13	2	8	-	-	41	206
Romania	10	239	-	-	1	173	-	-	1	9	-	-	8	57
Croatia	5	191	-	82	2	87	-	-	-	-	-	-	1	22
Finland	3	153	-	146	-	-	-	-	-	-	1	7	-	-
Turkey	19	128	-	-	-	-	4	37	-	-	-	-	14	87
Bulgaria	6	123	-	3	4	111	-	-	-	-	-	-	1	9
Russia	12	116	-	79	-	-	-	-	-	-	-	-	8	37
Norway	4	99	-	91	-	-	-	-	1	8	-	-	-	-
Brazil	2	87	-	45	1	42	-	-		-	-	-	-	-
France	3	83	-	74	-	-	-	-	-	-	2	9	-	-
Ukraine	3	79	-	74	-	-	-	-	-	-	-	-	1	5
Singapore	7	60	-	21	1	29	1	10	-	-	-	-	-	-
India	4	53	-	-	2	49	-	-	-	-	-	-	2	4
Portugal	10	53	-	23	-	-	1	5	-	-	-	-	5	25
Philippines	3	46	-	*	2	46	-	-	-	-	-	-	-	-
Slovakia	11	43	-	-	-	-	1	4	-	-	-	-	10	39
Argentina	2	41	-	30	-	-	1	11	-	-	-	-	-	-
Malaysia	5	40	-	8	-	-	3	29	-	-	-	-	1	3
Indonesia	4	32	2	9	1	19	-	-	-	-	-	-	1	4
Lithuania	3	18	-	-	-	-	-	-	-	-	-	-	3	18
United Kingdom	3	14	-	11	-	-	-	-	-	-	-	-	1	3
Egypt	1	7	-	-	-	-	-	-	-	-	-	-	1	7
Yugolsavia	1	7	-	-	-	-	-	-	-	-	-	-	1	7
Czech Republic	2	4	-	-	-	-	-	-	-	-	-	-	2	4

* Less than 500 Dwt

Table 7: CAPITAL CONSTRUCTION FUND HOLDERS -- September 30, 1998

Abdon Callais Boat Rentals, Inc.
AFFCO, Incorporated
Afram Lines (USA) Co., Ltd.
Alaska Riverways, Inc.
Alpha Marine Services, Inc.
A.M.C. Boats, Inc.
Al A. Gonsoulin
Amalgated Henway, Inc.
Amak Towing Co., Inc.
American Classic Voyagas, Co.
American President Lines, Ltd.
American Shipping, Inc.
Anderson Tug & Barge Co.
Andover Company, L.P.
Apex Marine Corporation
Aquarius Marine Co.
Aries Marine Corp.
Atlantic Richfield Co.
Atlas Marine Company
BP Oil Shipping Company, USA
Bethlehem Steel Corp.
Bigane Vessel Fueling
Binkley Co., The
Bludworth, Richard W.
Blue Lines, Inc.
Brice, Inc.
C & C Boat Rentals, Inc.
C & E Boat Rentals Inc.
Campbell Towing Co.
Cement Transit Co.
Citicorp Industrial Credit, Inc.
Citimarlease (Burmah I), Inc.
Citimarlease (Burmah LNG Carrier), Inc.
Citimarlease (Burmah Liquegas), Inc.
Citimarlease (Fulton), Inc.
Citimarlease (Whitney), Inc.
Clipper Navigation, Inc.
Cook Inlet Tug & Barge Co., Inc.
Coon Brothers, Inc.
[illegible]
[illegible]
[illegible]
Crowley Marine Corp.
Dance Cajole and Marine
Durocher Dock & Dredge
Edison Chouest Offshore, Inc.
Edward E. Gillen Co.
Eserman Offshore Service, Inc.
Exxon Corporation
Falcon Alpha Shipping, Inc.
Falcon Capital, Inc.
Falgout Bros., Inc.
Falgout Marine, Inc.
Farrell Lines, Inc.
First Island Company
Foss Maritime Co.
Fred Devine Diving & Salvage, Inc.
G&B Marine Transportation, Inc.
GATX Corp.
General Electric Credit and Leasing Corp.
General Electric Credit Corp. of Delaware
General Electric Credit Corp. of Georgia
Gilco Supply Boats, Inc.
Global Industries, Ltd.
Great Lakes Towing Co.
Hannah Brothers
Hannah Marine Corp.
Hawaiian Electric Indus.
Hone Heke Corporation
Household Commercial Financial Services, Inc.
Hvide Shipping, Inc.
Iberia Crewboats & Marine Service, Inc.
Inter-Cities Navigation Corp.
International Shipholding Corp.
Interstate Towing Co.
Jade Marine Inc.
Kenai Fjord Tours, Inc.
Kinsman Lines, Inc.
L&L Marine Services, Inc.
L & M Botruc Rental, Inc.
Leppaluoto Offshore Marine, Inc.
Lykes Bros. Steamship Co.
Madeline Island Ferry Line, Inc.
Matson Navigation Company, Inc.
Maybank Navigation Company, LLC
Middle Rock, Inc.
Miller Boat Line, Inc.
Milwaukee Bulk Terminals, Inc.
[illegible]
Navajo Offshore, Inc.
National Steel and Shipbuilding Co.
Newman Boat Line, Inc.
Nicor, Inc.
Northland Services, Inc.
Oceanic Fleet, Inc.
Ocean Shipholdings, Inc.
Oceanic Research Services, Inc.
O.L. Schmidt Barge Lines, Inc.
Oglebay Norton Co.
OMI Corp.
Otter Creek Company
Otto Candies, Inc.
Overseas Shipholding Group, Inc.
P. J. Brix, L.L.C.
Pacific Hawaiian Line, Inc.
Rainbow Tours
Ritchie Transportation Co.
Sacramento Tugboat Company
Sause Bros. Inc.
Sause Bros. Ocean Towing Co., Inc.
Seabulk Tankers, Ltd.
Sea-Land Corp.
Sea-Mar Equipment, Inc.
Sea-Mar Operators, Inc.
Sheplers, Inc.
Siegfried Company
Silver Bay Loggings Inc.
Skansi Marine, LLC
Smith Lightening Co., Inc.
Southern States Offshore, Inc.
Stan Stephens Charters, Inc.
St. Bartholomey Corp., The
St. Bernard Boat Rental Inc.
State Boat Corporation
Steel Style Marine
The Delta Queen Steamboat Co.
Titus, Inc.
TMT Corporation
Tobias, Inc.
Torch, Inc.
Total Transportation, Inc.
Totem Resources Corp.
Union Oil Co. of California
Washington Island Ferry Line, Inc.
Waveland Marine Service, Inc.
West Travel Inc.
Western Fleet[illegible]
[illegible]
[illegible]
Y & S Marine, Inc.
Zidell Corp.
Zita Corporation

Table 8: CONSTRUCTION RESERVE FUND HOLDERS -- SEPTEMBER 30, 1998

American Heavy Lift Shipping Company
Anna Offshore, Inc.
Arthur Levy Enterprises, Inc.
P. J. Brix L.L.C.
Central Gulf Steamship Corp.
Champion Offshore Boat Service, Inc.
Crowley Launch and Tugboat Co.
Pacific Hawaiian Line, Inc.
Secor Marine Inc.
Secor Marine International, Inc.
Secor Offshore Inc.
Serodino, Inc.
Special Expeditions
Steuart Investment Co.

The Maritime Administration (MARAD) provides technical assistance in port, intermodal, and environmental planning and operations to State and local port authorities, terminal operators, private industry, agencies of the United States, and foreign governments. In times of national emergency or contingency, MARAD plans for the use of ports and port facilities and plans for the priority use and procurement of containers and other intermodal equipment to minimize disruption of inventory distribution. (See Chapter 1.) MARAD also coordinates and provides for environmental controls and abatements of ship-generated pollution caused by vessels under its jurisdiction.

MARAD promotes development of technologically advanced, efficient, and competitive public and private ports serving the domestic and deep ocean maritime commerce of the United States both in peace and times of national emergency. The principal fiscal year (FY) 1998 activities are summarized below.

Ports

Congressional Report on the Public Port Industry

The Secretary of Transportation is required to report biennially to the Congress on the status of the U.S. public ports under Public Law 96-371. The report for calendar years 1996 and 1997 discusses the industry's economic activities and the critical issues it faces. It describes the industry's economic importance, the volume and composition of waterborne trade, marine terminal facilities, capital expenditures, and financial status. It also examines the major issues confronting the public port industry.

Public Port Financing

The *United States Port Development Expenditure Report* analyzed the public port industry's capital expenditures for 1996 and projected expenditures for 1997-2001, including the financing methods used to fund these expenditures. Charts 8 and 9 show the public port industry's capital expenditures for 1996 and projected expenditures for 1997-2001.

Port Facility Conveyance Program

By delegated authority, MARAD conveys Base Realignment and Closures (BRAC) and other surplus Federal real property to public entities for the development or operation of a port facility. The program provides a no cost means for local entities to acquire property for use as a port facility. The program helps create jobs and revitalize communities negatively impacted by base closures or other Federal property action.

A port facility conveyance application was approved for the Port of Stockton, CA, in FY1998. Conveyances have been completed in Richland, WA, and Port Hueneme, CA. Applications are under review from the Port of Long Beach, CA, and the Village of Harrisonburg, LA.

CCDoTT

In FY 1997, MARAD entered into cooperative agreements with the U.S. Transportation Command (TRANSCOM) and California State University at Long Beach to assist in managing the Center for the Commercial Deployment of Transportation Technologies (CCDoTT). The CCDoTT program demonstrates existing, emerging, and developing technologies in cargo handling, tagging, tracking, information management systems, and high-speed sealift.

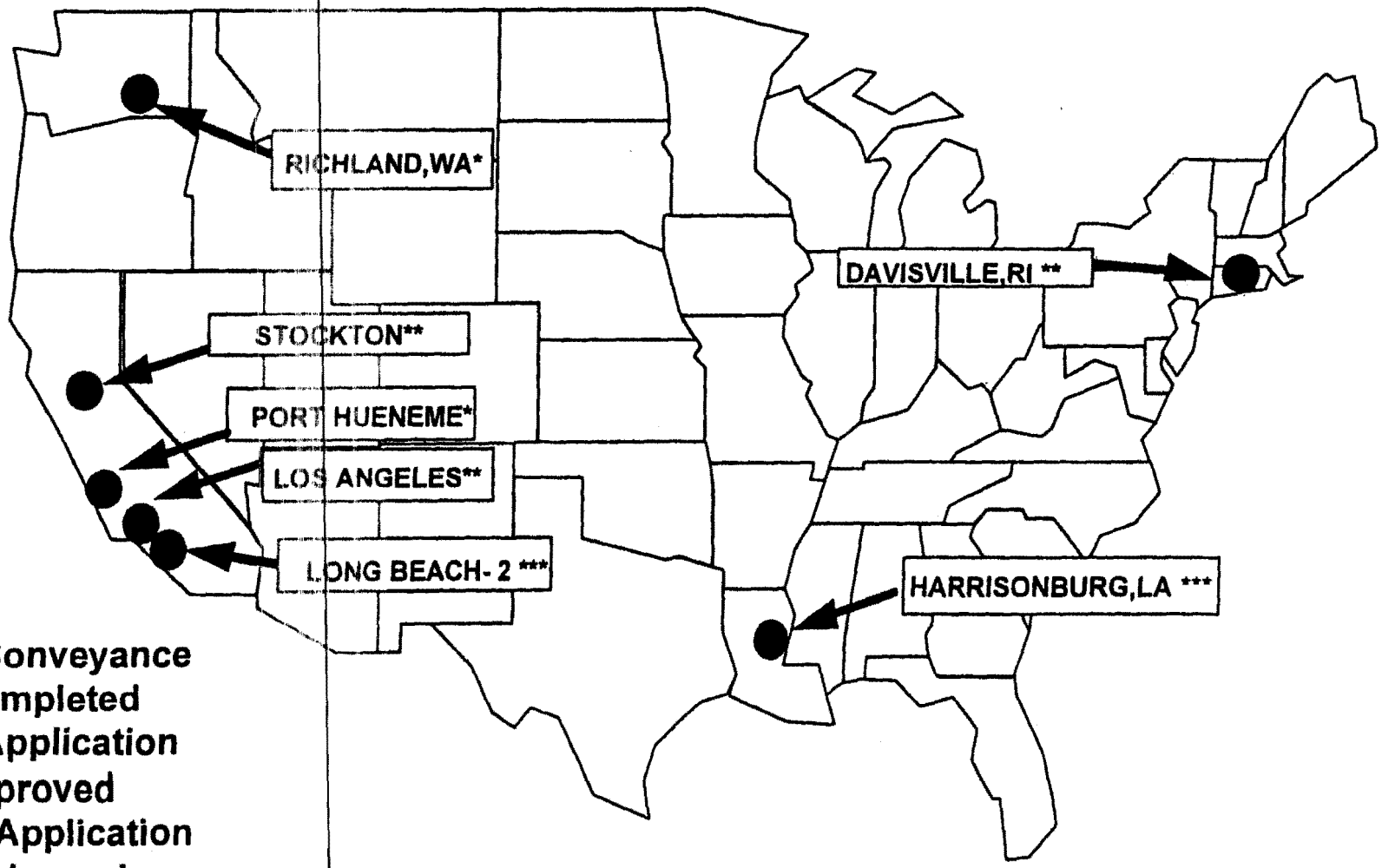
These technologies, if adopted, will help the military deploy more quickly, expand the ability of commercial transportation to accommodate the surge of military cargo, and minimize commercial transportation disruption.

Risk Management

MARAD released its publication, the *Port Risk Management and Insurance Guidebook* in FY 1998. This report is the result of a partnership between the Agency and the American Association of Port Authorities (AAPA) Insurance Committee and documents how risk management and insurance programs can be effective tools in improving port operations. Significant resources can be saved by pursuing good risk management practices aggressively and proactively.

Figure 1:

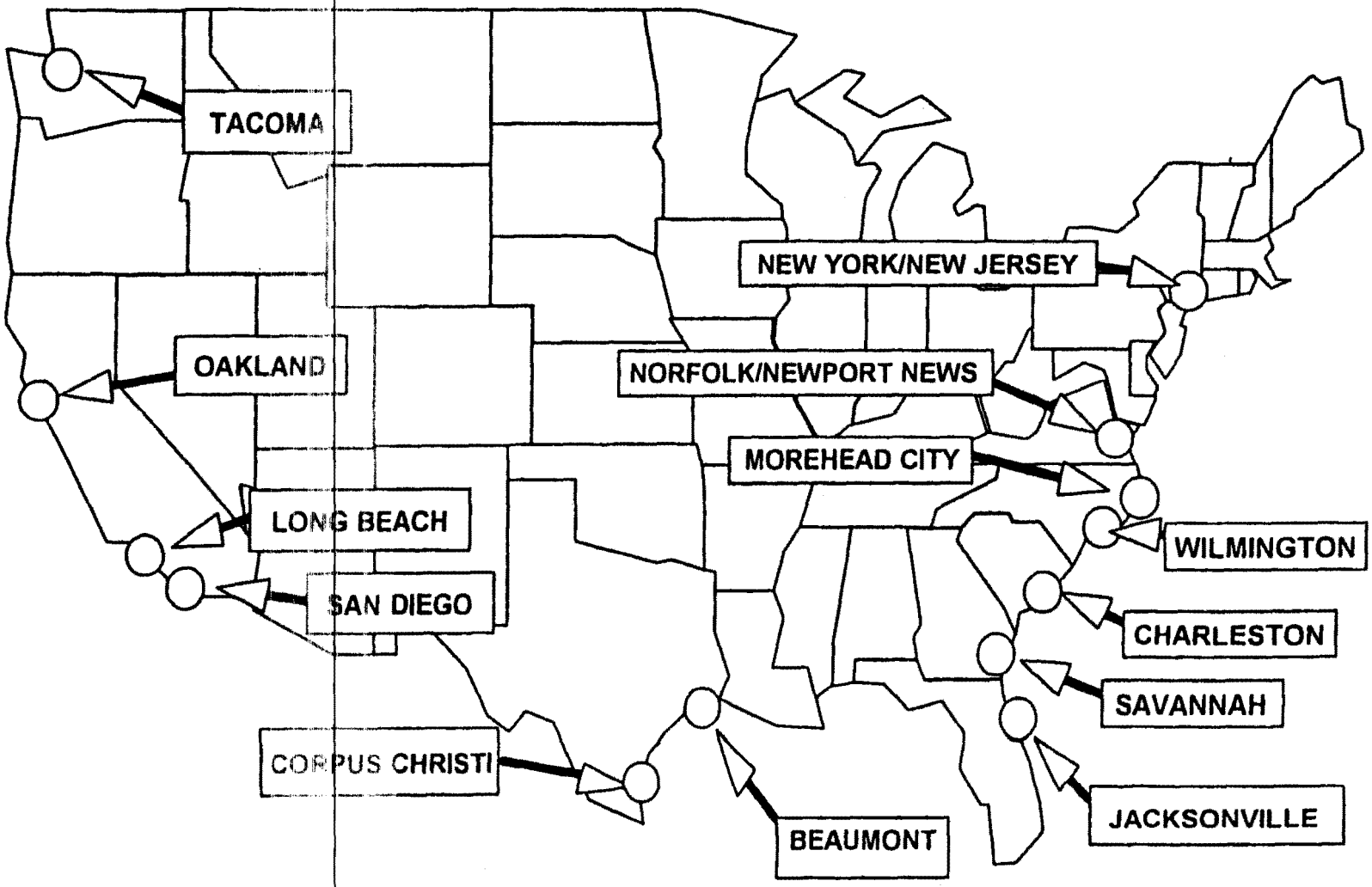
Port Facility Conveyance Program



*** Conveyance Completed**
****Application approved**
*****Application under review**

Figure 2:

Strategic Ports with Existing Planning Orders



The overall objective of the *Guidebook* is to provide ports with the basic information needed to establish and maintain appropriate and cost-effective insurance and risk management programs. It is designed to serve as a practical "how-to" manual and educational reference text. It is written from a port's point of view and geared toward the basics of insurance and risk. Moreover, ports in Canada have found it particularly useful during their privatization and restructuring efforts.

Chart 8
U.S. Port Capital Expenditures for 1996
(Thousands of Dollars)

Region	1996	
	Expenditure	Percent
North Atlantic	$96,357	7.4%
South Atlantic	140,944	10.8%
Gulf	134,311	10.3%
South Pacific	642,941	49.5%
North Pacific	241,254	18.5%
Great Lakes	245	-
AK, HI, PR, & V.I.*	45,100	3.5%
Guam, Saipan	-	-
Total	$1,301,152	100.0%

* Alaska, Hawaii, Puerto Rico, & Virgin Islands

Public Port Capital Expenditures for 1997-2001

Region	Expenditures	Percent
North Atlantic	$787,602	12.0%
South Atlantic	1,258,341	19.1%
Gulf	941,160	14.3%
South Pacific	2,554,149	38.8%
North Pacific	746,966	11.3%
Great Lakes	20,786	0.3%
AK, HI, PR, & VI *	275,235	4.2%
Total	$6,584,238	100.0%

* Alaska, Hawaii, Puerto Rico, & Virgin Islands

Inland River Capital Expenditure Report

MARAD, the National Waterways Conference and the Inland Rivers, Ports, and Terminals Association jointly undertook a study of capital expenditures at U.S. inland river ports. Actual 1996 and historic expenditures are covered, along with other port data such as types of operation. The final report was released early in FY 1999.

Deepwater Ports

The Secretary of Transportation delegated certain functions of the Deepwater Port Act of 1974 to the Maritime Administrator in FY 1997. The revised delegation of authority specifically addresses the coordination between MARAD and the USCG for processing applications to issue, transfer, or amend the license for the construction and operation of deepwater ports.

New provisions for consultation with the Secretary of State relating to international actions and cooperation in the economic, trade, and general transportation policy aspects of the ownership and operation of deepwater ports were also identified. MARAD and the USCG are proceeding to structure staff and organizational relationships to fulfill these new deepwater port licensing responsibilities.

Port Readiness

MARAD continued its leadership role in port readiness initiatives.

The Agency was installed as the permanent chair of the National Port Readiness (NPRN) Steering Group and the National Port Readiness Working Group.

During the reporting period, MARAD initiated Semi-annual Enhanced Port Readiness Assessment Reports to complement the monthly reports provided to the Department of Defense (DOD) on available terminal facilities at strategic continental United States ports.

In addition, under MARAD's stewardship, a fifth revision of the Memorandum of Understanding (MOU) on Port Readiness was promulgated and a Strategic Port Workshop was conducted in Washington, DC, for military, Federal agency, and maritime-intermodal transportation industry personnel from throughout the United States.

MARAD also initiated a revision and enhancement of the Port Disruption Model and developed a brochure and a website on the National Port Readiness Network. Both can be accessed at http://marad.dot.gov/nprn.

Military/Defense Liaison

MARAD worked closely with the TRANSCOM and the Military Traffic Management Command to facilitate the ongoing Department of Defense Mobility Requirements Study 2005 (MRS-05).

This study will validate military logistics infrastructure and support services for the millennium to achieve the national military strategy. The MRS-05 will consider risk and constrained resources that meet DOD force projection and sustainment requirements in the year 2005. MARAD has provided critical port infrastructure information necessary to evaluate operational impacts on the mobility force.

Maritime Intelligence and Security

The global nature of American trade results in U.S.-flag ocean carriers calling on worldwide ports. As a result, U.S. commercial maritime interests can be jeopardized by a broad range of illicit activities, adversely affecting their competitiveness.

MARAD's Port and Cargo Security Program seeks to improve the security of U.S. ports and U.S. cargo moving in vessels of all flags while in foreign ports.

The program focuses on efforts to alleviate drug smuggling and cargo theft in commercial maritime transportation. It supports the mission of the USCG and other agencies to improve counter-smuggling and cargo security strategies. The program also supports those missions by providing increased strategic intelligence information pertaining to the exploitation of commercial maritime shipping by criminal organizations, organizing security training of foreign port officials, and Government/industry partnering outreach. Key activities in FY 1998 included:

☞ *Maritime Security Report.* This publication focuses on counter-drug and other international criminal activity and security issues which pose a threat to U.S. commercial maritime interests and the movement of U.S. civilian cargoes in foreign trade. MARAD was awarded the commercial port industry's Golden Candle Award for excellence in open source intelligence in 1997 for this report.

☞ *Port Security: Security Force Management.* The second *Guidebook* in a series of technical documents developed by Federal/industry teams was published in FY 1998. It has been widely adopted in the curriculum of Federal and industry port/vessel training courses. Other guidebooks on a range of port security topics are planned.

☞ Assistance was provided to The Interdiction Committee, chaired by the U.S. Customs Service, through participation in its *Private Industry Support Working Group* and *Intermodal Smuggling Working Group.*

☞ *Federal Ad Hoc Working Group On Maritime Security Awareness*, chaired by MARAD, met to provide coordination of

Federal/-maritime industry interaction on courses of action, facilitation of effective solutions, the exchange of information on maritime security issues, and dissemination of intelligence to the commercial maritime industry.

Technical Assistance to Foreign Ports

MARAD continued to provide technical assistance to foreign governments for improvement of harbor and terminal operations, training of human resources, and improvement of cargo security.

In March 1998, MARAD executed three technical agreements with the Organization of American States (OAS) which deal with training courses for improved port security; an Inter-American port training program; and a feasibility study for demonstrating a Western Hemispheric Geo-spatial Maritime Cargo Data System.

These three programs support the commitments assumed at the 1994 and 1998 Americas Summits to explore joint solutions for transportation and port problems in the region and to establish the basis for more dynamic and effective cooperation among all 34 OAS countries. These programs benefit all ports in the Western Hemisphere through heightened security, enhanced management and labor training, and improved maritime cargo information

Inter-American Port Security Training Program project provides port security training courses for commercial port authority police and security personnel, was developed through the OAS Permanent Technical Committee on Ports. The 1998 training program consisted of three courses conducted in Latin America and the Caribbean for regional personnel using commercial maritime industry and U.S. Government trainers.

Inter-American Port Security Training Program

This training is a fundamental tool for the modernization and improvement of port systems in the Western Hemisphere. Ports must provide improved levels of service, including human resources to manage, plan, and operate facilities. See Charts 10 and 11.

Geo-Spatial Maritime Cargo Data System

MARAD is conducting a *Feasibility Study for Demonstrating a Western Hemispheric Geo-Spatial Maritime Cargo Data System for the Western Hemisphere*. It is part of a regional initiative requested by the OAS Inter-American Port and Harbor Conference which represents the ports in the Western Hemisphere.

The study will identify and evaluate data sources leading to the development of a system prototype. The prototype will demonstrate the use of a Geographic Information System tool to analyze trade patterns and impediments to trade by integrating multiple maritime cargo databases from a cross section of OAS member countries.

A steering committee composed of OAS, World Bank, Panama Canal Commission, American Association of Port Authorities, U.S. Army Corps of Engineers, United Nation's Economic Commission of Latin America and the Caribbean, and the U.S. Department of Transportation (DOT) provides guidance and review. Vanderbilt University, Nashville, TN, is performing the study.

Asia-Pacific Economic Cooperation (APEC)

MARAD, in cooperation with the APEC Port Experts Group, is undertaking a dredging needs study of the APEC economies, including the United States. This effort will identify the major dredging issues facing APEC ports.

MARAD also is working with the APEC Port Experts Group on a program that will develop an Environmental Code of Practice (ECP) for APEC ports. The development of an ECP will provide a set of guidelines for best environmental protection management practices in APEC ports. The guidelines will be based on common environmental management and program practices, objectives, and elements that can be identified to assist APEC member economies in addressing the complex issues associated with port activities in estuarine environments.

Intermodal Development

MARAD's Intermodal program continued to stress a systems approach to address marine transportation requirements. This includes emphasis on intermodal freight infrastructure development that addresses efficient access to marine ports and terminals, and intermodal freight systems and technologies that enhances U.S. international competitiveness.

Chart 10: Inter-American Port Training Program in FY 1998		
Port Management	May 1998	Valencia, Spain
Port Tariffs/Financial Management	June 1998	Lima, Peru
Computer Systems for Port Management	August 1998	Corpus Christi, TX

Chart 11: Inter-American Port Training Projects in FY 1999		
Cruise Marketing	November 1998	Montego Bay, Jamaica
Social Impact of Port Reforms	December 1998	Cali, Colombia
Port and Customs Relations	December 1998	Houston, TX

Intermodal Freight Infrastructure

In FY 1998, MARAD initiated a comprehensive intermodal freight infrastructure database to support the Agency's strategic goal on intermodalism as well as DOT's strategic goal on mobility.

The primary data focuses on general port information that includes port and intermodal infrastructure. Data are provided for:

- ports and terminals;
- landside and waterside access impediments;
- intermodal projects;
- National Highway System (NHS) connectors; and
- time series cargo data.

Future refinements to this comprehensive database will enable MARAD to provide analysis for national and regional areas as well as selective analysis for critical intermodal issues. This effort enhances MARAD's ability to work cooperatively with other DOT operating administrations and the Office of the Secretary to address Departmental policy, funding, and maritime intermodal challenges and opportunities.

MARAD also cost-shared and was actively involved in the Departmental interagency effort created in 1997 to address the impact of changes in ship design on transportation infrastructure and operations.

This effort was undertaken to address national public policy implications pertaining to:

- ongoing deregulation of the transportation industry that allows the formation of modal partnerships to optimize efficient use of the U.S. transport system;
- the devolution of transportation programs that empower states and metropolitan planning organizations to play a larger role in transportation decision-making; and
- the need to maximize the use of existing freight transportation infrastructure while improving productivity.

The Agency's participation included co-sponsoring and cost-sharing four regional meetings held in Seattle, WA, Houston, TX, New York, NY, and Norfolk, VA.

These meetings provided a forum for DOT to obtain insight into the issue from national industry leaders including representatives from shipping lines, port managers, surface transportation providers, and Federal/State/local transportation agencies.

The results of these meetings are summarized in the report, *The Impacts of Changes in Ship Design on Transportation Infrastructure and Operations* published in February 1998.

There were two primary recommendations of the study

- DOT's Waterways Management Initiative, led by the U.S. Coast Guard and MARAD, which brought together agencies with waterway management responsibilities to coordinate and consolidate the delivery of all Federal services and promote port efficiency.

Waterways transportation management will focus on policy coordination at the national level and action at the local port level. Adequate infrastructure, including channel and berth depths,

navigation information, port facilities, intermodal connections and information management to accommodate all classes of marine vessels-including container vessels-are among the waterways issues encompassed within this initiative.

- DOT's Assessment of the Conditions of NHS intermodal connectors, a Federal Highway Administration (FHWA) initiative, will compile information on the NHS connections to major passenger and freight intermodal terminals, including 500 freight terminals.

MARAD worked cooperatively with national and regional organizations, including the AAPA and the Intermodal Association of North America, to develop the status of critical marine port and terminal access impediments. This effort will result in updating critical access impediment data outlined in the National Academy of Science Transportation Research Board report, *Landside Access to U.S. Ports.* The update was the result of several initiatives, including :

• critical infrastructure improvements required for the United States to take advantage of global trade opportunities as a result of expanded international trade, North American Free Trade Agreement, domestic inter- and intra-coastal shipping activities, and changes in vessel size;

• potential funding opportunities for freight transportation improvements as a result of Transportation Equity Act for the 21st Century (TEA21); and

• potential public-private partnerships to address major freight corridor projects of national significance.

The findings will be included in the *Report to Congress on the Status of U.S. Ports* for 1998.

Cooperative Initiatives

On June 9-10, 1998, MARAD cost-shared and participated in an Intermodal Freight Identification Technology Workshop to develop a process that would harmonize freight technology and help advance and improve the United States competitiveness by creating a seamless, intermodal freight movement system.

The workshop brought together over 150 leaders from the public and private sectors to collaboratively set an action agenda to address interoperability issues in intermodal freight location and identification.

Industry and Government attendees discussed their current systems and future requirements for freight identification and location (containers, trailers, etc.) across the modes and international borders. The goals of the workshop were to engage the attendees in a dialogue to:

• identify and articulate potential benefits of greater harmonization across freight communities in using freight identification technologies;

• identify candidate projects that help to achieve the desired benefits;

• draft an action agenda to achieve these benefits; and

•identify organizations willing to lead and actively participate in the resulting agenda initiatives.

The participants agreed by the end of the workshop that the goals had largely been met. The workshop led to the formation of a Freight Technology Working Group (Working Group) to actively pursue recommendations and action items.

The charter of the Working Group is to increase freight and equipment visibility throughout the supply chain, utilizing intelligent transportation systems. Goals include:

• improving the safety and efficiency of freight movement;

• improving the visibility of cargo and assets throughout the supply chain; and

• better communication and technology transfer between DOD and the commercial sector.

Working under the auspices of ITS America, the Working Group seeks to:

• optimize the process of freight and equipment movement through the use of technology;

• promote interoperability among disparate systems;

• develop and deploy comprehensive and integrated information fusion models;

• ensure that model deployments and programs are commercially viable;

• create viable leverages and partnerships with the efforts, products, and funds within the intermodal transportation stakeholder community; and

• assess new and emerging technologies and their impacts and applicability to the intermodal transportation industry.

MARAD worked with DOT and its operating administrations to address intermodal freight

infrastructure requirements in TEA21.

A major TEA21 provision that is important to marine freight transportation infrastructure requirements is the overall funding level of approximately $175 billion for fiscal years 1998-2003, an increase of 11 percent over Intermodal Surface Transport Equity Act's funding level of $157 billion. This includes a 30 percent increase in core highway programs, such as the NHS which includes the designation of major connectors to marine ports and terminals.

Another provision of TEA21 important to marine freight transportation infrastructure is the Congestion Mitigation and Air Quality Improvement Program (CMAQ) whose funding level is slated to be increased by 30 percent. The CMAQ program would continue to provide marine ports and terminals opportunities to flex investments in intermodal freight facilities that result in improvements in congestion and air quality.

Intermodal Systems and Technology

In FY 1998, MARAD continued to expand the scope, focus, and membership of the Cargo Handling Cooperative Program (CHCP). The new cooperative consists of 12 members and MARAD. The focus of the CHCP now is industry-driven priorities, primarily in the areas of data management, information, and computer systems and technologies. The agreement covers organizations that represent major components of the U.S. intermodal transportation industry, including, shipping companies, port authorities, stevedoring companies/terminal operators, rail roads, trucking companies, and governmental agencies.

There is also an expanded mission that covers the following areas:

- Innovations in maritime container cargo handling through identification, development, and application of methods, facilities, equipment, and technologies with organizations and companies that are involved with marine cargo handling;

- Productivity enhancements through cargo handling research and development;

- Introduction of innovative technology in new systems, facilities and equipment that is consistent with national defense needs;

- Training requirement for the adaptation of new technology through cooperation with transportation companies from all modes.

Standards and Facilitation

MARAD began taking steps to become more involved in international standard and facilitation activities pertaining to intermodal transportation that enhance U.S. international trade competitiveness.

A major objective for the Agency's participation in these forums is to have input into, and in some cases initiate, international standards for containerized cargo which assist U.S. companies to compete with foreign companies on a more level playing field in the international arena. Similarly, being able to contribute during proposed international formalities, or to be able to propose formalities, for adoption into world requirements for ship operations for the arrival, stay and departure of ships in international trade, will also help to ensure that America will not be left behind or burdened with inappropriate rules and regulations which would make it uncompetitive internationally.

The Agency has joined an International Organization for Standardization (ISO) Technical Committees (TC), TC 204 which is responsible for the overall system and infrastructure aspects of transport information and control systems as well as the coordination of the schedule for standards development. In this regard, MARAD attended the semi-annual TC 204 Plenary meeting in Toronto in May.

The Agency participates in the International Maritime Organization's Facilitation of Maritime Traffic (FAL Convention) Committee which facilitates maritime transport by simplifying and minimizing the formalities, documentary requirements and procedures associated with the arrival, stay, and departure of ships engaged on international voyages.

MARAD's primary role in these organizations is to represent, with their assistance, various sectors of the U.S. maritime industry such as ocean carriers, shipbuilding, stevedore/ terminal operators and port authorities.

In FY 1998, MARAD helped prepare the delegation on a variety of matters presented at the IMO FAL 26th Session.

Education and Training

Under an interagency agreement signed by MARAD, FHWA, and Research and Special Programs Administration (RSPA) a comprehensive plan for cooperative

education and training activities was initiated.

A major objective is to expand the logistics and intermodal transportation program at the U.S. Merchant Marine Academy (USMMA) in Kings Point, NY, through coordination with FHWA's National Highway Institute (NHI) and transportation research programs managed by RSPA. The long-term objective is to explore the potential of comprehensive joint programs that can be administered by any of the participating organizations.

An interagency working group composed of representatives from the three agencies has been formed to investigate areas of mutual interest and cooperation and to develop an implementation plan and schedule. Key areas of interest are:

- identification of existing courses;
- development of new course materials;
- enhanced Departmental coverage of intermodal transportation;
- administrative and financial issues; and
- joint program development.

The cooperative venture complements the Departmental Garrett A. Morgan Technology and Transportation Futures Program educational initiative that:

- supports the Administration's Education Initiative,
- promotes careers in transportation-related industries, and
- assures a pipeline of trained professionals/technicians/-specialists to operate, design, plan, and construct the Nation's intermodal transportation system.

Data and Information

As set out in its regulation at 46 CFR Part 340, MARAD works with the commercial sector in national emergencies to meet the needs of the armed forces for use of intermodal equipment. MARAD carries out its responsibility by maintaining an ongoing inventory of U.S. intermodal equipment owned by American companies. The primary reason for the database is to expedite the planning and logistical support for military operations.

The automated database consists of information which covers the number, sizes, and ages of vessels, trailers, chassis, and containers that each company owns. The information can be sorted by individual company, type of equipment, or aggregate numbers, and downloaded for manipulation by each end user. This information is now available at www.marad.dot.gov.

Commercial-Military Coordination

MARAD continues to work with the military and commercial sectors to provide information concerning the status of the U.S. container business. Leasing and shipping companies are periodically contacted to develop a picture of the available container fleet for potential contingency use. This information is supplied to military exercise planners to test the movement of ammunition to a contingency area and help project the need for container supplies.

MARAD participates in war games and contributes information developed for the exercise. One goal of these exercises is to have personnel from outside of DOD assist in assessing the adequacy of intermodal commercial transportation systems to move military cargo during contingencies. This type of effort is successful in its goals of testing the intermodal system and determining where shortfalls occurred.

Environmental Activities

The MARAD environmental protection program seeks to enhance environmental protection and sustainable development in MARAD programs and in the U.S. maritime industry.

Dredging

MARAD continued to address dredging and dredged material management issues that face many of the Nation's ports and harbors. The Agency remained an active participant in the activities of the National Dredging Team (NDT) and Regional Dredging Teams (RDTs). The NDT seeks to facilitate communication, coordination, and resolution of dredging issues among participating Federal agencies and to assure that dredging of U.S. harbors and channels is conducted in a timely and cost-effective manner, while ensuring environmental protection.

The RDTs seek to resolve regional dredging issues. The NDT is co-chaired by the U.S. Army Corps of Engineers (COE) and the U.S. Environmental Protection Agency (EPA). In addition to MARAD, other participating agencies are the U.S. National Oceanic and

Atmospheric Administration (and the U.S. Fish and Wildlife Service.

The NDT serves as a forum for promoting implementation of the National Dredging Policy and the 18 recommendations in the December 1994 Report to the Secretary of Transportation, *The Dredging Policy in the United States: An Action Plan for Improvement.* The National Dredging Policy is built on several principles:

☞ the regulatory process must be timely, efficient, and predictable, to the maximum extent practicable;

☞ advanced dredged material management planning must be conducted on a port or regional scale by a partnership that includes the Federal Government, the port authorities, state and local governments, natural resource agencies, public interest groups, the maritime industry, and private citizens;

☞ dredged material managers must become more involved in watershed planning to emphasize the importance of point and non-point source pollution controls to reduce harbor sediment contamination; and

☞ dredged material is a resource, and environmentally sound beneficial use of dredged material for such projects as wetland creation, beach nourishment, and development projects must be encouraged.

Among its accomplishments in 1998, the NDT published *Local Planning Groups and Development of Dredged Material Management Plans: Guidance by the National Dredging Team* in June 1998. This was developed to address two of the recommendations in the December 1994 Federal interagency report. This guidance provides a framework to:

☞ assist in the formation of Local Planning Groups; provide context regarding the relationship of Local Planning Groups to other groups having different but compatible purposes, such as RDTs;

☞ establish a planning process; and

☞ develop and implement dredged material management plans. There were eight RDTs, the Southeast, Great Lakes, Southwestern, Pacific Islands , Northern California, Southern California, North Atlantic, and the Pacific Northwest.

Great Lakes Dredging Team

Under the guidance of the NDT, representatives of the eight Great Lakes states, six Federal agencies, and the Great Lakes Commission signed the charter for the Great Lakes Dredging Team (GLDT) in 1997.

The GLDT is co-chaired by a state and Federal member and meetings are held twice annually to analyze the process by which Great Lakes harbors and channels are dredged to maintain commercial and recreational navigation.

A major issue tackled by the Team is the Federal Standard or the Base Plan. The disposal of dredged material as part of maintenance dredging is governed by this COE policy. A GLDT focus on the Federal Standard led to a white paper titled, *Decision Making Process for Dredged Material Management* to highlight the complicated dredging decision process. Another priority is public outreach in the form of case studies, educational tools (i.e., pamphlets, videos, and Internet information), and public involvement.

Environmental Compliance and Compliance Management

MARAD seeks to protect the environment by ensuring that MARAD facilities are operated and MARAD programs are conducted in compliance with environmental laws, regulations, orders, and treaties. Since the inception of the biennial environmental audit program in 1992, MARAD has corrected over 90 percent of the deficiencies identified in assessments of its five facilities.

During FY 1998, the Agency continued to address the remaining deficiencies, to reduce the amount of regulated hazardous substances and materials that are used or found at its facilities and aboard MARAD vessels, to reduce the quantities of hazardous wastes that are generated by MARAD facilities and vessels, and to implement Presidential executive orders dealing with pollution prevention, recycling, and environmental justice. Also, the Agency initiated the next round of environmental compliance audits, beginning with the Great Lakes Fire Training Center and the U.S. Merchant Marine Academy.

The Agency Environmental Quality Action Team (EQAT) continued to pursue a multidisciplined approach to the resolution of MARAD environmental compliance issues, including the development of compliance guidelines. EQAT actions included:

- developing environmental, business, operational, and health and safety requirements for the Technical Compliance Plan (TCP) to be submitted by bidders for scrapping of MARAD obsolete ships, and reviewing TCPs submitted by prospective scrappers;

- monitoring the domestic vessel scrapping operations through periodic site visits and regular status reports to assure compliance with the terms of the TCP;

- providing guidance for avian damage control in the National Defense Reserve Fleet (NDRF);

- providing guidance for managing endangered species in the NDRF;

- developing draft guidance for management of polychlorinated biphenyls (PCBs) at MARAD facilities and a draft implementation guide for the Emergency Planning and Community Right-To-Know Act (EPCRA);

- providing paint removal guidance on exfoliating paint in the NDRF;

- providing environmental guidance for the Ship Managers Contract (SMC); and

- providing guidance for minimizing hazardous waste on vessels before entering the NDRF

The Agency continued its efforts to assure that Title XI loan guarantee projects and ship disposal sales are in compliance with applicable environmental laws regulations, and treaties

MARAD also participated on Federal work groups and panels concerning Federal ship disposal sales, including the Federal interagency Blue Ribbon Panel established by the DOD to review the Federal ship scrapping issue.

As a result of a favorable Blue Ribbon Panel review of MARAD's process, the Agency will continue to consider environmental and other issues in making its awards for scrapping and will perform environmental compliance reviews of domestic ship scrappers.

Based upon the recommendations of the Panel, MARAD has expanded its TCP requirements to include additional specific worker safety and health standards. Moreover, as a result of various Panel recommendations, MARAD will continue to pursue, with the Navy, EPA, and U.S. Occupational Safety and Health Administration (OSHA), additional measures to improve the scrapping process, including the formulation of environmental guidelines for ship scrapping.

The Agency also continued to fulfill its legal, financial, and technical responsibilities for evaluating and implementing remediation plans and actions involving contaminated sites in California that were World War II shipyards under U.S. Government control, as well as at other areas in the Nation.

Environmental Standards

MARAD continued its support for the development of national and international environmental standards. Because of the international nature of maritime affairs, much of the focus on standards has shifted to the international arena. This shift is critical to U.S. industry, which faces some of the most stringent requirements in the world, in order to level the playing field so that the industry can maintain its international competitiveness.

The Agency serves on the International Organization for Standardization (ISO) Technical Committee on Ships and Marine Technology (TC8), where MARAD is the U.S. delegate to the Marine Environmental Protection Subcommittee (SC2) and the convener for the Subcommittee's working group on environmental response.

MARAD also participated on the American Society for Testing Materials Shipbuilding Standards Committee's Subcommittee on Marine Environmental Protection, and the National Shipbuilding Research Program's (NSRP's) Environmental Panel. In addition, MARAD actively participated in Departmental and interagency forums involved in environmental issues affecting the maritime industry, including environmental justice and brownfields redevelopment.

In addition, MARAD participated in the activities of the U.S. Shipping Coordinating Committee (SHC) and related interagency working groups. The SHC and its subcommittees and working groups, which are generally chaired by the USCG, prepare U.S. positions for meetings of the Assembly, Council, committees, and subcommittees, as well as for special international conferences, of the International Maritime Organization (IMO).

The IMO is the United Nations specialized agency responsible for improving maritime safety and preventing pollution from ships. Significant IMO environmental activities of particular interest to MARAD during FY 1998 included such issues as:

- harmful effects of the use of anti-fouling paints for ships;

- prevention of air pollution from ships;

- harmful aquatic organisms in ships' ballast water;

• implementation of the 1990 International Convention on Oil Pollution Preparedness, Response and Cooperation (OPRC); and

• interpretation, amendments, and implementation of the 1973 International Convention for the Prevention of Pollution from Ships, as modified by the Protocol of 1978, as amended, (MARPOL).

Furthermore, MARAD worked with the AAPA Harbors, Navigation and Environment Committee in a successful effort to develop an environmental management handbook that was published in September 1998. During 1998, MARAD also began working with the Asia-Pacific Economic Cooperation organization on the development of a similar handbook for APEC member ports.

Industry Support

MARAD continued to assist the U.S. shipbuilding and ship repair industry with its efforts to comply with environmental laws and regulations. This activity included establishing and maintaining working relationships with Federal and state regulatory agencies to foster the development of economically and environmentally sound regulatory policies and practices

For example, MARAD is working with the industry and EPA to establish a forum in which EPA and the shipyards can address shipyard environmental issues and exchange information on research and technology development.

MARAD also is an active participant on interagency working groups concerned with international measures for controlling:

• air pollution from ships;

• the adverse effects of anti-fouling paints used for ships; and

• aquatic nuisance organisms in ship's ballast water.

U.S. commercial ports need to expand and modernize to meet the Nation's future commercial and military needs. In addition, because significant environmental issues also exist for ports, the Agency worked to advance port-related programs, such as dredging and dredged material management, Federal facility conveyance, economic development, and brown fields redevelopment. U.S. ports hold a unique role as vital economic engines for U.S. commerce and employment. They also hold unique locations in industrial and commercial areas which are environmentally sensitive, provide opportunities for important sustainable development

For example, brownfields (abandoned, idled, or underused industrial and commercial properties where expansion or redevelopment is complicated by real or perceived contamination) are frequently located in port areas. Some of these areas may provide opportunities for port redevelopment, expansion, and modernization at considerable economic and environmental advantage to ports and other sectors of the maritime industry. Furthermore, dredged material from harbors and channels may be suitable for reclamation of brownfields sites, as well as for numerous other beneficial uses.

MARAD also distributed of the quarterly *Report on Port and Shipping Safety and Environmental Protection* (reports 45-48). These reports summarized activities at the international and national levels concerning safety and environmental protection matters related to ports and shipping. Of particular importance were the summaries of activities of the IMO.

Chapter 4

Domestic Operations

The Maritime Administration (MARAD) promotes development of the domestic merchant marine in support of the Department of Transportation's (DOT) strategic goal of *"...advancing America's economic growth and competitiveness domestically and internationally through efficient and flexible transportation."*

The domestic shipping operations of the American merchant marine provide essential services to 41 States reaching 90 percent of the nation's population. During fiscal year (FY) 1998, this growing transport service sector handled a combined total of over 1 billion[1] short tons of cargo, which is about 24 percent[2] of the ton-miles of all domestic surface transportation traffic. Domestic waterborne transportation contributes $7.68 billion[3] to the gross domestic product annually in the form of freight revenue, and is the most environmentally friendly form of surface transportation.

In FY 1998, MARAD supported the national strategic goals by actively participating in a major Marine Transportation System initiative, and providing technical assistance and research.

Marine Transportation System Initiative

The most significant and far-reaching MARAD domestic shipping venture for 1998 was the partnership role MARAD played in the Marine Transportation System (MTS) initiative at the direction of Secretary of Transportation Rodney E. Slater. The project is intended to ensure that our waterways are prepared for the anticipated surge of cargo forecasted for the next century by better coordinating Federal actions.

MARAD, in partnership with the U.S. Coast Guard (USCG) and other Federal agencies, sponsored a series of regional listening sessions in FY 1998 and held a national conference early in FY 1999. DOT's goal is to improve the coordination among stakeholders of the marine segment of the national transportation system.

The objective of this ongoing effort is to support a safe and environmentally sound world-class waterway system that improves our global competitiveness and national security. Marine transportation is now characterized by many diverse organizations engaged in a complex environment, often working independently and for the accomplishment of different goals. This initiative is addressing the Nation's future needs by improving the coordination and cooperation among all stakeholders.

MARAD and other Federal agencies brought together stakeholders, state governments, industry, and local/state port authorities. Cooperating Federal entities included the USCG, Federal Highway Administration, Federal Railroad Administration, Research and Special Programs Administration, Saint Lawrence Seaway Development Corporation, DOT's Office of Intermodalism, and the U.S. Army Corps of Engineers (COE).

The regional listening sessions were held in New Orleans, LA; Oakland, CA; New York, NY; Cleveland, OH; St. Louis, MO; Charleston, SC; and Portland, OR. The first day of each session was an open forum to receive views concerning the current state and future needs of America's marine transportation system. The second day used a structured focus group format.

A representative cross section from the region's ports, terminals, stevedores, pilots, vessel operators, railroads, truckers, environmental community, and others were selected to present their views on where their industries are and where they should be going A summary from each regional listening session was placed in the public docket and is available for public review.

Secretary Slater hosted over 350 Federal and industry leaders at the National Marine Transportation Conference on November 17-19, 1998. The distinguished group addressed key issues identified in the regional listening sessions and other outreach efforts. A vision statement, proposed solutions, and a potential strategy to address these important issues was the primary focus of the agenda. The MTS initiative is intended to help

[1] USACE, Waterborne Commerce Statistics Center, 1998

[2] Transportation in America, Eno Transportation Foundation, 1997, pp.11

[3] Transportation in America, Eno Transportation Foundation, 1997, pp.40

agencies establish constructive priorities.

Technical Assistance

In FY1998, MARAD released the well-received promotional brochure *Domestic Shipping: Vital to the Nation's Economy, Security and Transportation.* It complements other MARAD publications and informational tools including *By the Capes, Primer on the Jones Act*, and the video *Barging into the Year 2000* which won a national award for excellence in calendar year (CY) 1997.

MARAD also promotes domestic shipping by actively participating in conferences and meetings where the domestic waterways are of interest.

Jones Act Support

The Clinton Administration supports the Jones Act. It embodies America's coastwise cabotage laws and other related acts. The Jones Act requires that maritime cargoes and passengers moving between U.S. ports be transported in vessels built and maintained in the U.S., owned by American citizens, and crewed by U.S. mariners. It also promotes reliable domestic shipping service and ensures the existence of a domestic maritime industry completely subject to U.S. control in time of national emergency.

The Jones Act generates environmentally sound transportation and thousands of jobs for American citizens touching every region of the Nation. In addition, more than 80 million passengers and 1 billion tons of cargo worth about $222 billion were transported in FY 1998 under the Jones Act trade, which is 14 percent of the domestic inter-city cargo in America for just 2 percent of the entire domestic freight bill.

During this reporting period, MARAD reaffirmed the importance of the Jones Act to America's national security, including the need for guaranteeing America' s control of essential transportation assets and related infrastructure in both peace and war and ensuring that U.S.-owned, U.S.-crewed, and U.S.-built ships will be available to transport domestic cargo during a national emergency.

MARAD also provides assistance to shippers in need of coastwise qualified, U.S.-flag vessels. Typically, and throughout the year, shippers will call MARAD when there is a question concerning the applicability of the Jones Act, or if they need assistance locating a coastwise qualified vessel to meet their needs. MARAD helps these shippers by answering their questions, and providing possible sources to help resolve domestic transportation problems. The Agency is required to respond within 48 hours to formal Jones Act waiver requests. There were no waivers to the Jones Act granted for commercial operation of foreign vessels in U.S. domestic trade in FY 1998.

Jones Act Assistance

During FY 1998, MARAD responded to several requests for assistance with regard to the Jones Act.

According to the 13th proviso of the Jones Act, a formal ruling can be issued allowing a U.S.-flag foreign built launch barge into the domestic trade under very exacting conditions. While the U.S. Customs Service (Customs) issues the final ruling decisions in these matters, MARAD ensures that there are no coastwise qualified U.S.-flag vessels available to take on the project and that it meets important technical criteria. In CY 1998 MARAD provided formal comments on three launch barge rulings. At the request of the Exxon Corp., via Customs, MARAD reviewed project "Diana," the largest oil-drilling project in the history of the Gulf of Mexico. The $1 billion project (scheduled for launch in CY 1999) will place the world's second largest drilling platform in the deepest drill location ever attempted in the Gulf of Mexico.

To complete the project, Exxon requested the use of foreign-built U.S.-flag launch barges for delivery of major portions of the oil production platform. After consulting with industry and expanding the search for a coastwise launch vessel to the Offshore Marine Service Association, MARAD recommended that the waiver be issued. Customs concurred and the ruling request was granted.

Hurricane Georges

In September 1998 Hurricane Georges did significant damage to Puerto Rico and put severe strains on all forms of communication and transportation to the Island. MARAD served as the point of contact for shippers seeking qualified shipping service to Puerto Rico in the aftermath of Hurricane Georges.

The Agency handled several requests for shipping assistance during the recovery period and received a "*One DOT*" team award for the coordinated and effective Departmental response to the disaster.

Industry Trends and Profile

There are three major sectors of U.S. domestic shipping: the Great Lakes, the inland waterways, and the domestic ocean trade.

Great Lakes

The U.S.-flag Great Lakes bulk fleet consisted of 68 self-propelled ship and tug/barge units of a minimum of 1,000 gross registered tons. One increasingly popular trend is converting Lakes' vessels into integrated tug/ barges. For example, in 1998 the Interlake Steamship Company converted a ship that had been in lay-up since 1993 into a state of the art self-unloading integrated tug/barge unit.

According to the Lake Carriers Association (LCA), cargo movement has soared in recent years as iron ore, coal and limestone remain the primary shipping products followed by cement, salt, sand, grain and liquid bulk commodities. CY 1997 was another banner year for the Great Lakes with the overall amount of cargo shipped increasing to over 123 million tons, a 7.1 percent increase over 1996.

A major issue for Great Lakes shipping is finding an adequate [illegible] to replace the aging MACKINAW. Although the winter of 1997-1998 was quite mild, the need for icebreaking services remains. For example, the winter of 1993-1994 was so severe that when the first dry-bulk carrier attempted to sail on March 15, the 150-mile voyage from Erie, PA, to Sandusky, OH, took 5 1/2 days compared with the normal day-long transit. MARAD continues to support the USCG efforts to provide new icebreaking services and believes such services are in the public interest and should not be subject to taxation or a user fee.+ The LCA reports more than 125 million tons of cargo moved at the end of last season, a recent-annual record. Compared with last year's figures through August, U.S.-flag cargoes stand at 72,176,704 net tons, which equates to an increase of 3.8 percent. However, foreign steel is flooding the country with freshly felt negative effects on domestic carryings of iron ore, coal, and limestone that supply U.S. production of steel. The LCA has alerted the Great Lakes congressional delegation of its concerns about the onslaught of dumping of foreign steel.

Cruise Ships/MS Columbus

The German cruise vessel MS COLUMBUS came back for two successful cruises in its second year of operation in the Great Lakes. The Mariport Group of Cambridge, Ontario, Canada, has put together a return itinerary for this vessel and a new French vessel, Le Levant. Enthusiasm is high for this return of luxury cruises and most ports are vying for cruise calls in their respective cities.

Inland Waterways

The U.S. inland waterway system comprises some 12,000 miles of commercially viable channels and 635 shallow-draft ports. This network moves 60 percent of the Nation's grain exports, 24 percent of its chemical and petroleum movements, and 20 percent of its domestic coal tonnage. The lower Mississippi River ports handle more tonnage than any other port complex in the world, including Rotterdam, Singapore, or Hong Kong. America's river system is one of the world's busiest and most efficient transportation systems.

Of the 631 million tons of cargo that moved on our domestic river system in 1997 the Mississippi River accounted for 321 million tons, the Ohio River 240 million tons, the Gulf Intracoastal Waterway 119 million tons, the Tennessee River 49 million tons, and the Illinois River 43 million tons.

Navigable waterways contribute to the economies of most states, and particularly to the 24 states that border our shallow-draft, inland waterway system. These water-adjacent states provide 47 percent of Federal tax revenue, 49 percent of the GNP, 56 percent of employment in heavy manufacturing, and 61 percent of agricultural employment, all of which results in a tremendous contribution to the national economy.

America's inland rivers generate significant local and regional growth, including job creation. A recent study indicated that the inland water transportation industry provided over 70,000 jobs and $428 million in Federal and state payroll taxes in 1994. The principal advantage of a water-based system is its lower cost. Another important advantage is that shallow-draft shipping has almost no capacity limitations.

Water transport is also more environmentally friendly. It is also more energy efficient, generating less air and noise pollution, and has a better safety record than land-based modes.

American farmers lead the world in corn and soybean production,

with the U.S. exporting more wheat, corn, and soybeans than any other country. But without the low-cost transportation system provided by our Nation's inland and intracoastal waterways, the agricultural community would find it difficult to move its products to market in this country and abroad.

In 1995, total waterborne commerce – imports and exports – included over 303 million tons of agricultural products. Of that amount, more than 176 million tons – about 58 percent – were transported for export markets, including over 130 million tons of grain and oilseeds. An estimated 82 percent of the Nation's corn, 77 percent of its soybeans, and 32 percent of its wheat are produced in 10 Midwestern states that border the Illinois, Mississippi, Missouri, and Ohio rivers. Additionally, the states of Washington and Oregon ship over one billion dollars worth of grain, and food and food products, using the Columbia/Snake River System.

Market Conditions

Excess capacity is a concern in the dry cargo industry. Lean times in the 1980s has led many operators to extend the life of dry cargo barges by repairing rather than scrapping them. Additionally, retirement statistics show that this trend is continuing. New construction orders also continue to decline. The increase in new buildings in the last 2 years was based almost entirely on an increase in grain exports, and, for the first time in over a decade, the supply for capacity matched or exceeded demand.

Industry analysts report a different situation for tank barges. Demand and supply are much more in balance. Over the last 3 years, about 180 tank barges were retired while about 300 were constructed. Quality Shipyards, Inc., Houma, LA, has delivered one 8,400 horsepower boat this summer and is in the process of completing two more. Second-tier shipyards are mostly booked up through the end of 1999. Future orders depend on Fall freight rates.

Economic Conditions

While there is no unanimity in the industry regarding over- capacity, most operators believe that there is a difference between equipment equilibrium, i.e., supply and demand, and economic health. Barge rates continued to suffer from competitive pressure and declined about 10 percent in 1997. Weak rates were experienced due to a supply/demand imbalance and a lack of demand in export coal demand and high domestic utility coal inventories.

Carriers also report that weak export grain and coal markets continued to place downward pressure on both spot and contract renewal rates. Another problem faced by some inland operators was El Nino-related weather patterns that reduced winter coal demand in the Midwest in 1997 while causing delays and flooding in 1998 that not only increased carriers' costs but also affected their operating efficiency.

Barge operators have been in a holding pattern in 1998 with regard to profitability. This trend is expected to continue.

International Economic Impact

The domestic barge market has also been affected by the Asian economic problems in 1998. Even a temporary rise this summer in spot grain rates was not enough to improve the outlook for the rest of the year. The export coal market found itself in a similar situation. Consequently, barge operators expect that both markets and profits will remain soft for the near future. However, one bright spot has been the growing demand for northbound cargo, led by cheap Asian steel and imported cement.

Coal

A strong U.S. dollar, weaker currencies worldwide, a weaker Asian economy, and strong competition from the Australian and Indonesian coal industry has left its impact on exports of U.S. coal. Consequently, the COE forecasts only modest growth for coal traffic -- between 0.9 percent to 1.4 percent annually to 2010 – as export demand will continue to face strong foreign competition from countries in South East Asia and South America.

Agriculture

Grain farmers continue to face two major problems--the crisis in Asia and abundant worldwide production. In addition, the strong U.S. dollar increases the cost of U.S. grain in foreign markets. This situation, combined with bumper crops in both China and Argentina, has put an unexpected damper on the U.S. Department of Agriculture projections. U.S. farmers are currently stockpiling their grain.

Petroleum

While tonnage for petroleum and petroleum products increased slightly (2 percent) in 1997 over the

previous year, the COE predicts that this will change. Crude petroleum shipments on the inland waterways are expected to decline an average of 1 percent a year to 2010. Petroleum products, on the other hand, are expected to increase slightly, with a growth of 1.2 percent annually.

Industry Concerns

The industry is concerned about a number of ongoing issues that could have a significant impact on its operations. The most important are soft markets, excess capacity, deteriorating infrastructure, regulatory environment, inadequate dredging and dredged material disposal, state activism in waterway matters, and reduced federal funding.

While the United States has some of the largest and most efficient inland river systems in the world, they are not without their physical constraints, specifically, its infrastructure and the deterioration of its locks and dams. Other concerns are conflicts of shared water resources between navigation and other competing and complementary uses and the shortage of qualified captains and pilots in the wheelhouse. (See Chapter 7.)

Domestic Ocean

The domestic ocean trades move vital commodities both for the mainland and the non-contiguous (i.e., offshore) United States. There are three sectors of domestic ocean trade:

- The non-contiguous trade between the United States mainland and Puerto Rico, Alaska, Hawaii, and other U.S. Pacific Islands;
- The coastwise trade along the Atlantic, Gulf, and Pacific coasts, as well as trade to and from the St. Lawrence Seaway;
- The inter-coastal trade between the Atlantic (and Gulf) coasts and the Pacific by way of the Panama Canal.

The major products (by tonnage) moving in domestic ocean trade include crude petroleum, refined petroleum products, residual fuel, and coal. Containerized cargoes are also important. Examples of cargo types moving in domestic ocean commerce include items such as textiles, manufactured goods, household goods, and groceries that move especially actively in the thriving trade between the mainland United States and Alaska, Hawaii, and Puerto Rico.

In CY 1997, the latest year for which figures are available, the U.S.-flag, coastwise-qualified fleet comprised of approximately 163 self-propelled vessels (over 1,000 gross registered tons). The 163 large vessels were made up of 122 tankers, 19 containerships, 13 roll-on/roll-off (RO/RO) vessels and 9 miscellaneous-use ships. These numbers do not reflect the true size of the oceangoing domestic fleet however, as there are a large number of tugs, barges, and tug/barge combined units, as well smaller vessels (under 1,000 tons) that are also active in this trade.

In CY 1996, the COE estimated that there were over 7,033 vessels engaged in or available for, coastwise operation *excluding* fishing and excursion vessels, general ferries and dredges. While there are only 163 vessels (over 1,000 tons) engaged in ocean coastwise trade, the number of tugs and barges is quite extensive and contributes to an ocean service that moves hundreds of millions of tons of cargo annually.

Ocean Domestic Shipping Outlook

FY 1998 was generally a profitable year for companies engaged in domestic ocean transport services, with publicly held companies making reasonable profits in the container trades to Hawaii, Alaska, and Puerto Rico. There was, however, quite a bit of softening in the Gulf Coast to East Coast domestic fuels market. This market was slowed substantially due to the warm winter of 1997-1998, which left fuel stocks at a very high level in the Northeastern U.S.

One gauge of the demand for refined fuels in the Northeast is the price of heating fuel in New York Harbor, which is down almost 40 percent from the rate a year earlier. This low product demand resulted in a significant slowdown in cargo movement. However, over 900 million tons of cargo was transported by water carriers in 1997 resulting in a lift of virtually 1 million tons for every American citizen.

There were other bright spots in 1998 as well. The Trailer–Bridge company announced a new coastwise service between the Northeastern U.S. and Jacksonville, FL with a series of newly constructed "triple-stack " barges. The new vessels will transport 53-foot containers.

Operation began in November 1998. Additionally, a newly revitalized Sea Barge Lines entered the competitive Florida to Puerto Rico market in October of 1998. The company acquired RO/RO ships to augment its existing four barge service to Puerto Rico. The new company operates as Sea Star Lines. The first of the ships began service in November of 1998. A second RO/RO ship will begin operating in February of 1999. In addition, ARCO petroleum announced the construction of a new class of double-hull supertankers to be built to support the Alaskan oil trade.

The domestic ocean trade of the United States continued to be an active and vibrant transport segment in FY 1998. It continues to provide vital services to the American population both on the mainland and to our offshore states and territories.

Offshore Industry

The offshore marine industry, dominated by oil and gas exploration and production activity in the Gulf of Mexico, is starting to experience significant deterioration after a strong and steady boom that began early in 1996. However, the fleet of larger support vessels which are engaged in the relatively more stable deepwater exploration and production activity is less impacted. Currently the number of vessels in the fleet servicing the offshore oil and gas industry (mostly in the Gulf of Mexico) consisted of over 1,200 U.S.-flag vessels employing over 16,500 Americans on September 30, 1998.

Overall, decreasing demand pushed day rates down dramatically for the large number of smaller offshore service vessels in 1998. For example, rates for use of offshore supply vessels under 200 feet long have dropped about 40 percent since the beginning of the fiscal year. Utilization has also slipped for these smaller vessels. The deepwater exploration and production expansion has kept the larger vessels at near full utilization and with rates reflecting this demand. Specifically, lucrative rates of $12,500 per day around the beginning of 1998 have blossomed into rates approaching $14,000 per day near the end of the year. New, large support vessels and those set for near term (new construction) delivery are, for the most part, already under contract for immediate service.

Outside of the supply boat market, crew boats (small vessels which primarily carry offshore workers) have experienced some decline in demand but are fairing reasonably well in the market overall.

Traditional offshore support for close-in, shallow water drilling operations was wavering slightly in FY 1998. Although the overall industry expansion has slowed, modest growth for the next 2 to 3 years should continue. The foundation for new growth will be the expansion of oil and gas exploration and production in deeper and more distant fields in the Gulf of Mexico.

St. Lawrence Seaway

The Canadian portion of the St. Lawrence Seaway changed management on October 1, 1998, from control of the Canadian government to a private group representing major users of the system. The system remains government-owned. A nine-member board oversees the private operation of the thirteen Canadian-owned locks. The new St. Lawrence Seaway Management Corp. is located in Cornwall, Ontario.

Table 9: Employment of U.S. Great Lakes Fleet as of September 30, 1998

Self-Propelled Vessels of 1000 GRT and over

	Vessels	*Gross Registered Tons*	*Estimated Deadweight* Tons
TANKERS			(in Bbls)
Active	1	3,904	7,200
Temporarily Inactive	1	5,854	12,044
Inactive,Laid up, long term	-	-	-
TOTAL	2	9,758	19,244
ITB TANKERS			(in Bbls)
Active	2	8,150	135,000
Temporarily Inactive	-	-	-
Inactive,Laid up, long term	-	-	-
TOTAL	2	8,150	135,000
ITB BULK			
Active	7	78,465	157,100
Temporarily Inactive	-	-	-
Inactive,Laid up, long term	-	-	-
TOTAL	7	78,465	157,100
BULK			
Active	51	909,440	1,787,900
Temporarily Inactive	3	26,010	50,500
Inactive,Laid up, long term	3	30,203	55,690
TOTAL	57	965,653	1,894,090
GRAND TOTAL	68	1,062,026	2,051,334
		Bbls	154,244

Note: The method of recognizing the fleet has been changed from 1997 to more accurately reflect the emergence of the integrated tug/barge (ITB) on the Great Lakes. The car ferry category was dropped in order to provide a more precise picture of cargo carriers.

Chapter 5

Ship Operations

U.S.-Flag Fleet Profile

The U.S.-flag, privately owned, deep-draft merchant fleet (including the Great Lakes fleet shown in Table 9) totaled 351 vessels with an aggregate carrying capacity of about 13.5 million deadweight tons (dwt.) on September 30, 1998.

The oceangoing segment of the privately owned fleet comprised 283 vessels of 13.3 million dwt., including 28 laid-up vessels. Tankers and containerships accounted for 87 percent of the total privately owned fleet capacity. The Government-owned segment was comprised of 190 vessels of 3.5 million dwt. General cargo and roll-on/roll-off vessels make up 70 percent of the total government fleet capacity. (See Table 10.)

Deployment of the U.S.-flag oceangoing merchant fleet (including Government-owned ships) is shown in Table 11.

The total, U.S.-flag oceangoing merchant fleet ranked 11th in the world on a dwt. basis and 17th in the total number of ships. (See Table 12.)

Total U.S. waterborne foreign commerce amounted to 1.1 billion metric tons in calendar year (CY) 1997, a 4.6 percent increase when compared to CY 1996. U.S.-flag ships carried 29.3 million metric tons or 2.7 percent of the total in CY 1997. U.S. waterborne foreign commerce for the period 1988-1997 by tonnage and value, type service, and U.S.-flag share is shown in Table 13.

Operating-Differential Subsidy

Designed to offset certain lower-ship operating costs of foreign-flag competitors, operating-differential subsidy (ODS) is paid to U.S.-flag vessels which operate under an ODS contract in an essential foreign trade. The Maritime Security Program (MSP) is gradually replacing ODS as the primary support for the U.S.-flag merchant marine. Existing ODS agreements will continue to be honored, but no new contracts can be signed. Net subsidy outlays during fiscal year (FY) 1998 amounted to $137.7 million. There were no subsidized voyages terminated in the Great Lakes trade during FY 1998.

ODS accruals and expenditure from January 1, 1937 through September 30, 1998, are summarized in Table 14. Accruals and outlays by shipping lines for the same period are shown in Table 15. ODS contracts in force are shown in Table16.

Subsidy Rates

The Subsidy Index System, established by the Merchant Marine Act of 1970, provides for payment of seafaring-wage subsidies in per diem amounts. The rate of change in the index is computed annually from data provided by the Bureau of Labor Statistics and is used as the measure of change in seafaring employment costs. ODS rates also are calculated for maintenance and repairs, hull and machinery insurance, and protection and indemnity insurance for both premiums and deductibles.

ODS is paid monthly for completed voyages based on tentative rates. Final rates are calculated following completion of each rate year (RY) after collection of the contractors' actual cost and voyage data. MARAD has completed the RY 1999 (July 1, 1998-June 30, 1999) tentative rates and has substantially completed RY 1997 final ODS rates applicable to liner and bulk-vessel operations.

Section 804 Activities

Section 5 of the Maritime Security Act of 1996 (MSA) provides an amendment to section 804 of the Merchant Marine Act, 1936, as amended (1936 Act) by adding a new section (f). Section 804 (f)(1), (3), (4), and (5) allow an operator, with either the traditional ODS contract or the new MSP Operating Agreement, or any holding company, subsidiary, or affiliate of the contractor:

- to own, charter, or operate any foreign-flag vessel on a voyage that does not call at a port in the United States, to own, charter, or operate any foreign-flag bulk cargo vessels,
- to charter or operate foreign-flag vessels that are operated solely as replacement vessels for U.S.-flag vessels that are made available pursuant to section 653 of the 1936 Act, and
- to enter into time or space charters or other cooperative agreements with respect to foreign-flag vessels.

No approval is now required for any of these operations.

New section 804 (f)(2)(A) provides that MSP operators are "grandfathered" for any foreign-flag vessels in line-haul service between the United States and foreign ports which are owned, chartered, or operated by such operator or any holding company, subsidiary, affiliate, or associate of such owner or operator on the date of enactment of the MSA. The MSP operator can replace these vessels in the future without requiring a section 804 waiver.

The amendment to section 804 of the 1936 Act applies to the ODS operators on the earlier of the date an MSP payment is made to any contractor that is not an ODS operator or the date the particular ODS operator enters into an MSP Operating Agreement.

There were no section 804 waivers requested or granted during FY 1998.

Foreign Transfers

Under Section 9 of the Shipping Act of 1916, as amended, MARAD approved the transfer of 51 ships of 1,000 gross tons and over to foreign ownership and/or registry. Eleven privately owned vessels were sold for scrapping abroad. Permission was also granted for seven vessels of less than 1,000 gross tons to be [illegible].

MARAD's approval of the transfer of vessels 3,000 gross tons and over to foreign ownership and/or registry are subject to the terms and conditions of 46 CFR Part 221. As such, the vessels require MARAD approval for any subsequent transfer of ownership and/or registry and are required to remain available for U.S. government requisitioning, if needed. At year's end, there were a total of 197 vessels subject to these terms, 18 of which were approved for subsequent transfer of ownership and/or registry during the year.

User charges for processing applications for foreign transfers and similar actions totaled $28,525 in this reporting period, including fees filed pursuant to contracts reflecting the terms and conditions stipulated in 46 CFR Part 221.

Activities under Section 9 of the Shipping Act, 1916, as amended, are summarized in Table 17.

Ship Operations Cooperative Program

The Ship Operations Cooperative Program (SOCP) is a cost-shared Government/-industry/labor partnership whose objective is to improve the competitiveness, productivity, [illegible].

environmental responsiveness of vessel operations. Currently, there are 34 members, with the most recent additions being Ocean Shipholdings, I.S.M. Solutions, and Mormac Marine Transport.

In addition to the continuing development of the Reliability, Maintainability, and Availability Data Bank program being carried out by the Gulf Coast Region Maritime Technology Center, efforts are underway on several projects under a training initiative. These include development and production of a series of training videos for mariners in support of the 1995 Amendments to the Standards of Training, Certification, and Watchkeeping; development of an Internet-based training-materials database; and a training-recordkeeping- standards project.

In addition, a website for dissemination of information to the SOCP members, as well as the public was established. Next year will see completion of the training/video/production project, evaluation of the recordkeeping standards, and initiation a distance training effort.

Table 10: U.S. OCEANGOING MERCHANT MARINE

	Privately Owned		Government-Owned [2]		Total	
	Number	Deadweight	Number	Deadweight	Number	Deadweight
	Ships	Tons	Ships	Tons	Ships	Tons
		(000)		(000)		(000)
Active Fleet:						
Tanker		7,561	1	17	116	7,578
Dry Bulk		503	-	-	11	503
Containership		2,964	1	16	84	2,980
Roll-on/Roll-off		523	-	-	26	523
Cruise/Passenger		7	3	30	4	37
Other		647	5	53	29	700
Total Active Fleet		**12,205**	**10**	**116**	**270**	**12,321**
Inactive Fleet:						
Tanker		1,109	27	869	42	1,978
Dry Bulk		76	-	-	4	76
Containership		78	3	54	7	132
Roll-on/Roll-off		16	32	718	33	734
Cruise/Passenger		-	8	79	8	79
Other		25	111	1,714	114	1,739
Total Inactive Fleet		**1,304**	**181**	**3,434**	**208**	**4,738**
Total Active and Inactive:						
Tanker		8,670	28	886	158	9,556
Dry Bulk		579	-	-	15	579
Containership		3,042	4	70	91	3,112
Roll-on/Roll-off		539	32	718	59	1,257
Cruise/Passenger		7	11	109	12	116
Other		672	116	1,767	143	2,439
Total U.S.- Flag		**13,309**	**190**	**3,550**	**478**	**17,059**

[1] Self-Propelled Vessels of 1,000 gross tons and over-Including Barges; Excludes Great Lakes Vessels

[2] Includes 49 NDRF, 91 RRF, and 47 non-retention vessel

Table 11: DEPLOYMENT OF U.S.-FLAG OCEAN-GOING MERCHANT FLEET[1]-September 30, 1998

		Vessel Type												
		Total		Tanker		Dry Bulk		Containership		Roll-on/ Roll-off		Cruise/ Passenger		Other
Status														
Ownership		Deadweight		Deadweight		Deadweigh		Deadweight		Deadweight		Deadweight		Deadweight
Type of Deployment	No.	Tons	No	Tons	No.	Tons	No	Tons	No.	Tons	No.	Tons	No.	Tons
Grand Total	470	16,853	15	9,415	15	579	91	3,096	58	1,236	12	116	141	2,411
Active Vessels	265	12,094	11	7,414	11	497	84	2,964	25	502	4	37	28	680
Privately-Owned	255	11,978	11	7,397	11	497	83	2,948	25	502	1	7	23	627
U.S. Foreign Trade	83	3,082	5	185	5	279	55	2,243	6	107	-	-	10	268
Foreign-to-Foreign	14	1,123	13	1,059	1	64	-	-	-	-	-	-	-	-
Domestic Trade	124	6,826	86	5,922	4	113	25	639	6	102	1	7	2	43
Coastal	64	2,585	57	2,390	4	113	1	39	-	-	-	-	2	43
Noncontiguous	60	4,241	29	3,532	-	-	24	600	6	102	1	7	-	-
M.S.C. Charter	36	947	8	231	1	41	3	66	13	293	-	-	11	316
Government-Owned	10	116	1	17	-	-	1	16	-	-	3	30	5	53
Ready Reserve Force (RRF)	2	24	-	-	-	-	-	-	-	-	1	9	1	15
Other Reserve (NDRF)	4	37	-	-	-	-	-	-	-	-	2	21	2	16
Other Custody	4	55	1	17	-	-	1	16	-	-	-	-	2	22
Inactive Vessels	208	4,759	43	2,001	4	82	7	132	33	734	8	79	113	1,731
Privately Owned	28	1,336	16	1,132	4	82	4	78	1	16	-	-	3	28
Temporarily Inactive	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Lay up	27	1,302	15	1,098	4	82	4	78	1	16	-	-	3	28
Laid up (MARAD Custody)	1	34	1	34	-	-	-	-	-	-	-	-	-	-
Government-Owned (MARAD Custody)														
National Defense Reserve Fleet	180	3,423	27	869	-	-	3	54	32	718	8	79	110	1,703
Ready Reserve Force (RRF)	89	1,882	10	304	-	-	2	34	31	704	1	17	45	823
Other Reserve (NDRF)	46	907	9	342	-	-	1	20	1	14	-	-	35	531
Nonretention [2]	45	634	8	223	-	-	-	-	-	-	7	62	30	349

[1] Self-Propelled Vessels - Includes Integrated Tug/Barges. Excludes Great Lakes Vessels.

[2] Vessels not actively maintained.

Table 12: MAJOR MERCHANT FLEETS OF THE WORLD–September 30, 1998

	(Tonnage in Thousands)			
Country	Deadweight Tons	Rank by Deadweight	No. of Ships[1]	Rank by No. of Ships
Panama	144,120	1	4,456	1
Liberia	97,946	2	1,632	2
Greece	43,305	3	741	10
Malta	39,583	4	1,305	6
Bahamas	39,482	5	1,029	7
Cyprus	36,014	6	1,436	5
Singapore	31,158	7	877	8
Norway(NIS)	30,005	8	652	12
China	22,278	9	1,465	4
Japan	20,169	10	708	11
United States*	16,853	11	473	17
Philippines	12,322	12	533	13
Saint Vincent	11,355	13	782	9
Marshall Islands	11,282	14	130	37
India	10,693	15	292	24
Top 15 Total	566,563		16,511	
All Other	185,919		11,219	
Grand Total	752,482		27,730	

[1]Oceangoing merchant ships of 1,000 gross tons and over.

*Includes 190 Unites States Government-owned ships of 3.5 dwt.

Table 13: U.S. WATERBORNE FOREIGN TRADE [1]

Millions Metric Tons

Calendar Year	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997*
Total Tons	831.1	881.7	894.4	866.4	891.7	907.6	940.5	999.0	1,019.8	1,066.8
U.S.-Flag Tons	33.2	38.4	35.2	36.1	35.1	37.3	40.9	34.5	30.0	29.3
U.S. Percent of Total	4.0	4.4	4.1	4.2	3.9	4.1	4.3	3.5	2.9	2.7
Liner Total Tons	84.6	93.1	98.8	104.8	106.4	111.6	123.1	137.1	124.7	120.8
Liner U.S.-Flag Tons	14.2	17.8	17.1	18.6	17.0	17.3	17.3	16.1	11.0	10.9
Liner U.S. Percent	16.8	19.1	17.3	17.7	16.2	15.5	14.1	11.7	8.8	9.1
Nonliner Total Tons	399.3	403.5	408.1	404.0	392.1	366.5	364.3	435.4	420.9	414.0
Nonliner U.S.-Flag Tons	8.3	7.7	7.1	8.4	7.0	9.0	13.7	10.8	8.4	10.1
Nonliner U.S. Percent	2.1	1.9	1.7	2.1	1.8	2.5	3.7	2.5	1.9	2.4
Tanker Total Tons	347.1	385.1	387.5	357.6	393.2	429.5	453.1	426.5	474.5	532.0
Tanker U.S.-Flag Tons	10.7	12.9	11.0	9.1	11.1	11.0	9.9	7.6	10.2	8.3
Tanker U.S. Percent	3.1	3.4	2.8	2.5	2.9	2.6	2.1	1.8	2.2	1.6

Value ($ Billions)

Total Value	401.8	441.1	456.9	466.0	493.5	510.6	567.8	619.5	625.3	625.7
U.S.-Flag Value	57.6	71.4	69.8	71.9	73.7	74.1	76.8	75.6	50.0	51.1
U.S. Percent of Total	14.3	16.2	15.5	15.4	14.9	14.5	13.5	12.2	8.0	8.2
Liner Total Value	254.4	280.7	299.5	323.6	344.7	368.4	426.9	462.7	429.2	414.0
Liner U.S.-Flag Value	53.1	65.0	64.5	66.5	69.2	68.6	70.9	68.2	44.0	43.2
Liner U.S. Percent	21.0	23.3	21.5	20.5	20.1	18.6	16.6	14.7	10.3	10.4
Nonliner Total Value	102.0	103.8	92.4	95.0	92.0	85.0	84.4	84.3	114.7	103.9
[illegible]	[illegible]	4.4	3.5	3.6	3.9	4.0	4.0	4.1	4.1	[illegible]
Nonliner U.S. Percent	3.0	4.2	4.0	3.2	3.1	4.6	5.5	6.5	3.8	5.7
Tanker Total Value	45.4	56.6	64.0	54.4	55.9	55.3	56.5	62.5	76.4	79.4
Tanker U.S.-Flag Value	1.4	2.0	1.7	1.4	1.6	1.5	1.3	1.3	1.7	1.3
Tanker U.S. Percent	3.1	3.5	2.6	2.6	2.9	2.7	2.3	2.1	2.2	1.6

Source: Bureau of the Census

[1] Table includes Government-sponsored cargo and U.S./Canada translakes cargo; excludes certain Department of Defense cargo.
* Excludes In-Transit Shipments

Table 14: ODS ACCRUALS AND OUTLAYS--JANUARY 1, 1937, TO SEPTEMBER 30, 1998

	Accruals		Outlays			
Calendar Year of Operation	Subsidies	Recapture	Subsidy Accrual	Paid in FY 1998	Total Amount of Net Accrued Paid	Net Accrual Liability
1937-1955	$682,457,954	$157,632,946	$524,825,008	$-0-	$524,825,008	$-0-
1956-1960	751,430,098	63,755,409	687,674,689	-0-	687,674,689	-0-
1961	170,884,261	2,042,748	168,841,513	-0-	168,841,513	-0-
1962	179,396,797	4,929,404	174,467,393	-0-	174,467,393	-0-
1963	189,119,876	(1,415,917)	190,535,793	-0-	190,535,793	-0-
1964	220,334,818	674,506	219,660,312	-0-	219,660,312	-0-
1965	183,913,236	1,014,005	182,899,231	-0-	182,899,231	-0-
1966	202,734,069	3,229,471	199,504,598	-0-	199,504,598	-0-
1967	220,579,702	5,162,831	215,416,871	-0-	215,416,871	-0-
1968	222,862,970	3,673,790	219,189,180	-0-	219,189,180	-0-
1969	230,256,091	2,217,144	228,038,947	-0-	228,038,947	-0-
1970	232,541,169	(1,908,643)	234,449,812	-0-	234,449,812	-0-
1971	202,440,101	(2,821,259)	205,261,360	-0-	205,261,360	-0-
1972	190,732,158	-0-	190,732,158	-0-	190,732,158	-0-
1973	219,475,963	-0-	219,475,963	-0-	219,475,963	-0-
1974	219,297,428	-0-	219,297,428	-0-	219,297,428	-0-
1975	260,676,152	-0-	260,676,152	-0-	260,676,152	-0-
1976	275,267,465	-0-	275,267,465	-0-	275,267,465	-0-
1977	294,779,691	-0-	294,779,691	-0-	294,779,691	-0-
1978	285,075,424	-0-	285,075,424	-0-	285,075,424	-0-
1979	279,347,897	-0-	279,347,897	-0-	279,347,897	-0-
1980	386,309,467	-0-	386,309,467	-0-	386,309,467	-0-
1981	351,675,849	-0-	351,675,849	-0-	351,675,849	-0-
1982	366,654,502	-0-	366,654,502	-0-	366,654,502	-0-
1983	278,716,168	-0-	278,716,168	-0-	278,716,168	-0-
1984	342,756,506	-0-	352,756,628	-0-	342,756,628	-0-
1985	367,368,710	-0-	367,368,710	-0-	367,368,710	-0-
1986	317,963,824	-0-	317,963,824	-0-	317,963,824	-0-
1987	183,188,408	-0-	183,188,408	-0-	183,188,408	-0-
1988	219,079,931	-0-	219,079,931	-0-	219,079,931	-0-
1989	221,564,961	-0-	221,564,961	-0-	221,564,961	-0-
1990	231,208,232	-0-	231,208,232	-0-	231,208,232	-0-
1991	216,365,214	-0-	216,365,214	-0-	216,365,214	-0-
1992	213,129,380	-0-	213,129,380	-0-	213,129,380	-0-
1993	214,105,066	-0-	214,105,066	-0-	214,105,066	-0-
1994	213,716,552	-0-	213,716,552	-0-	213,716,552	-0-
1995	197,851,660	-0-	197,851,660	-0-	197,851,660	-0-
1996	178,559,375	-0-	178,559,375	-0-	178,559,375	-0-
1997	140,609,850	-0-	140,609,850	16,390,413	111,846,920	28,762,930
1998	39,758,198	-0-	39,758,198	20,281,318	20,281,318	19,467,880
Total Regular ODS	$10,394,185,295	$238,186,435	$10,155,998,860	$36,671,731	$10,107,759,050	$48,230,810
Soviet Direct Program[1]	$147,132,626	$-0-	$147,132,626	$-0-	$147,132,626	-0-
Total ODS	**$10,541,317,921**	**$238,186,435**	**$10,303,131,486**	**$36,671,731**	**$10,254,891,676**	**$48,230,810**

[1]No longer operative.

Table 15: ODS ACCRUALS AND OUTLAYS BY SHIPPING LINES--JANUARY 1, 1937, TO SEPTEMBER 30, 1998

LINES	Accruals			Outlays	
	ODS	Recapture	Net Accrual	ODS Paid	Net Accrued Liability
Aeron Marine Shipping	$26,079,663	$0	$26,079,663	$26,079,663	$0
American Banner Lines [1]	2,626,512	0	2,626,512	2,626,512	0
American Diamond Lines [1]	185,802	28,492	157,310	157,310	0
American Export Lines, Ltd. [2]	693,821,868	10,700,587	683,121,281	683,121,281	0
American Mail Lines [3]	158,340,739	7,424,902	150,915,837	150,915,837	0
American Maritime Transport	10,813,074	0	10,813,074	10,813,074	0
American President Lines[9]	1,787,617,664	17,676,493	1,769,941,171	1,765,329,763	4,611,408
American Shipping Co.	21,220,420	0	21,220,420	21,220,420	0
American Steamship Co.	76,462	0	76,462	76,462	0
Aquarius Marine Co.	55,091,668	0	55,091,668	54,288,862	802,806
Aries Marine Shipping	25,291,415	0	25,291,415	25,291,415	0
Asco-Falcon II	587,268	0	587,268	587,268	0
Atlantic & Caribbean S/N [1]	63,209	45,496	17,713	17,713	0
Atlas Marine Co.	65,656,465	0	65,656,465	62,479,364	3,177,101
Baltimore Steamship [1]	416,269	0	416,269	416,269	0
Bloomfield Steamship [1]	15,588,085	2,613,688	12,974,397	12,974,397	0
Brookville Shipping, Inc.	14,630,996	0	14,630,996	6,143,827	8,487,169
Chestnut Shipping Co.	96,200,252	0	96,200,252	93,471,477	2,728,775
Delta Steamship Lines	575,053,817	8,185,313	566,868,504	566,868,504	0
Ecological Shipping Co.	4,968,943	0	4,968,943	4,968,943	0
Equity Carriers, Inc.	1,497,110	0	1,497,110	1,497,110	0
Farrell Lines Incorporated	775,439,460	1,855,375	773,584,085	770,979,771	2,604,314
First American Bulk Carriers Corp.	55,951,964	0	55,951,964	52,425,827	3,526,137
Gulf & South American Steamship	34,471,780	5,226,214	29,245,566	29,245,566	0
Lachmar	18,243,462	0	18,243,462	16,089,019	2,154,445
Lykes Bros. Steamship Co., Inc. [11]	2,192,182,207	52,050,598	2,168,414,624	2,136,714,228	3,417,381
Margate Shipping Co.	143,675,309	0	143,675,309	143,675,309	0
Moore-McCormack Bulk Transport	138,963,495	0	138,963,495	135,717,681	3,245,814
Moore-McCormack Lines [8]	734,212,876	17,762,445	716,450,431	716,450,431	0
N.Y. & Cuba Mail Steamship	8,090,108	1,207,331	6,882,777	6,882,777	0
Ocean Carriers	45,994,825	0	45,994,825	45,994,825	0
Ocean Chemical Carriers, Inc.	45,994,825	0	45,994,825	15,448,109	5,164,357
Ocean Chemical Transport, Inc.	26,695,737	0	26,695,737	17,910,571	5,297,725
Oceanic Steamship[5]	113,947,681	1,171,756	112,775,925	112,775,925	0
Pacific Argentina Brazil Line [1]	7,963,936	270,701	7,693,235	7,693,235	0
Pacific Far East Line [6]	283,693,959	23,479,204	260,214,755	260,214,755	0
Pacific Shipping Inc.	18,840,400	0	18,840,400	18,840,400	0
Prudential Lines[4]	641,647,708	24,223,564	617,424,144	617,424,144	0
Prudential Steamship [1]	26,352,954	1,680,796	24,672,158	24,672,158	0
Sea Shipping	25,819,800	2,429,102	23,390,698	23,390,698	0
Seabulk Transmarine I & II, Inc.	35,845,320	0	35,845,320	35,845,320	0
South Atlantic Steamship[1]	96,374	84,692	11,682	11,682	0
States Steamship	231,997,100	5,110,997	226,886,103	226,886,103	0
United States Lines[7]	750,518,013	54,958,689	695,559,324	695,559,324	0
Vulcan Carriers	29,847,656	0	29,847,656	29,847,915	
Waterman Steamship Corp	463,302,850	0	463,302,850	460,289,472	
World Oil Transport	17,428,314	0	17,428,314	17,428,314	
Total Regular ODS	$10,394,185,295	$238,186,435	$10,155,998,860	$10,107,759,050	$48,230,810
Soviet Grain Programs [9]	$147,132,626	$0	$147,132,626	$147,132,626	$0
Total ODS	**$10,541,317,921**	**$238,186,435**	**$10,303,131,486**	**$10,254,891,676**	**$48,230,810**

[1] No longer subsidized or combined with other subsidized lines..
[2] AEL was acquired by Farrell Lines, March 29, 1978.
[3] APL merged its operations with AML's October 10, 1973. Apl's ODSA terminated on November 12, 1997.
[4] Changed from Prudential-Grace Lines, Inc., August 1, 1974.
[5] Purchased by Lykes Bros. Steamship Co., Inc.
[6] Went into receivership August 2, 1978
[7] Ceased to be subsidized in November 1970, returned as a subsidized carried in January 1981.
[8] Purchased by United States Lines, Inc. October 1983.
[9] No longer operative.
[10] Farrell Lines merged its operations with Argonaut, December 20, 1994.
[11] Lykes ODSA terminated on July 29, 1997.

Table 16: ODS CONTRACTS IN FORCE--SEPTEMBER 30, 1998

A. Liner Trades

Operator and Contract No.	Contract Duration	Number Subsidized Ships	Service	Required Service as Described in Appendix A to Contract
First American Bulk Carrier Corporation MA/MSB-451(a)	8-29-90 to 12-31-98	2	U.S. Atlantic-Gulf/ Europe 2/	1/
Total Liner Trades		2		

1/ The Operator will provide subsidized liner service in the foreign commerce of the United States without limitation to U.S. or foreign areas of service and without reference to requirements for minimum or maximum sailings annually, and with the privilege to carry foreign-to-foreign cargo as the opportunity offers. The Operator may provide any part of the service by transshipment or relay of cargo at any foreign port to another subsidized United States-flag vessel covered by its contract. (Action of the Maritime Subsidy Board (MSB) on 12-18-96).

2/ The Maritime Subsidy Board approved the transfer from Lykes Bros. Steamship Co. Inc. to First American Bulk Carriers Corp. (FABC) of ODS right to 20 sailings on the former Trade Route 21 (U.S. Gulf-North Europe) and the obligation to replace two vessels. As part of the action, the MSB approved the time charter by Lykes of two C6-M-146a ships owned by FABC, for 36 months with subsequent charter extensions of 36 months (through December 31, 1998).

B. Bulk Trades

Operator and Contract No.	ODS Agreements: Contract Effective Date	ODS Agreements: Contract Termination Date	Number of Subsidized Ships	Service
Brookville Shipping, Inc. MA/MSB-542	1-01-96	12-31-2000	5 1/	Worldwide Bulk Trade
Equity Carriers, Inc. MA/MSB-439	5-24-81	5-23-2001	0 2/	Worldwide Bulk Trade
Ocean Chemical Carriers, Inc. MA/MSB-442	9-19-81	9-18-2001	1	Worldwide Bulk Trade
Ocean Chemical Transport, Inc. MA/MSB-440	3-26-81	3-25-2001	1	Worldwide Bulk Trade
Total Bulk Trades			7	

1/ Total of 10 ship years of subsidy for five years, but no limitation as to number of subsidy days that may be used in any one year by any of the five vessels.

2/ Contract is dormant.

Table 17: FOREIGN TRANSFERS AND OTHER SECTION 9 APPROVALS--FY 1998[1]

A. Program Summary	Number	Gross Tons
U.S. PRIVATELY-OWNED VESSELS		
Transfer to Foreign Ownership and/or Registry		
Vessels of 1,000 Gross Tons and Over	62	317,397
Vessels of Under 1,000 Gross Tons	7	2,580
Total	**69**	**319,977**
Charters to Aliens and Modifications	29	
Violations		
Reported	1	
Mitigated or Settled	1	
Rescissions (Sales to Aliens)	0	
Denials	0	
U.S. GOVERNMENT-OWNED VESSELS	**0**	

[1]Approvals granted by MARAD pursuant to Section 9, Shipping Act of 1916, as amended.

Table 17: FOREIGN TRANSFERS AND OTHER SECTION 9 APPROVALS--FY 1998 (continued)

B. FOREIGN TRANSFER APPROVALS--Vessels of 1,000 Gross Tons and Over		
	Pursuant to Section 9 (U.S.-Owned and U.S. Documented)	
	No. of Vessels	Gross Tons
Tankers	4	105,487
Cargo/Containership	2	32,126
Barges	32	74,774
Mobile Offshore Drilling Units	16	88,842
Fishing	5	9,724
Miscellaneous	3	6,444
Total	**62**	**317,397**
Recapitulation by Nationality		
Belize	5	8,777
Bermuda	1	1,529
Canada	1	3,633
Colombia	1	1,196
Federated States of Micronesia	1	1,552
Isle of Man	1	34,266
Marshall Islands	4	25,413
Panama	26	105,505
Paraguay	4	9,724
Russia	1	3,584
St. Vincent & The Grenadines	2	3,756
Venezuela	4	8,837
Total	**51**	**207,772**
Sale to Foreign Nationals for Scrapping	11	109,625
GRAND TOTAL	**62**	**317,397**

Chapter 6

Cargo Preference

The Maritime Administration (MARAD) is responsible for monitoring the administration of and compliance with U.S. cargo preference laws and regulations by Federal agencies as they relate to individual programs which generate oceanborne cargoes.

MARAD is responsible for ensuring that cargo preference compliance is achieved. It also encourages Federal agencies to maximize the use of U.S.-flag vessels, monitors bilateral and similar agreements, and identifies trade practices that may negatively affect U.S.-flag vessels.

Major programs monitored include humanitarian aid shipments provided by the U.S. Department of Agriculture (USDA) and U.S. Agency for International Development (AID), commodities financed by the Export-Import Bank (Eximbank), Foreign Military Sales (FMS), and Department of Defense (DOD) cargo shipped by commercial ocean carriers.

Preference Cargo

Ensuring compliance with U.S. cargo preference laws is essential in encouraging Federal agencies to maximize the use of U.S.-flag vessels. MARAD is required to report to Congress annually on compliance with the major cargo preference laws:

o The **Cargo Preference Act of 1954** (P.L. 83-664), as amended, requires that at least 50 percent of the gross tonnage of all Government-generated cargo be transported on privately owned, U.S.-flag commercial vessels to the extent such vessels are available at fair and reasonable rates. In 1985, the Merchant Marine Act of 1936 was amended to require that the percentage of certain agricultural cargoes to be carried on U.S.-flag vessels be increased from 50 to 75 percent.

o **The Cargo Preference Act of 1904 (1904 Act)** requires all items procured for or owned by U.S. military departments and defense agencies be carried exclusively (100 percent) on U.S.-flag vessels available at rates that are not excessive or otherwise unreasonable. These cargoes are generated primarily by DOD contracts with domestic and foreign contractors. Cargo preference applies not only to the end product, but also to component parts.

o **The Maritime Security Act of 1996 (MSA),** Section 17 permits Great Lakes ports to participate in the handling of P.L. 83-480, Title II, humanitarian food aid packaged commodities awarded on a lowest landed cost basis without reference to flag of vessel. The legislation allows them to act as bridge-ports, providing unloading and loading services, even though the cargo may actually exit from another port, and provides stevedoring jobs during the winter months when the Great Lakes are closed to vessel traffic.

o **Public Resolution (P.R.) 17 of the 73rd Congress** requires that all cargoes generated by an instrumentality of the Government be shipped on U.S.-flag vessels, unless a waiver is granted. Waiver procedure policy was set forth in the *Federal Register* of July 2, 1997.

MARAD monitors the shipping activities of Federal agencies, independent entities, and Government corporations. (See Table 18). Statistics are maintained on a calendar year (CY) basis or on a 12-month program maintained over the life of a loan or guarantee.

Civilian Agencies

Israeli Cash Transfer

Under a "side letter" agreement between the Government of Israel and AID, the Israeli Cash Transfer Program generates approximately 1.6 million tons of bulk grain annually. The agreement requires that U.S. carriers transport 50 percent of the Israeli grain.

During fiscal year (FY) 1998, 787,000 metric tons of Israeli bulk grain were carried on U.S.-flag vessels and earned a revenue of approximately $26 million. A new "side letter" was issued for FY 1999.

Export-Import Bank (Eximbank)

Eximbank shipments are governed by P.R. 17, which requires that 100 percent of all cargoes generated by this resolution move on U.S.-flag vessels. If a recipient country meets United States'

to move 50 percent of the cargoes on national-flag vessels.

Requests for non-availability waivers for project cargoes have decreased since MARAD published new policy procedures which became effective June 30, 1997. The procedures stipulate the criteria required for each type of waiver. With regard to extended waivers: If the U.S. shipper fulfills all of the criteria (such as meeting with the carriers and asking for a rate quotation 45 days in advance of shipment, and no U.S.-flag service will be available), then the shipper can request an extended waiver for a period not to exceed 6 months. MARAD can grant an extension of up to 3 months after the first 6 month period if U.S.-flag service is still unavailable.

Military Cargoes

MARAD initiates and recommends regulations and procedures for DOD services and agencies to follow in administering cargo preference. Program efforts concentrate on meetings and discussions with DOD contractors, suppliers, freight forwarders, and shipping companies to focus attention on the needs of all constituents within the context of U.S.-flag carriage requirements. The Cargo Preference Act of 1904 requires that items procured for or owned by the U.S. military departments or defense agencies, be carried exclusively (100 percent) on U.S.-flag vessels, if available at rates that are not excessive or otherwise unreasonable. The preponderance of DOD cargoes moves under contracts the Military Traffic Management Command (MTMC) negotiates with U.S.-flag carriers.

MARAD receives quarterly reports from MTMC on the movement of DOD-sponsored shipments of personal effects as a result of a Memorandum of Agreement between MARAD and MTMC signed March 2, 1996. MARAD also has been receiving data on the movement of privately owned vehicles (POVs) being transported between selected turn-in points in the continental United States to six points in the Republic of Germany. The ocean carrier awarded the contract reports ocean tonnage and revenue. MARAD continues to work closely with DOD representatives to improve reporting and monitoring of cargo preference shipments by fostering improved communication and meeting the needs of our customers.

Commercial Items

The Federal Acquisition Streamlining Act of 1994 authorized the exemption from certain government-unique procurement laws, including the cargo preference laws, for the acquisition of commercial items and commercial component parts procured under a subcontract.

MARAD entered into negotiations with other Federal agencies and the Office of Federal Procurement Policy to determine how best to implement limited exemptions of the cargo preference laws to minimize the impact to the U.S.-flag fleet of any lost cargo and, at the same time, to further the goals of procurement reform.

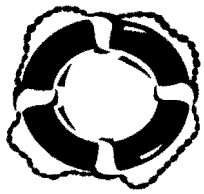
Guidance for contracting officers regarding the scope of the exemption from the cargo preference laws was published in the *Defense Acquisition Desk Book* and language to revise the Federal Acquisition Regulation and the Defense Federal Acquisition Regulation Supplement to incorporate this guidance is being developed.

DOD Services and Agencies
Defense Security Cooperative Agency

The Defense Security Cooperative Agency (DSCA) is the sponsoring DOD agency for the Foreign Military Financing (FMF)/Military Assistance Program Merger (MAP) and related programs authorized within the scope of the Foreign Assistance Act of 1961, as amended (FAA). The movement of excess defense articles within these programs is consistent with the continued drawdown of U.S. forces.

The statistics reflected in Table 18 from FMF/MAP Merger and related FAA programs represent combined tonnage and revenue data for those ocean shipments arranged by the foreign recipients' freight forwarder. These statistics also reflect cargoes that were authorized to move within the Defense Transportation System (DTS) and which were processed by the MTMC and the Military Sealift Command. U.S.-flag participation meets the compliance requirements as set forth in the governing cargo preference law (P.L. 83-664). Continuing its support of the U.S. merchant fleet, DSCA extends its 100 percent U.S.-flag shipping policy for the FMF/MAP Merger programs.

DSCA policy incorporates general waivers thereby allowing recipient's national-flag vessels to participate in the ocean carriage of cargo within each program.



DOD Agencies

The continued trend in downsizing continues to show in the decreased program tonnage for all DOD agencies. MARAD continues to work to improve communications with contract officers and contractors to ensure compliance with cargo preference laws. Enhancements and changes to the computer system used by MARAD will allow for greater efficiency and flexibility in reporting and providing information to the industry.

MARAD searches DOD databases to find systems that would provide information on contracts subject to cargo preference. To this point, none of the current systems utilized by DOD serves that purpose. A study by the General Accounting Office confirmed MARAD's position that the cost of cargo preference was not directly affected by U.S.-flag carriers but by the cost of the DOD system.

Agricultural Cargoes

The statutory sources of agricultural cargo preference programs are Titles I, II, and III of P.L. 83-480; Section 416 of the Agricultural Act of 1949; and the Food for Progress Act of 1985. These programs have a 75 percent

As discussed earlier, Section 17 of the MSA permits Great Lakes ports to participate in the handling of Title II packaged commodities awarded on a lowest landed cost basis without reference to flag of vessel.

The USDA's Commodity Credit Corp.(CCC) issued a ruling in FY 1998 which included Great Lakes ports in the bidding that provides food for needy people overseas. According to this ruling, the lowest landed cost, regardless of ship registration, permits bidding of up to 25 percent of the 1.6 million tons authorized to be shipped per year. Since this new ruling's inception, the ports of Milwaukee and Chicago were awarded about 95,260 metric tons of primarily corn-soy blend grain.

The bagged grain arrives at the ports via rail boxcar, is trans-loaded into 20 or 40 foot steamship containers carried by rail to West Coast ports, and loaded onto west-bound container ships. Chief recipients of this bagged grain have been India and North Korea. Benefits to the Great Lakes region include increased stevedore labor and additional revenue for truck and rail operators. U.S.-flag ship owners also benefit by filling needed westbound containers.

Collectively, 78.2 percent of the 2.8 million metric tons of humanitarian aid commodities were transported on U.S.-flag vessels during the 1997/1998 Cargo Preference Year (CPY). Shipments were 196,000 metric tons (9.2 percent) greater than the previous year due mainly to increased expenditures under the Title I program.

o Title I provides for U.S. [illegible] U.S. agricultural commodities to developing countries on concessional credit terms. Approximately 788,000 metric tons of bulk grain were shipped during the current CPY 1997/1998. This was about 156,000 metric tons (31 percent) more than the prior year, but 785,000 metric tons (50 percent) less than shipments during CPY 1994/1995.

o **Title II** is a donation program administered by AID which generated approximately 1.6 million metric tons of packaged, processed, and bulk commodities for least developed countries. Shipments increased by 95,000 metric tons over the previous CPY due to lower commodity prices; however, they have been reduced by 1.2 million metric tons since CPY 1994/1995.

o **Title III** Food for Development Program, was established by the Food, Agriculture, Conservation, and Trade Act of 1990 (1990 Farm Bill). Under this bilateral grant program, agricultural commodities are donated to least developed countries. Shipments under the Title III program began during CPY 1991/1992. Approximately 125,000 metric tons of bulk grain were shipped during the current CPY, a reduction of 205,000 metric tons (39 percent) from last year and 956,000 metric tons (88 percent) less than CPY 1994/1995. Program funding has been substantially reduced during the past few years.

o **Section 416** is a donation program established primarily to distribute surplus commodity, to the extent such surpluses exist. There were no shipments for the current year, and only 6,000 metric tons of [illegible] agricultural commodities were [illegible] CPY 1995/1996.

o **Food for Progress** provides agricultural commodities to developing countries on a grant basis in exchange for development policy reforms. During the current CPY, 296,000 metric tons (23,000 metric tons, (8 percent) more, than the previous CPY and 297,000 metric tons, (50 percent) less than CPY 1994/1995 shipments) of commodity, principally bulk grain,

were donated. The Commonwealth of Independent States was the primary recipient.

Ocean Freight Differential (OFD)

The Food Security Act of 1985 (P.L. 99-198) increased the required percentage for U.S.-flag carriage from 50 to 75 percent of gross tonnage of certain agricultural programs (i.e., P.L. 83-480, Food for Progress, and Section 416 programs).

The Department of Transportation is responsible for financing any increased ocean freight charges resulting from the application of the increased U.S.-flag portion. MARAD reimburses USDA for its share of the ocean freight differential (OFD) costs above 50 percent of the gross tonnage up to, but not exceeding, the additional 25 percent. OFD cost is defined as the difference between the cost of shipping cargo on a U.S.-flag vessel as compared to shipping the same cargo on a foreign-flag vessel.

MARAD reimbursed the CCC $16.1 million for OFD invoices and documents submitted during FY 1998. Approximately $14.4 million of the payments related to shipments made during the 1997/1998 CPY for 497,054 metric tons at a rate of $29 per ton. Additional OFD obligations covering the 1997/1998 CPY remain outstanding and will be paid upon receipt of invoices from USDA. CCC was not reimbursed for OFD that included inland freight and bagging and stacking costs.

Based on payments made during FY 1998, the average OFD cost for which MARAD reimbursed USDA was $28.89 per metric ton, an increase of $2.81 per metric ton, or 11 percent, from the previous year. This increase was due, in part, to weak foreign-flag rates. However, OFD obligations that remain outstanding are expected to increase the average OFD paid for shipments during the 1997/1998 CPY which OFD (after removing tonnage related to prior CPYs) amounted to $29.02 per metric ton for the $14.4 million paid. This could be attributed to the extreme softness of foreign-flag rates due to an over-tonnage in capacity that is further exacerbated by weak demand for dry bulk cargo in the Far East as a result of the economic crisis the region is experiencing.

Under the 1985 Act, if the total obligations incurred by USDA and CCC for ocean freight and OFD on exports of agricultural commodities and products under certain agricultural programs exceed 20 percent of the value of the commodities exported under these programs, plus the ocean freight and OFD, MARAD must reimburse CCC for the excess.

In 1994, MARAD paid USDA $35.2 million for such excess freight costs relating to FY 1992. That payment was in addition to the OFD reimbursement during the year. During FY 1998, USDA invoiced MARAD $71.1 million for excess freight costs for FY 1993. MARAD was unable to determine if such shipping costs exceeded the 20 percent threshold for that reporting period.

Minimum Tonnage

The minimum tonnage for agricultural products was created by the Food Security Act of 1985 and established under Section 901c(a)(1) of the Merchant Marine Act, 1936, as amended. This includes P.L.83- 480, Section 416, and the Food for Progress programs. The purpose of formulating a minimum tonnage was to ensure that U.S.-flag carriers continue to receive a fair share of Government-generated agricultural exports. Based on MARAD's preliminary program tonnage for FY 1997, a total of 2,742,813 metric tons of such agricultural products were exported. The minimum tonnage calculated for FY 1997 is 8,317,707 metric tons. This represents a deficit of 5,574,894 metric tons.

The foreign food aid tonnage exported during FY 1997 was below the average of the base period because of lower congressional appropriations, higher average commodity costs, and reduced or no tonnage for the Section 416 program. However, during the past three fiscal years the collective minimum tonnage deficit amounted to approximately 14.4 million metric tons. This lack of tonnage has resulted in a substantial downsizing in the dry bulk U.S.-fleet, and the virtual elimination of the breakbulk U.S.-fleet.

Although program funding for FY 1997 was about the same as the prior year, USDA incurred certain difficulty in attracting participating countries in order to reprogram funds carried over from the previous year. Some of the commodity provided by the funding carryover will be transported in FY 1999. This coupled with an approximate level funding for FY 1999, lower commodity prices, and the President's new initiative, Wheat Initiative, is expected to provide tonnage opportunities in excess of those experienced in the three preceding fiscal years.

MARAD has met with USDA to discuss this issue and will maintain this dialogue because budget reductions for the humanitarian food aid programs are inconsistent with the increased funding for Government-impelled programs not subject to cargo preference.

Fair and Reasonable Rates

Section 901(b)(1) of the Merchant Marine Act of 1936, as amended, requires a percentage of Government-impelled cargoes to be carried on U.S.-flag vessels. However, the section also stipulates that the vessels must be available at rates that are deemed to be fair and reasonable.

MARAD is responsible for providing shipper agencies with guidance on whether an offered freight rate is fair and reasonable. Regulations governing the calculation of fair and reasonable guideline rates are codified at 46 CFR Part 382. During CPY 1997/1998, MARAD calculated 120 fair and reasonable guideline rates at the request of the shipper agencies.

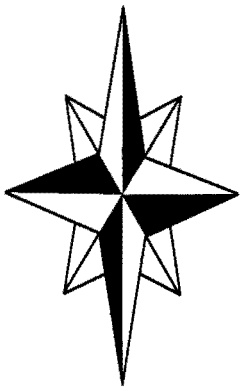


Table 18: GOVERNMENT-SPONSORED CARGOES--CALENDAR YEAR 1997				
(Note: These numbers do not include domestic shipments)				
PUBLIC LAW 664 CARGOES:				
	U.S.-Flag	Total	U.S.-Flag	Percentage
Agency for International Development (AID):				
Loans and Grants				
Liner	11,752	103,322	67,671	65.6
Bulker	2,160	65,311	48,000	73.5
Tanker	0	10,500	0	0.0[1]
TOTAL	13,912	179,133	115,761	64.6
P.L. 480 - Title II[2]				
Liner	88,024	827,141	627,654	75.9[3]
Bulker	49,475	670,683	588,710	87.8
Tanker	4,100	94,400	62,898	66.6
TOTAL	141,599	1,592,224	1,279,262	80.3[4]
P.L. 480 - Title III[2]				
Liner	2,076	36,522	21,680	59.4[5]
Bulker	2,029	43,262	24,269	56.1[6]
Tanker	3,091	44,731	44,731	100.0
TOTAL	7,196	124,515	90,680	72.8[7]
Department of Agriculture:				
P.L. 480 - Title I[2]				
Liner	2,826	23,711	23,711	100.0
Bulker	26,887	652,947	488,893	74.9[9]
Tanker	5,029	111,747	100,966	90.4[10]
TOTAL	34,742	788,405	613,570	77.8[11]
Food for Progress[2]				
Liner	15,735	95,090	69,538	73.1[12]
Bulker	7,573	200,997	136,997	68.2[13]
TOTAL	[illegible]	[illegible]	[illegible]	[illegible]

Table 18 : GOVERNMENT-SPONSORED CARGOES—CALENDAR YEAR 1997 (continued)				
National Aeronautics and Space Administration	30	105		61.9
National Science Foundation	6,794	52,568	52,526	100.0
General Services Administration	4	4	3	75.0
Department of Transportation: Federal Transit Administration Coast Guard	2,226	5,994	3,357	56.0[14]
	47	520	346	66.5
U.S. Information Agency Voice of America	126	443	183	41.3[1]
	7	18	18	100.0
Department of State: Foreign Building Office Other Agencies	117 7,675	929 12,977	491 8,738	52.8 67.3

PUBLIC RESOLUTION 17 CARGOES:

	Total Metric Tons	U.S.-Flag Metric Tons	Total Freight Revenue	U.S.-Flag Freight Revenue	Percentage U.S.-Flag Metric tons
Eximbank	216,431	101,893	79,650,631	48,182,603	47.1

Table 18: GOVERNMENT-SPONSORED CARGOES--CALENDAR YEAR 1997(continued)
(Note: These numbers do not include domestic shipments)

CARGO PREFERENCE ACT OF 1904 CARGOES: (Note: These numbers are for FISCAL YEAR 1997)				
	Total Metric Tons	Metric Tons Dry Cargo	Metric Tons Petroleum	Percentage
Department of Defense Troop Support Cargoes:				
Military Sealift Command (MSC)				
U.S.-flag privately-owned vessels	981,966	981,966	0	20.2
U.S. Government-owned vessels	70,760	70,760	0	1.5
MSC chartered vessels	3,283,474	198,743	3,084,731	67.6
MSC Charter Foreign Flag	28,678	28,678	0	.6
Foreign-Flag vessels	491,422	70,121	421,301	10.1
Total carriage MSC Troop Support Cargo	4,856,290	1,350,268	3,506,032	100.0
	U.S.-Flag Revenue ($1,000)	Total Metric Tons	U.S.-Flag Metric Tons	Percentage U.S.-Flag Tonnage
Department of Defense Commercial Contractor Cargoes (including POVs And Personal Property Shipments)	152,074	157,968	155,499	98.0
Defense Security Cooperative Agency (DSCA):				
	U.S.-Flag Revenue ($1,000)	Total Metric Tons	U.S.-Flag Metric Tons	Percentage U.S.-Flag Tonnage
Foreign Military Financing and MAP Merger Programs				
Liner:	21,613	60,818	40,517	66.6
Tanker:	11,617	320,813	320,813	100.0
TOTAL	33,230	381,631	361,330	94.7

1. Imbalance due to non-availability of U.S.-flag service.
2. The Food Security Act of 1985 (P.L. 99-198) impacted on the P.L. 480 Section 416, Titles I, II and III, and the Food for Progress programs by changing the reporting period from a calendar year to a 12-month period commencing April 1, 1986, through March 31, 1987, and by increasing the U.S.-flag share from 50 to 75 percent over a three year period. The required U.S.-flag share for the current reporting period, April 1, 1997 to March 31, 1998, is 75 percent.
3. Tanker vessels failed to meet the 75 percent requirement.
4. Cargo preference is monitored on a global basis by vessel type for the Title II program.
5. Nicaragua did not ship any cargo on U.S.-flag liner service vessels and Haiti failed to meet the 75% UI.S.-flag requirement.
6. Mozambique did not ship any cargo on a U.S.-flag dry bulk vessel.
7. Cargo preference compliance is monitored by country and vessel type.
8. After giving effect to the non-availability of certain U.S.-flag vessels, the program met the 75 percent requirement.
9. Lithuania (LH-5009 did not ship any cargo on U.S.-flag dry bulk vessels; however, part of their soybean meal was transported on U.S.-flag liner service vessels. They could have shipped 100 percent U.S.-flag, but would not receive ocean freight differential for tonnage in excess of 75 percent. The following countries failed to meet the 75 percent requirement: Armenia (AM-5012, 4 percent) due to carriage by U.S.-flag tankers on AM-5003 and insufficient offers, and Pakistan (PK-5004, 59 percent).
10. El Salvador (ES-5014 and ES-5015) did not ship any cargo on U.S.-flag tankers due to insufficient or no U.S.-flag offers.
11. The Title I program is monitored by individual Purchase Authorization.
12. Croatia, and Equatorial Guinea, due to no offers, did not ship any cargo on U.S.-flag liner service vessels: The following countries also failed to meet the 75 percent requirement : Armenia (63 percent), Georgia (74 percent), Kyrgyzstan (70 percent) and Tajikistan (31 percent)..
13. Benin (no offers), El Salvador, and Mongolia (no offers) did not ship any cargo on U.S.-flag dry bulk vessels. The following countries failed to meet the 75 percent requirement: Georgia (68 percent), and Russia (46 percent) due to insufficient offers.
14. After giving effect to the non-availability of certain U.S.-flag vessels, the program met the 75 percent requirement.
15. These program tonnages are reflected in metric tons for uniformity only. Cargo preference compliance for those programs involving high cube/low density cargo is achieved on a gross revenue ton basis. Percentage reflected on a weight tonnage basis for such programs do not necessarily represent the exact extent of the programs' compliance with the statute. U.S.-flag vessels achieved 50 percent of the revenue tons.

Chapter 7

Maritime Labor, Training, and Safety

The Maritime Administration (MARAD) supports the training of merchant marine officers and crew members with a focus on safety in U.S. waterborne commerce. The Agency also monitors national and international maritime industry labor-management practices and policies; promotes healthy labor-management relations; and fosters a safe and efficient maritime transportation system through the effective use of human resources.

U.S. Merchant Marine Academy

MARAD operates the U.S. Merchant Marine Academy at Kings Point, NY, to educate young men and women to become officers in the American merchant marine.

Graduates receive Bachelor of Science degrees and U.S. Coast Guard (USCG) licenses as deck or engineering officers, or both, and a commission in the U.S. Naval Reserve or another uniformed service.

The Academy is an integral component of the defense readiness called for in our national security policy and guarantees a source of merchant marine officers to meet our domestic and international U.S.-flag crewing needs.

As a key component of our national security effort, Academy graduates currently incur an 8-year U.S. Navy Reserve commitment which (unless they are accepted in another uniformed service) obligates them to serve in time of war or national emergency. The critical maritime skills developed with their military training and obligations significantly increase our Nation's defense readiness.

Academy graduates also are committed to a 5-year maritime service obligation. This requires graduates to obtain a merchant marine officer's license on or before graduation and to maintain the license for at least 6 years. This service obligation may be satisfied in the merchant marine as an officer aboard U.S. merchant ships, or in shore side maritime or intermodal transportation industry positions if afloat employment is not obtainable. Active military duty in the U. S. Armed Forces or the National Oceanic and Atmospheric Administration also satisfies the obligation.

The Class of 1998 comprised 82 third mates, 87 third assistant engineers, and 14 who completed the dual deck/engine license program. Eighteen of the third mate licensees earned endorsements as Qualified Members of the Engine Department (QMED) in the sixth year of the Academy's ship's officer curriculum. They completed selected engineering courses which increased their knowledge of today's technologically advanced ships, where both navigation and power are controlled from the bridge. All graduates complete required nautical science and maritime business courses.

The Academy's recently added program in logistics and intermodal transportation complements the sound marine transportation undergraduate education curriculum to enable a graduate to effectively manage increasingly complex commercial and defense - logistics systems.

The twelve women graduates in 1998 brought to 348 the total number of female graduates since the first coeducational graduating class in 1978.

John Sweeney, National President of the AFL-CIO, delivered the commencement address. During the ceremony, Michael Sacco, President of the Seafarers International Union of North America, AFL-CIO, received an honorary degree from the Academy. In addition, the Academy conferred an honorary doctorate on Henry Viscardi, a pioneer in the education of children with disabilities.

Within 3 months after graduation, about 82 percent of the 183 graduates had found employment in the maritime or transportation industry--aboard ship or ashore--or were serving on active military duty.

Average enrollment at the Academy during the year was [illegible]. At the beginning of the 1998-99 academic year, the regiment of midshipmen included 97 women, 22 of whom are scheduled to graduate in June 1999. Members of Congress nominated 1,667 constituents for the Class of 2002 and a total of 264 appointments were made in FY 1998.

The Academy is accredited by the Middle States Association of Colleges and Schools. The Marine Engineering Systems curriculum is

approved by the Accreditation Board of Engineering and Technology. The academic year is divided into trimesters.

In addition to classroom study, Academy midshipmen are assigned to U.S.-flag merchant ships for two periods of practical shipboard experience.

Rear Admiral Thomas T. Matteson, Superintendent of the U.S. Merchant Marine Academy, retired in FY 1998. He was replaced by Rear Admiral Joseph D. Stewart, USMS, former Deputy Chief of Staff for Installations and Logistics, Headquarters, U.S. Marine Corps.

State Academies

MARAD provides financial assistance to six State maritime academies to train merchant marine officers pursuant to the Maritime Education and Training Act of 1980: 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 Program, Galveston, TX.

State maritime academy cadets who participate in the Student Incentive Payment (SIP) Program receive a maximum of $3,000 annually to offset school costs. Participating cadets are obligated to:

- complete the academies course of instruction;

- pass the USCG examination for a license as an officer in the U.S. Merchant Marine and maintain that license for at least 6 years from the date of graduation;

- apply for and accept, if offered an appointment as a commissioned officer in an armed force reserve component and serve for at least 6 years from the date of graduation; and

- maintain employment in the maritime industry at least 3 years from the date of graduation.

MARAD provides training vessels to five sea coast academies for use in at-sea training and as shore side laboratories.

Supplemental Training

MARAD provides supplemental training for seafarers in marine firefighting, intermodalism, and defense readiness. In FY 1998, 1,945 maritime personnel were trained in ship and barge firefighting, including U.S. citizen seafarers, USCG personnel, and port city professional firefighters. MARAD-sponsored basic and advanced firefighting training is offered at: MARAD's fire school at Swanton, OH; the U.S. Navy-Military Sealift Command (MSC)/MARAD fire training facility in Earle, NJ; and the U.S. Navy fire training installation at San Diego, CA.

MARAD's National Sealift Training Program for Masters and Chief Mates under the Department of Continuing Education at the U.S. Merchant Marine Academy was developed to improve U.S.-flag strategic sealift support capability and reduce vulnerability to piracy and hostage threats. Combining the Master Mariners Readiness Course with course modules in Defense Communications and Maritime Security, this program integrates defense communications, maritime security, and sealift readiness training drawing from lessons learned from *Operations Earnest Will, Desert Shield/Desert Storm, Uphold Democracy*, and *Restore Hope*. In FY 1998, 50 senior deck officers completed this program.

Garrett A. Morgan Technology and Transportation Futures Program

The Department of Transportation's (DOT) Garrett A. Morgan Technology and Transportation Futures Program is aimed at ensuring that we have a workforce prepared for the technologically challenging jobs of the 21st century. The program is composed of four different areas:

- Math, Science and Technology Literacy Challenge (K-12);

- Community College Partnership;

- Undergraduate and Graduate Opportunities; and

- Life-Long Learning

MARAD participation in this intermodal program is seen as an opportunity to help inform students of all ages across the nation in marine careers and to inspire and prepare them to be valuable contributors to building a strong merchant marine. Under MARAD chairmanship, an Internet site has been developed by an intermodal committee as one component of the program. MARAD has also stepped up its efforts in working with young students and participated in various opportunities to provide mentoring and inspiration on a one-to-one basis.

In May 1998, MARAD hosted 200 students (mostly 4th through 6th graders) aboard the Ready Reserve Force (RRF) ship CAPE WRATH to observe the restart of the Whitbread Round the World Sailboat race. The students with their teachers and chaperones were aboard most of a day. The ship sailed from its berth in Baltimore to the Chesapeake Bay Bridge and back. In addition to seeing the race start at the Bridge and having shipboard tours, the students were rotated through a series of educational stations staffed by MARAD and other DOT staff.

The stations featured engaging activities about ship design and operations, navigation and piloting, boating safety, knot tying, the Whitbread race sailboats and crews, environmental challenges in the Chesapeake Bay, and exploring the Internet via the Garrett A. Morgan Technology and Transportation Futures web site. Experienced mariners and MARAD employees provided value-added inspiration by sharing their personal career experiences with the students.

Contribution of Educational Supplies to Schools

During FY 1998, MARAD donated under Executive Order 12999 approximately $300,000 worth of computer equipment to public schools across the country. Recipients are shown in Chart 12.

MARAD also arranged, through separate statutory authority, for transfer of computers and other educational tools to maritime training schools. They are shown in Chart 12A.

Chart 12: Computers and Other Items Donated to Public Schools

Recipient	CPU	Monitor	Printer	Other
Coolidge Sr. High School Washington, DC	35	36	1	
Cardozo Sr. High School Washington, DC	30	30	1	1 Lap Top Computer
Bret Harte Elementary School San Francisco, CA	15	13	2	
Potrero Middle School San Francisco, CA	4	3	1	Scanner
Walter L. Cohen High School New Orleans, LA	12	21	14	
Brightwood Team Program Washington, DC	30	35	3	

Chart 12A: Contribution of Educational Supplies to Maritime Schools			
School/Location	Item		Contributor
Seafarers Harry Lundeberg School of Seamanship Piney Point, MD	Computers Scanners Monitors Printers CD roms Watertight Doors Other Misc. Equipment Barge, EMPRESS II Fire pumps	9 8 110 9 7 6 - 1 4	General Services Administration U.S. Navy MARAD
California Maritime Academy Vallejo, CA	1 Gas Turbine Engine ($90,000) Navy sailboat EXCALIBEAR		U.S. Coast Guard U..S. Navy
Maritime Training Center	Two small boats, boat trailers, large outboard, and a 44-foot motor lifeboat		U.S. Coast Guard
Seattle Maritime College Seattle, WA	$190,000		

Merchant Marine Awards

Public Law 100-324, the Merchant Marine Decorations and Medals Act, authorizes the Secretary of Transportation to recognize outstanding and meritorious service or participation in national defense action. Under this authority, MARAD assisted in replacing merchant marine decorations issued to merchant mariners who served during World War II, Korea, Vietnam, and Operation DESERT STORM. In FY 1998, MARAD responded to more than 2,000 inquiries on awards and related issues.

Labor

Labor Data

In FY 1998, average monthly U.S. seafaring employment in all sectors (private, Government contract, and Great Lakes) decreased to 10,324, down 5 percent from the FY 1997 average of 10,843. (See Table 19.) The total work force in selected U.S. commercial shipyards totals [illegible] Longshore employment increased 3 percent to 23,562.

Seafaring Labor Relations

Existing seafaring labor collective bargaining agreements remain in effect through June 1999.

Significant jobs were added to the U.S. flag fleet with the reflagging of four Maersk Line ships and four new American President Lines, Ltd. containerships.

An update was completed of the *Great Lakes Unlicensed Merchant Seaman Employment Listing*, a supplemental listing of employment opportunities for unlicensed seamen in the Great Lakes. This complementary information to nationally distributed employment data lists companies that directly [illegible] companies that hire through union halls. Of note is the Oglebay Norton Co. that maintains a web site to educate potential employees.

Work Stoppage

There was a strike by wheelhouse personnel belonging to the Pilots Agree Union in FY 1998. When the group first called for its members to strike on April 3, the union hoped that its labor action would bring barge commerce to a halt, prompting the barge and towboat industry to come to the bargaining table and ultimately boost wages and fringe benefits. Not one inland marine company recognized the association as a bargaining unit. Any effect that the strike had was in the early days. The strike officially ended on August 3.

Annual Crewing Assessment of U.S. Merchant Mariners

United States sealift ships include the 96 RRF ships operated by MARAD, two hospital ships, and eight fast sealift ships operated by the MSC. Approximately 2,692 mariners would be required to activate all reserve sealift billets not currently manned; this is nearly 5 percent fewer than estimated a year ago.

In September 1998, MARAD was directed by the MSC to activate 29 RRF ships with no notice as part of Exercise Turbo Activation 84-4. There were no delays attributable to [illegible] was declared completely successful.

The Maritime Security Act of 1996 authorized funding of up to 47 American vessels crewed by U.S. citizen mariners. This new law provides U.S. mariners with basic reemployment rights, a new incentive for qualified inactive mariners to volunteer and sail in support if needed.

Longshore

Longshore labor and management on the West, East and Gulf coasts are enjoying an unprecedented unified front since agreeing last year to terms through June 1999. Employers and the International Longshore and Warehouse Union on the West Coast and the International Longshoremen's Association on the East and Gulf Coasts are a unified negotiating body extending into the next millennium.

Safety

MARAD continues to emphasize safety and human performance in the maritime industry, focusing on the combined effects of human factors, training, management, organization, operating procedures, design, construction, and ship and shore relationships upon the safe and efficient operation of vessels.

Human factors contribute to about 80 percent of all accidents. Improvements are key to achieving reliable, efficient, and competitive marine transportation that is safe for crew, passengers, and cargo while reducing the potential for pollution from accidents. This area is of equal concern in the shipbuilding, ship repair, and longshore industries.

MARAD and USCG signed a memorandum of agreement to jointly facilitate industry development of a National Maritime Safety Reporting System. Industry involvement was engaged through various public sessions and papers and an industry working group was formed under the Society of Naval Architects and Marine Engineers. Legislative changes to provide the immunities necessary to enable such a system are being initiated.

The system would follow many of the concepts used for the Aviation Safety Reporting System. An anonymous voluntary reporting system in the marine industry provides the opportunity to identify and solve system safety problems before they result in accidents.

MARAD's Cooperative Research Program with the American Pilots Association published a report entitled *Portable Electronic Piloting Aid Project*. The research involved a number of different local pilot associations evaluating various electronic positioning aids and determining best practices for their implementation and effective use. The technology was found highly useful with proper training and experience.

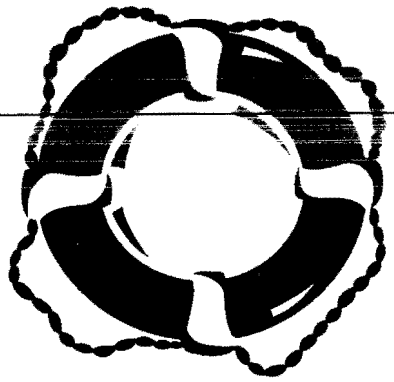
The DOT Human Factors Coordinating Committee under MARAD Chairmanship developed into a very proactive intermodal mechanism. A DOT strategic plan addressing human centered research has been completed during the reporting period. Two initiatives were identified as high priority and work to define these efforts has began. The areas, focusing on operational performance, are Human Fatigue and Alertness and Advanced Instructional Technologies.

The Committee also supported the DOT Safety Council [illegible] better understand human fatigue and alertness issues. As a Safety Council activity, an intermodal Workshop on Fatigue and Alertness was held jointly with the State of Maryland early in FY 1999. The focus was on partnering at State and local levels with government and industry to improve operator awareness of fatigue and alertness issues and ways to prevent accidents from developing.

Table 19: MARITIME WORK FORCE AVERAGE MONTHLY EMPLOYMENT

	Average Monthly Employment in Fiscal Year	
	1998	1997
Seafaring Shipboard Jobs:[1]	**10,324**	**10,843**
Shipyards:[2]	**61,118**	**61,118**
Production Workers	34,591	34,,591
Management and Clerical	26,527	26,527
Longshore:	**23,562**	**22,743**

[1]Includes Great Lakes, but excludes inland waterways.
[2]Commercial yards in the Active Shipbuilding Base.



Chapter 8

International Activities

The Maritime Administration (MARAD) continued its efforts to obtain equitable treatment for U.S.-flag carriers in international trade and for the U.S. shipbuilding industry.

Bilateral Discussions with China

Three separate meetings were held with Chinese officials during fiscal year (FY) 1998 to discuss maritime issues.

In December 1997, the Acting Maritime Administrator chaired the U.S. delegation during bilateral consultations in Washington, D.C. During these talks, the U.S. side described the numerous restrictions imposed on U.S. carriers' operations in China, many of which relate to intermodal operations. The two delegations issued agreed minutes on December 11, 1997, that described these restrictions.

During these meetings, the two sides agreed to take practical steps to improve the operating situations of their carriers. In this unwritten agreement, China committed to approve pending port access applications by U.S. carriers, as well as a proposed joint-venture terminal project between a U.S. carrier and the Port of Tianjin.

For its part, the U.S. agreed to recommend limited relief for the Chinese carrier, China Ocean Shipping Company (COSCO), under the U.S. Controlled Carrier Act. On March 27, 1998, such relief was granted by the Federal Maritime Commission.

A second round of talks was held in Washington, DC, March 30-April 3, 1998, but an impasse was reached concerning implementation of the unwritten December agreement.

On August 24, 1998, the Maritime Administrator led a delegation to Beijing to discuss a range of issues, including China's failure to carry out its commitments under the unwritten agreement. The U.S.-China Maritime Agreement, initially concluded in 1988 and successively extended to September 15, 1998, was not extended further. However, both governments stated they would continue to honor the terms of the agreement on the basis of comity and reciprocity.

Port Services in Japan

In November 1997, the United States concluded an agreement with Japan which, if fully implemented, would eliminate the monopoly control over port services exerted by the Japan Harbor Transport Association through the so-called "prior consultation" system.

This bilateral accord also obligates Japan's Ministry of Transport to approve expeditiously stevedoring and terminal operating license applications by U.S. and other foreign carriers. MARAD and State Department officials under the leadership of the Secretaries of Transportation and of State negotiated the agreement.

In the remainder of FY 1998, U.S. carriers were unable to move forward to apply for licenses, as provided for in the bilateral agreement, because of threatened local work stoppages. In addition, while the number of matters subject to prior consultation were reduced, there has been no effective improvement or liberalization of the prior consultation system at year's end.

On August 18-19, 1998, a U.S. delegation led by the Maritime Administrator traveled to Tokyo and met at U.S. request with Japanese officials from the Ministries of Transport and of Foreign Affairs to review implementation of the port practices agreement. During these discussions, the Japanese Government reaffirmed its commitment to carry out the bilateral agreement; however, the steps outlined by the Ministries will require several years to address the carriers' problems successfully.

Relations with Brazil

Brazilian maritime legislation enacted in January 1997 included a tax exemption for vessels under a new Brazilian registry known as "REB." The provision excludes freight revenues in calculating import duties and other taxes only when cargoes are shipped on vessels of REB registry. The U. S. Government views the provision as unfair to American carriers and inconsistent with the U.S.-Brazil maritime agreement.

The Acting Maritime Administrator led a U.S. delegation in consultations on this and other issues in Washington. DC, on December 16-17, 1997. The Brazilian Government formally implemented the REB tax benefits

on July 30, 1998. Since U.S. law provides exemptions from U.S. special-tonnage taxes and light money only on the basis of reciprocity, Brazil's exemption was revoked on October 2, 1998. The issue remained unresolved at the close of this reporting period.

Two other major issues were discussed in the December consultations:

Concerns over the cross trades such as cargo sharing agreements that restrict access of U.S. carriers to cargo moving between Brazil and third-world countries such as Argentina, Uruguay, and Chile; and the still unresolved issue of the inability of U.S. carriers to establish their own bonded-warehouse facilities in Brazilian ports.

Organisation for Economic Cooperation and Development (OECD)

MARAD continued to work closely with the U.S. Trade Representative on implementation of the OECD Agreement that would end shipbuilding subsidies and other trade distorting practices. MARAD participated in a December 1997 OECD meeting to exchange information on shipbuilding policies and developments among member countries as well as representatives of key nonmember shipbuilding nations.

MARAD also participated in meetings of the OECD's Maritime Transport Committee (MTC) which considered a wide range of shipping industry and policy issues within the OECD. The MTC held a special consultation with Chinese Government shipping officials to exchange information on policy developments. It also hosted an industry round table discussion of strategies for all sectors involved in shipping to eliminate substandard vessels.

Asia Pacific Economic Cooperation (APEC)

MARAD participated in the creation of a maritime initiative during two meetings of APEC's Transportation Working Group (TPT) held in 1997 in Mexico City and Taipei. The maritime initiative is intended to encourage APEC-member economies to adopt forward-looking approaches to maritime transport, reflecting point-to-point services performed by modern day liner vessel operators.

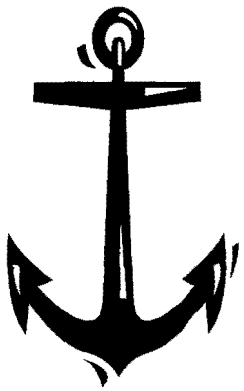
MARAD prepared a draft mission statement to help guide the TPT's future program. The first maritime project will be preparation of a questionnaire identifying APEC members' transportation policies, specifically those affecting foreign companies' access to transportation markets in the region.

North American Free Trade Agreement (NAFTA) Maritime Meeting

Under the auspices of NAFTA, a maritime and port policy subgroup was established to address maritime transportation. MARAD led the U.S. delegation at the subgroup's most recent meeting in Montreal June 10-12, 1998. The focus of this session was drafting a mission statement and a tentative work program. The scope of activity under the work program covers promotion of ship safety, development of maritime trade data, cooperation in multilateral fora, and exchanges of information on transport-policy developments.

Other Activities

In FY 1998, MARAD participated in meetings, training events, and exercises with civilian and military components of the North Atlantic Treaty Organization (NATO). MARAD's Associate Administrator for National Security is Chairman of NATO's Planning Board for Ocean Shipping (PBOS), and MARAD personnel serve as Secretariat for PBOS. PBOS trains civilian shipping industry experts to support the mobilization of sealift resources for the deployment and sustainment of NATO forces.



Chapter 9

Administration

Strategic Planning

In accordance with the Government Performance and Results Act of 1993 (GPRA), the Maritime Administration (MARAD) published the *Maritime Administration Strategic Plan 1998-2002* in April 1998. In this strategic plan, agency objectives are synthesized into four strategic goals which define anticipated long-term accomplishments in the key areas of national security, shipbuilding, intermodalism, and trade.

The GPRA is aimed at measuring the effectiveness of Federal programs against performance goals derived from the strategic planning process. Performance goals and several performance measures are defined for each strategic goal in a Performance Plan submitted to the Office of Management and Budget with MARAD's fiscal year (FY) 1999 budget.

The MARAD strategic plan and performance goals support the broader goals set forth in the *Department of Transportation (DOT) Strategic Plan 1997-2002*. Several accomplishments for activities designed to achieve the strategic/performance goals also provide the basis for periodic progress reviews between the Maritime Administrator and the Deputy Secretary of Transportation. Refinement of the strategic goals, performance goals, and performance measures is an ongoing activity.

Customer Service Initiatives

Executive Order 12862, "Setting Customer Service Standards," mandates a customer needs-driven approach to providing Government services to the public, as does DOT's Strategic Plan.

During FY 1998, MARAD continued the evaluation of its performance and customer reactions for its active service plans, which provide information on the purpose of each program, services provided, guaranteed response times, and feedback on how well each program performed in meeting customer needs.

MARAD prepared survey forms as part of a new customer outreach initiative in FY 1998. Initial distribution is expected early in FY 1999. The information will be used by MARAD to monitor the overall level of customer satisfaction and to identify areas for improvement in program services or delivery.

MARAD enhanced and improved its Internet home page (http://www.marad.dot.gov) to provide better communication with the maritime industry and the public. Of particular interest is the Reading Room, which provides direct links to announcements, advisories, history, publications, regulations, and testimony.

Last year, MARAD undertook a number of initiatives in response to customer concerns. Among those initiatives was the streamlining of all cargo preference programs to ensure that U.S. Government agencies receive the best value at the lowest possible cost to the taxpayer, thus building valuable partnerships with both Federal shipper agencies and commercial exporters. Regulatory burdens on these shippers have been reduced while maintaining the integrity of the cargo preference programs.

Under a new 5-year agreement, MARAD's Cargo Handling Cooperative Program actively pursues industry-driven enhancements to cargo handling that increase productivity and improve customer service. MARAD is also very active in a partnership with industry that has evolved into the present day Ship Operations Cooperative Program. The overall objective is to improve the competitiveness, productivity, efficiency, safety, and environmental responsiveness of U.S. vessel operations. In a related area, MARAD developed an action plan to address Year 2000 (Y2K) computer issues and has been conducting outreach sessions to ensure that the maritime industry is fully informed, as well as to offer leadership and assistance where possible.

In FY 1998, Secretary of Transportation Rodney E. Slater led a waterways management initiative, an effort by MARAD, the U.S. Coast Guard (USCG), and several other Federal agencies. Seven regional listening sessions were held around the country. Over 500 stakeholders attended. The focus was to find out what is working and what is not working in the U.S. water transportation system. The initiative led to a comprehensive list of issues and recommendations for waterways management. A national conference, which Secretary Slater chaired in November 1998, addressed key issues identified in the regional

listening sessions and explore potential solutions. (See Chapter 5.)

Maritime Subsidy Board

The Maritime Subsidy Board (MSB), by delegation of the Secretary of Transportation, awards, amends, and terminates contracts subsidizing the construction and operation of U.S.-flag vessels in the U.S. foreign commerce. The MSB holds public hearings, conducts fact-finding investigations, and compiles and analyzes trade statistics and cost data to perform its functions. MSB decisions, opinions, orders, rulings, and reports are final unless the Secretary undertakes a review of a decision.

The MSB is composed of the Maritime Administrator, who acts as Chairman, the Deputy Maritime Administrator, and the Agency's Chief Counsel. The Secretary of MARAD and of the MSB acts as an alternate member in the absence of any one of the three permanent Board members.

The MSB conducted regular meetings in FY 1998 and a number of notices relating to adjudicatory proceedings and development and adoption of rules and regulations were published in the *Federal Register*.

In FY 1998, the Maritime Administrator and the MSB took a number of administrative actions to help strengthen the U.S. merchant marine. Significantly, the Maritime Administrator approved a reorganized financial structure to enable Maritime Security Program (MSP) participant American President Lines, Ltd. (APL) to merge with Neptune Orient Lines, a foreign corporation, while ensuring no excessive elements of foreign control over the MSP vessels involved.

Similarly, a reorganized structure was determined to be acceptable and free of excessive elements of foreign control for MSP participant Lykes Bros. Steamship Co., Inc., (Lykes), which was purchased by Canadian Pacific Railroad. Thus, the nine APL vessels and three Lykes vessels remain in the new MSP program which will run for 10 years.

The old Operating-Differential Subsidy (ODS) program phased out in FY 1998 for liner vessels, and phases out in FY 2001 for bulk vessels.

Legal Services and Agency Decisions

MARAD's Chief Counsel served on an interagency panel, chaired by the Department of Defense (DOD), to examine how obsolete Government ships can be scrapped in a timely, environmentally sound, and economically viable manner. The Chief Counsel testified twice on the ship scrapping program and the interagency panel before the House Transportation and Infrastructure Committee's Subcommittee on Coast Guard and Maritime Transportation and also briefed several members of Congress.

The interagency panel issued a report on April 20, 1998, with recommendations to improve the process for both domestic and export sales of obsolete vessels for scrapping. Vice President Al Gore issued a memorandum to the Secretary of Transportation and the Secretary of Defense on September 23, 1998, postponing resumption of exports for 1 year to ensure that the recommendations are fully considered and implemented.

Under statutory mandate, MARAD is to sell all obsolete vessels in the National Defense Reserve Fleet (NDRF) by September 30, 2001, and to maximize the proceeds to the Government (P.L. 103-451). Sales agreements were prepared for eight ships sold to a domestic scrapper in FY 1998. On September 18, 1998, MARAD issued an Invitation for Bids to sell 25 additional ships to domestic scrappers. There are 67 non-retention ships in the NDRF, and MARAD is in the process of accepting title to an additional 56 obsolete vessels from the Navy for scrapping. (See Chapter 1.)

In FY 1998, MARAD drafted several new Capital Construction Fund (CCF) agreements, and amended a number of CCF, Construction-Differential Subsidy (CDS), ODS, and MSP agreements.

The most significant of these actions involved MARAD's approval of the sale of American President Lines, Ltd. (APL) to Neptune Orient Lines, Ltd. (NOL). Following an extensive review of the transaction, titles to nine vessels were transferred to a trust qualified under §1136(c) of the Coast Guard Authorization Act of 1996. Nine MSP agreements were transferred from APL to American Ship Management, LLC. APL also brought four vessels registered in the Marshall Islands to U.S.-flag registry.

Also approved was the sale of Lykes Bros. Steamship Co., Inc. (Lykes) to Canadian Pacific Ship Holdings, Inc. (CP Ships). The action involved extensive review of documents and resulted in the transfer of all non-vessel assets owned by Lykes to CP Ships. Lykes' vessels were transferred to a qualified trust under §1136(c) of the Coast Guard Authorization Act of 1996, and the three MSP

agreements held by Lykes were transferred to First American Bulk Carrier, Corp. (FABC). The vessels will be operated by subsidiaries of FABC, and time chartered to Lykes Lines Ltd., LLC. In connection with this matter, a court challenge was lodged against MARAD's disapproval of MSP operating agreements because citizenship requirements of section 2 of the Shipping Act of 1916 would not be satisfied. The lawsuit was settled after a transfer to a qualifying citizen was negotiated.

Work with DOD continued on guidance regarding waivers of the cargo preference laws for commercial items and commercial components purchased under a subcontract. Limits on the applicability of these waivers appeared in a proposed amendment to the Defense Federal Acquisition Regulation Supplement transmitted to the Defense Federal Acquisition Regulation Council. The agencies also are working to improve MARAD's monitoring of DOD cargo movements to ensure compliance with the cargo preference laws.

A variety of Title XI financing activities occurred in the reporting year. MARAD approved the issuance of 12 commitments to guarantee obligations covering the refinancing of 3 vessels and the construction of 9 mobile offshore drilling units, 3 double hull tankers, 2 platform supply vessels, 13 tugboats, 44 cargo barges, and 2 barge mounted power plants) for an aggregate amount of $734,294,622.

At the same time, MARAD closed 14 commitments to guarantee obligations covering the refinancing of 3 vessels, the construction of 2 shipyards and the construction of 65 vessels (1 mobile offshore drilling unit, 3 double hull tankers, 3 triple-stack box carriers, 3 tugboats, 51 cargo barges, 2 hotel barges, 1 anchor handling vessel and 1 crew boat) for an aggregate amount of $538,649,622. MARAD also significantly reduced paperwork involved in closing Title XI transactions by half--from 250 pages to 125 pages. The Agency also streamlined the Title XI application process. Formal amendment of existing regulations was begun to make this customer-oriented approach permanent.

Litigation, both administrative and judicial, was varied and several actions touched on programs central to MARAD's statutory missions. The consolidated protests were dismissed by the General Accounting Office (GAO) as moot as a result of an independently discovered error and a determination that the complexity of the pricing structure adversely affected MARAD's best value decision, MARAD rescinded the awards and took corrective action.

Most contract awardees intervened. The consolidated protests were dismissed by GAO as moot as a result of an independently discovered error and a determination that the complexity of the pricing structure adversely affected MARAD's best value decision MARAD rescinded the awards and took corrective action. Two contract awardees then filed new protests alleging impropriety in the rescissions, but GAO denied all on finding that MARAD's actions were reasonable.

Another protest opposed the award of a layberthing contract to the offeror which offered the lowest price for all seven ships included in the solicitation. The protestor had offered the lowest price for only five of the seven ships. The protest was dismissed as untimely because there was unambiguous language in the solicittion which informed offerors that award would be based on the lowest evaluated price for all seven ships. Since protestor did not protest this language prior to the closing date, its protest was untimely. GAO also held that, even if the language was ambiguous as protestor contended, the protest was still untimely because the protest was filed more than 10 days after protestor became aware of the Governments interpretation of the language. GAO also held the protest was untimely if the solicitation provision was ambiguous because it was filed more than 10 days after the Agency's adverse interpretation.

MARAD prevailed at the U.S. Court of Appeals for the District of Columbia Circuit in a suit questioning MARAD's determination that a vessel built with CDS could enter the domestic trade after expiration of its economic life. Without dissent, the Court concluded that MARAD's interpretation was reasonable and in accord with the general purpose of the Merchant Marine Act of 1936, and therefore entitled to deference.

A Consent Decree was approved by the Federal District Court for the Northern District of California settling the bulk of the claims due to the discharge of oil from the CAPE MOHICAN at San Francisco Bay in September 1996. Payments were provided to State, local, and Federal agencies for use in restoring and enhancing the environment, public areas, and services adversely affected by the discharged oil, and to reimburse agencies for cleanup costs.

MARAD continued defending two significant suits under the Comprehensive Environmental Response, Cleanup, and Liability Act of 1980 (Superfund Act). One case involves a shipyard operated by MARAD's predecessor agency during World War II. The second

case involves a disposal site where oily bilge water from MARAD-owned ships is alleged to have been deposited. Both cases seek substantial damages for remediation.

MARAD provided litigation support to the Department of Justice for the defense of claims of injuries to seamen employed on MARAD vessels. At the end of the period, about 55 such cases were active. Also, MARAD continues as a named defendant in multiple asbestos cases; approximately 1,000 seaman injury cases alleging asbestos exposure have been filed.

At year's end, three personnel cases were pending in Federal District Court, two alleging discrimination on the basis of disability and one alleging discrimination on the basis of race, age, and gender. Administratively, four cases decided in MARAD's favor were on appeal to the Equal Employment Opportunity Commission.

MARAD actively engaged in rulemaking throughout the reporting year. Two final rules were published. One rule amended the procedures for the determination of fair and reasonable guideline rates for the carriage of bulk and packaged preference cargoes on U.S.-flag commercial vessels. [illegible] vessel replaced an individual vessel's cost and is intended to encourage more economical operators while reducing shipping costs to the Government. The other final rule eliminated mortgagee and trustee restrictions related to mortgages held by noncitizens on U.S.-documented vessels. During this period, MARAD also removed two obsolete regulations.

The updated *Compilation of Maritime Laws* was issued in FY 1998. It contains the text of the Merchant Marine Act of 1936, the Maritime Security Act of 1996 , the Shipping Act of 1984, and other related acts, as amended through the first session of the 105th Congress.

Legislation

A significant amount of maritime-related legislative activity occurred in FY1998, but several measures directly pertinent to MARAD were not enacted into law by the end of the reporting period.

The Ocean Shipping Reform Act of 1998 was signed early in FY 1999. This ends a long effort to deregulate the ocean shipping industry and increase competition. Its terms include the right of independent action by members of maritime conferences to enter into confidential service contracts with their customers. It also prohibits retaliation against members which contract individually. Although rates for service contracts need not be made public, they still must be provided to the Federal Maritime Commission. Most other terms of the contract would be made public, and tariffs must be available to the public in some form--such as the Internet.

The Omnibus and Emergency Appropriations Act for FY 1999 contained the American Fisheries Act. This measure seeks to raise the U.S. ownership standard for U.S.-flag fishing vessels operating in U.S. waters, to eliminate exemptions for vessels that could not meet current citizenship standards, and to aid in phasing out of operation many of the largest fishing vessels thought to be destructive to fishery resources. MARAD is tasked to assure U. S. citizenship requirements are followed for all fishing boats over 100 feet in length, and annual verification is prescribed.

The bill specifies that MARAD is to exert rigorous scrutiny in carrying out this assignment. At the request of the Secretary of Commerce or the North Pacific Fisheries Council, MARAD is charged to determine whether an individual or an entity has exceeded the statutory limitation on harvesting or processing of pollock in that directed fishery.

Upon enactment, the Coast Guard Authorization Act of 1998 established an administrative process to waive the U.S.-build requirements of the Jones Act (46 U.S.C 883) for certain small passenger vessels. The Secretary of Transportation may grant this waiver after determining that employment of the vessel in the coastwise trade will not adversely affect U.S. vessel builders or the coastwise trade business of any person who employs vessels built in the United States. The Secretary may revoke the waiver if the vessel is employed in a trade other than as a small passenger vessel or uninspected passenger vessel, or if conditions change and its employment adversely affects U.S. vessel builders or the coastwise trade business of any person who employs vessels built in the United States. It is expected that implementation of the waiver process will be delegated to MARAD.

Early in FY 1999, the 105th Congress extended eligibility for burial benefits to merchant mariners who served on ships operating beyond the inland waters of the United States from August 15, 1945, to December 31, 1946--the official end of hostilities and the date that applies to all military services and other veterans groups.

Due to overwhelming support in Congress and the Administration against amending the Jones Act, none of the bills passed that would have opened coastwise trades to foreign ships. These included efforts (S. 2390, H.R. 4236, and H.R. 4490) to relax the U.S. build requirements to allow foreign-built vessels into the domestic coastwise trade, particularly for the carriage of bulk cargo.

Other bills considered varying degrees of change pertaining to transportation of passengers in the domestic cruise ship industry. S. 803, the United States Tourism Act of 1997, would have allowed foreign-flag vessels to engage in the coastwise transportation of passengers where no U.S.-flag vessels operate. S. 2507, the United States Cruise Tourism Act of 1998, sought limited access for foreign-flag cruise vessels to the U.S. domestic market, with more liberal access for foreign-built, U.S.-flagged cruise vessels. S. 2290 would have allowed foreign-built cruise vessels into the domestic market if they were U.S.-flagged and the owner/operator had committed to the building of a U.S. cruise vessel to replace the foreign-built vessel.

Information Resources Management

MARAD's ongoing information resources management planning program supports short- and long-range mission goals defined in the Agency's Strategic Plan. All MARAD file servers were replaced with new, Year 2000 (Y2K)compliant equipment. Moreover, 138 Y2K compliant computers were installed in headquarters and regional offices. Older computers were upgraded to Y2K compliance. In addition, all critical applications system software was renovated in FY1998 for Y2K compliance.

MARAD continues to concentrate technology resources toward strengthening its infrastructure to enhance internal communication, information, and data sharing opportunities. To support this project, all file servers were configured with Windows NT, now MARAD's network operating system as well as its desktop operating system. The conversion to a full Windows NT operating environment is expected to simplify network infrastructure operational support requirements.

MARAD's ongoing microcomputer application software training program, which is used to empower employees with the knowledge and skills required to increase the use of computer technologies, will create a more effective and productive organization.

Safety Program

In FY 1998, MARAD continued to update its Safety and Health Program to provide its employees with safe and healthy work environments.

With full-time safety and occupational health specialists assigned to each National Defense Reserve Fleet (NDRF) site, monthly occupational safety and health inspections are conducted at each workplace and identifiable hazards are promptly abated. Fleet employees are continuously instructed in safe work practices and fleet safety policies/regulations.

To provide immediate first-aid to its employees, each NDRF site upgrades its volunteer Emergency Medical Technicians (EMT) with annual training which ensures state certification and provides current medical first-aid training. At the Beaumont Reserve Fleet, 41 employees received community first aid and safety community CPR Training during the fiscal year. MARAD continued its site-specific Bloodborne Pathogens Exposure Control Plan originally established in 1992 at each NDRF site, and offered Hepatitis B vaccinations to each EMT.

With active participation and commitment by the employees to safe methods and procedures, MARAD continued its safety and health incentive program to lower the injury/illness lost-time accident rates at the NDRF sites. The Beaumont Reserve Fleet was FY 1997 winner of MARAD's Safety Trophy for having the lowest lost-time injury/illness rate.

MARAD continued its Asbestos Action Plan for the prevention of asbestos exposure. MARAD policy is to prohibit or stringently limit personnel exposure to airborne asbestos exposures and use of asbestos in any MARAD program. The Agency's ongoing asbestos survey, area, and personnel air-monitoring program determines, evaluates, and documents ambient concentrations of asbestos fibers in the NDRF workplace. The Action Plan is geared to eliminate asbestos material from MARAD programs. It encompasses the repair or replacement of such materials already installed, modified work procedures, and employee training. During the fiscal year, 71 employees at the Suisun Bay Reserve Fleet received some form of asbestos training.

MARAD's Medical Surveillance Program of the Asbestos Action Plan continues to provide periodic medical examinations to designated MARAD employees exposed or potentially exposed to hazardous substances or conditions in the workplace. This included employees assigned to MARAD's Headquarters, the NDRF

sites, the region offices, and the U.S. Merchant Marine Academy.

MARAD also provides the NDRF sites and the Merchant Marine Academy with periodic industrial hygienist support to conduct surveys of the facilities and to target all safety and health hazards.

Personnel

MARAD's employment totaled 935 at the end of FY 1998. A MARAD senior executive service member received the Meritorious Presidential Rank Award. Four MARAD employees received the Secretary's Silver Medal and three individuals received the Secretary's Award for Excellence. One employee received the Secretary's Award for Valor and one employee received the Secretary's Award for Volunteer Service. Fifteen employees were awarded the Administrator's Bronze Medal. Three employees received the MARAD EEO Award in recognition of and appreciation for contributions made toward the furtherance of Equal Employment Opportunity.

The Agency experienced a 1-percent increase in the number of minority employees. The percentage of handicapped and female employees did not change.

Three positions in the Career Opportunities Training Agreement (COTA) Program, formerly Upward Mobility, were established. Five employees were promoted to the target level.

Eleven cross-training positions were advertised under MARAD's Career Enhancement Program, resulting in four selections. Five special training announcements were issued. Forty-eight applications were approved for tuition assistance through the MARAD Tuition Assistance Program.

Installations and Logistics
Real Property

On September 30, 1998, MARAD's real property included NDRF sites at Suisun Bay, CA, Beaumont, T,; and James River, VA; the U.S. Merchant Marine Academy at Kings Point, NY; and the Poland Street Wharf at New Orleans, LA.

A facility for training maritime firefighters was operated at Freehold, NJ, under MARAD agreement with the U.S. Navy. MARAD operated the Toledo, OH, marine fire-training facility.

Regional offices were maintained in New York, NY; Norfolk, VA; New Orleans, LA; Des Plaines, IL; and San Francisco, CA.

A warehouse for ships' spare parts was opened in Alameda, CA in FY 1998.

Port, intermodal, and/or environmental staffs were maintained in Seattle, WA; St. Louis, MO; and at the five regional headquarters.

Ship management staffs were also maintained at the regional headquarters as well as at Port Arthur, TX and New York, NY.

Audits

In FY 1998, the Department of Transportation's Office of Inspector General and the General Accounting Office submitted principal final reports on MARAD activities as follows:

Office of Inspector General:

Government Credit Card Program – DOT Wide

Management Advisory Report on Massachusetts Heavy Industries, Inc., Title XI Loan Guarantee (2 Reports)

Review of Permanent Change of Station Claims Filed by DOT Employees

Assessing the Year 2000 Computer Problem

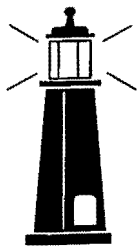
Fiscal Year 1997 Consolidated Financial Statements, DOT Maritime Security Program

The General Accounting Office' Maritime Security Fleet, Factors to Consider Before Deciding to Select Participants Competitively

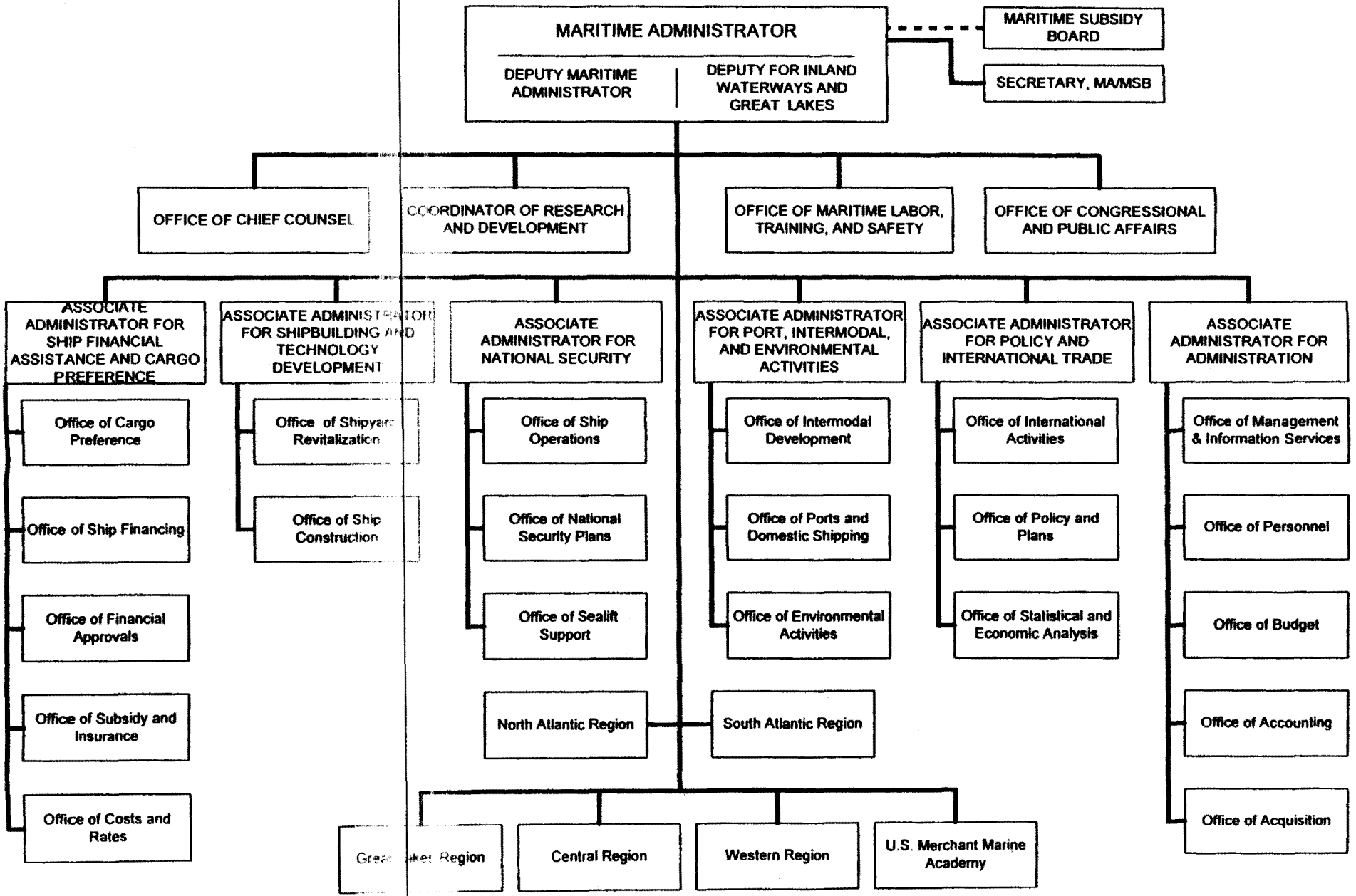
Accounting

MARAD's accounts are maintained on an accrual basis in conformity with generally accepted principles and standards, and related requirements prescribed by the Comptroller General.

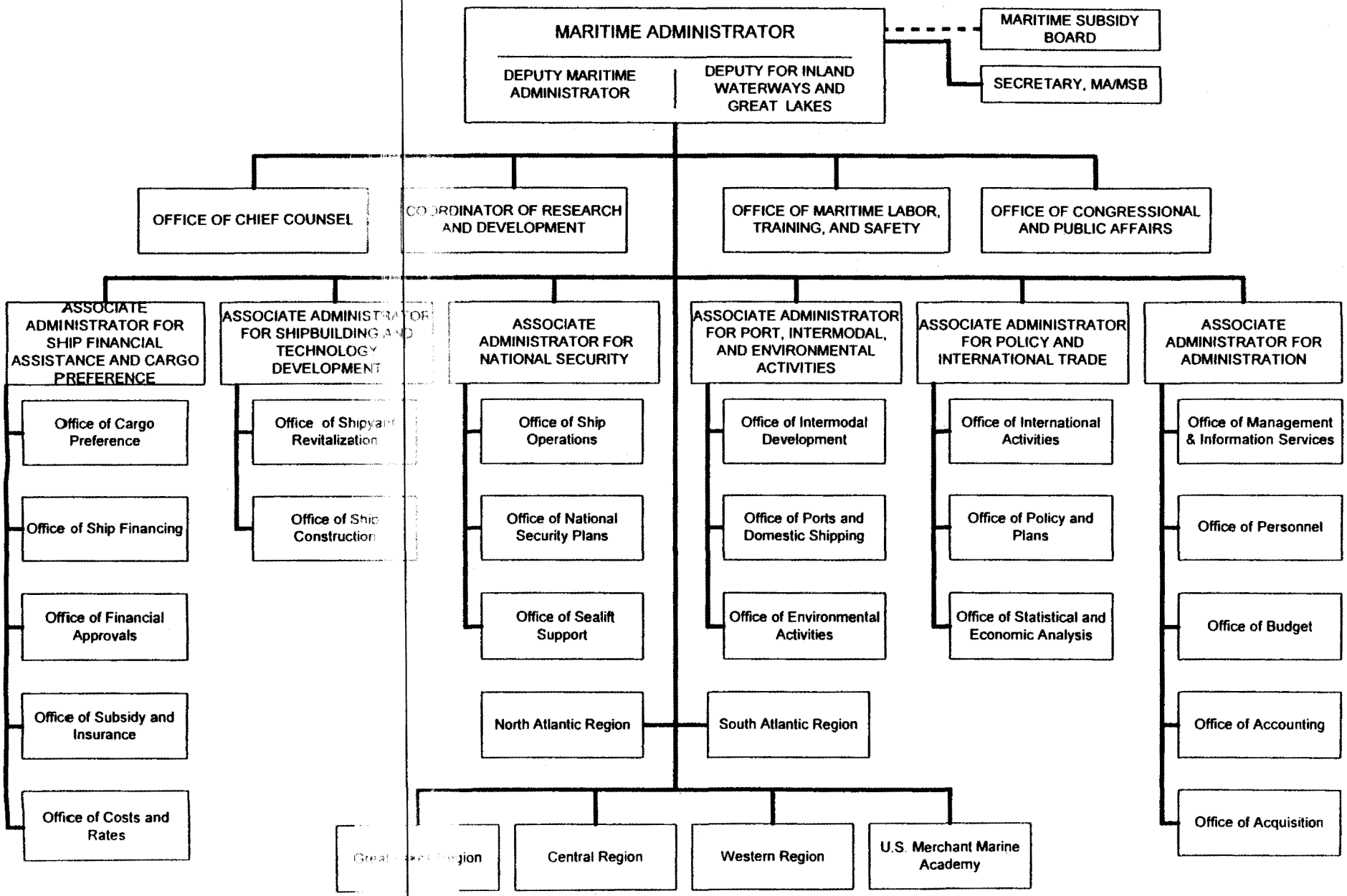
The net cost of MARAD's FY 1998 operations totaled $251million. This included $56 million in ODS and ocean freight differential subsidies; and $74 million in administrative expenses, including financial assistance to State Maritime Academies. MARAD incurred $1.71 million in other operating income net of expenses. MARAD Financial statements appear as Exhibits 1 and 2.



MARITIME ADMINISTRATION



MARITIME ADMINISTRATION



U.S. DEPARTMENT OF TRANSPORTATION--Maritime Administration

Exhibit 1. Statement of Financial Condition
September 30, 1998, and September 30, 1997

	September 30	
ASSETS	**1998**	**1997**
Selected Current Assets		
Funded Balances with Treasury:		
Budget Funds	$ 632,258,000	$ 572,698,000
Deposit Funds	2,000	2,000
	632,260,000	572,700,000
Federal Security Holdings	117,567,000	75,246,000
Accounts Receivable:		
Government Agencies	159,534,000	210,061,000
The Public	128,000	183,000
	159,662,000	210,244,000
Advances To:		
Government Agencies		
The Public		
Total Selected Current Assets	**$ 909,489,000**	**$858,190,000**
Loans Receivable:		
Repayment in Dollars	18,904,000	40,688,000
Allowances (-)	(5,433,000)	(25,605,000)
	13,471,000	15,083,000
Real Property and Equipment		
Land	2,762,000	2,762,000
Structures and Facilities	57,557,000	67,557,000
Equipment and Vessels	368,472,000	1,237,934,000
Leasehold Improvements	0	0
	429,991,000	1,309,603,000
Total Other Assets	**$443,462,000**	**$1,324,686,000**
Total Assets	**$1,352,951,000**	**$2,182,876,000**

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

U.S. DEPARTMENT OF TRANSPORTATION--Maritime Administration

Exhibit 1. Statement of Financial Condition
September 30, 1998 and September 30, 1997

	September 30	
LIABILITIES	**1998**	**1997**
Selected Current Liabilities (Note 2)		
Accounts Payable (Including Funded Accrued Liabilities):		
Government Agencies	$ 164,145,000	$ 166,814,000
The Public	100,630,000	89,455,000
	264,775,000	256,269,000
Accrued Liabilities for Loan Guaranteed	135,619,000	99,788,000
Unfunded Liabilities:		
Environmental Liabilities	32,878,000	
Other Liabilities	20,900,000	12,013,000
Federal Employee's Benenefits Payable	15,918,000	18,994,000
	69,696,000	31,007,000
Total Selected Current Liabilities	470,090,000	387,064,000
Deposit Fund Liabilities	0	
Debt issued under borrowing Authority:		
Borrowing from Treasury	0	0
Other Liabilities:		
Vessel Trade-in Allowance and Other Accrued Liabilities	0	0
Future Funding (ODS Contract Authority)		
Total Liabilities		
Government Equity		
Unexpended Budget Authority:		
Unobligated	578,806,432	396,643,823
Undelivered Orders	296,668,568	163,813,177
	875,475,000	556,457,000
Unfinanced Budget Authority (-)		
Unfilled Customer Orders	(69,696,000)	(31,007,000)
Contract Authority		
	(69,696,000)	(31,007,000)
Invested Capital	77,082,000	1,270,362,000
Total Government Equity	**$882,861,000**	**$1,795,812,000**
Total Liabilities and Government Equity	**$1,352,951,000**	**$2,182,876,000**

U.S. DEPARTMENT OF TRANSPORTATION--Maritime Administration

Exhibit 2. Statement of Operations

	Years Ended September 30	
	1998	**1997**
OPERATIONS OF THE MARITIME ADMINISTRATION		
Net Costs of Operating Activities		
Reserve Fleet Programs:		
Maintenance and Preservation	$ 6,364,000	$ 17,071,420
Direct Subsidies and National Defense Costs:		
Operating-Differential	37,049,000	72,321,635
Ocean Freight Differential	18,600,000	24,610,617
Title XI Credit Reform Program	52,098,000	9,568,757
And Financing Fund		
Maritime Security Program	81,431,000	38,103,971
Administrative (includes Financial Assistance to State Maritime Schools, School ships, Student Incentive	74,350,000	68,558,160
Other Operating Income Net of Expenes	387,745,000	37,823,000
Net Cost of Maritime Administration	**$657,637,000**	**$268,057,560**
Operations of Revolving Funds (Income):		
Vessel Operations Revolving Fund	(368,415,000)	999,814
War Risk Revolving Fund	(1,000,000)	(2,244,352)
Construction Differential Fund	(5,511,000)	(4,561,329)
Federal Ship Financing Fund	(30.905,000,)	(1,173,000)
Gifts and Bequests	(806,000)	(34,065)
	(406,637,000)	(7,412,932)
Net Cost of Combined Operations	**$250,719,000**	**$260,644,628**

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

Notes to Financial Statements

September 30, 1997 and September 30, 1998

1. The preceding financial statements include combining assets, liabilities, income, and expenses of the Maritime Administration (MARAD); the Vessel Operations Revolving Fund, the War-Risk Insurance Revolving Fund, and the Federal Ship Financing Fund, Programs of the Federal Credit Reform Act of 1990 and other appropriations. Fiscal Year 1998 financial information is based on MARAD's 1998 audited financial statements required by the Chief Financial Officer Act.

2. Contingent liabilities for Title XI guaranteed loans aggregated $2.85 billion as of September 30, 1998.

3. There were no conditional liabilities for prelaunching War-Risk Builder's Insurance on September 30, 1998.

4. As of September 30, 1998, the Federal Ship Financing Fund had investments (U.S. Treasury Securities) of $45.0 million. The fund incurred no defaults during FY 1998.

5. The Title XI Credit Reform Program incur one default in fiscal year 1998 in the amount of $1.78 million.

6. Real Property and Equipment are reported net of allowances for FY 1998.

Appendix I: MARITIME SUBSIDY OUTLAYS--1937-1998

Fiscal Year	CDS	Reconstruction CDS	Total CDS	ODS	Total ODS and CDS
1936-1955	$248,320,942*	$ 3,286,888	$ 251,607,830	$ 341,109,987	$ 592,717,817
1956-1960	129,806,005	34,881,409	164,687,414	644,115,146	808,802,560
1961	100,145,654	1,215,432	101,361,086	150,142,575	251,503,661
1962	134,552,647	4,160,591	138,713,238	181,918,756	320,631,994
1963	89,235,895	4,181,314	93,417,209	220,676,685	314,093,894
1964	76,608,323	1,665,087	78,273,410	203,036,844	281,310,254
1965	86,096,872	38,138	86,135,010	213,334,409	299,469,419
1966	69,446,510	2,571,566	72,018,076	186,628,357	258,646,433
1967	80,155,452	932,114	81,087,566	175,631,860	256,719,426
1968	95,989,586	96,707	96,086,293	200,129,670	296,215,963
1969	93,952,849	57,329	94,010,178	194,702,569	288,712,747
1970	73,528,904	21,723,343	95,252,247	205,731,711	300,983,958
1971	107,637,353	27,450,968	135,088,321	268,021,097	403,109,418
1972	111,950,403	29,748,076	141,698,479	235,666,830	377,365,310
1973	168,183,937	17,384,604	185,568,541	226,710,926	412,279,467
1974	185,060,501	13,844,951	198,905,452	257,919,080	456,824,532
1975	237,895,092	1,900,571	239,795,663	243,152,340	482,948,003
1976**	233,826,424	9,886,024	243,712,448	386,433,994	630,146,442
1977	203,479,571	15,052,072	218,531,643	343,875,521	562,407,164
1978	148,690,842	7,318,705	156,009,547	303,193,575	459,203,122
1979	198,518,437	2,258,492	200,776,929	300,521,683	501,298,612
1980	262,727,122	23,527,444	265,079,866	341,368,236	606,448,102
1981	196,446,214	11,666,978	208,113,192	334,853,670	542,966,862
1982	140,774,519	43,710,698	184,485,217	400,689,713	585,174,930
1983	76,991,138	7,519,881	84,511,019	368,194,331	452,705,350
1984	13,694,523	-0-	13,694,523	384,259,674	397,954,197
1985	4,692,013	-0-	4,692,013	351,730,642	356,422,655
1986	(416,673)	-0-	(416,673)	287,760,640	287,343,867
1987	420,700	-0-	420,700	227,426,103	227,846,803
1988	1,236,379	-0-	1,236,679	230,188,400	231,425,079
1989	-0-	-0-	-0-	212,294,812	212,294,812
1990	-0-	-0-	-0-	230,971,797	230,971,797
1991	-0-	-0-	-0-	217,574,038	217,574,038
1992	-0-	-0-	-0-	215,650,854	215,650,854
1993	-0-	-0-	-0-	215,506,822	215,506,822
1994	-0-	-0-	-0-	212,972,929	212,972,929
1995	-0-	-0-	-0-	199,966,581	199,966,381
1996	0	0	0	164,687,965	164,687,965
1997	0	0	0	121,555,425	121,555,425
1998	0	0	0	36,671,721	36,671,721
Total	**$3,569,648,434**	**$264,904,682**	**$3,834,553,116**	**$10,136,978,978**	**$13,971,532,094**

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

Appendix II: Combined Financial Statement of Companies with Operating Differential Subsidy Contracts

(There were eight subsidized companies in 1997 and fifteen in 1996.)

BALANCE SHEET for Years Ending:	1997	(in thousands)	1996
Cash	$23,058		$82,411
Marketable Securities	718		3,126
Notes Receivable	28		1,221
Accounts Receivable	189,307		294,972
Allowance for Doubtful Accounts	(682)		(7,889)
Other Current Assets	88,637		95,300
Total Current Assets	$301,066		$469,141
Restricted Funds	$2,873		$13,565
Investments	107,224		119,404
Property & Equipment (net of depreciation)	1,068,946		1,108,280
Deferred Charges	493		13,742
Other Assets	391,223		423,323
Goodwill, Other Intangibles	0		19,530
Total Non-Current Assets	$1,570,759		$1,697,844
TOTAL ASSETS	$1,871,825		$2,166,985
Notes Payable	$7,197		$41,192
Accounts Payable	72,897		157,900
Accrued Liabilities	275,652		305,645
Other Current Liabilities	39,793		88,497
Advance Payments/Deposits	0		1,339
Total Current Liabilities	$395,539		$594,573
Long Term Debt	$454,502		$419,979
Other Liabilities	58,947		143,618
Deferred Credits	181,842		201,030
Total Liabilities	$1,090,830		$1,359,200
Invested Capital	$338,264		$316,764
Treasury Stock	0		0
Retained Earnings	442,731		491,021
Total Owners' Equity	$780,995		$807,785
TOTAL LIABILITIES & OWNER'S EQUITY	$1,871,825		$2,166,985

INCOME STATEMENT for Years Ending:	1997	(in thousands)	1996
Shipping Revenue	$1,575,884		$2,428,798
Operating-Differential Subsidy	51,769		132,960
Other Ship Operating Revenue	201,385		314,744
Total Revenue from Shipping Operations	$1,829,038		$2,876,502
Shipping Expense	$346,062		[illegible]
Shipping Port Call Expense	67,113		115,060
Cargo Handling Expense	[illegible]		[illegible]
Inactive Vessel Expense	58		3,894
Other Ship Operating Expenses	11,159		32,925
Total Expense of Shipping Operations	$1,531,007		$2,369,618
Gross Income from Shipping Operations	$298,031		$506,884
General & Administrative Expense	280,086		397,803
Depreciation & Amortization Expense	74,793		112,175
Interest Expense	32,890		53,006
Other Revenue (Expense)	56,765		63,240
Net Income Before Income Taxes	($32,973)		$7,140
Provision for Income Taxes	(13,873)		6,261
Net Income After Income Taxes	($19,100)		$879
Effect of Change in Accounting Policy	0		0
Income (Loss) from Extraordinary Items	(71)		18,703
NET INCOME	($19,171)		$19,582

Appendix III: STUDIES AND REPORTS RELEASED IN FY 1998

The following major studies or reports were released by MARAD during FY 1998:

MARAD '97 (the Annual Report of the Maritime Administration for FY 1997)

- *A Report to Congress on the Status of the Public Ports of the United States -- 1996-1997*
- *Maritime Security Report*
- *Report on Suvey of U.S. Shipbuilding and Repair Facilities*
- *United States Port Development Expenditure Report*
- *Vessel Inventory Report*
- *A Report to Congress on U.S. Maritime Policy*
- *Maritime Labor-Affiliations Guide*
- *Port Risk Management and Insurance Guidebook*
- *Calculating Fair and Reasonable Guideline Rates*
- *Inventory of American Intermodal Equipment*
- *Port Security: A National Planning Guide*

To view or download these publications or information on agency programs, please visit MARAD's **homepage at: http://marad.dot.gov.**

NOTE: Acrobat Reader software can be downloaded free of charge from its site.

Note: Reports prepared or issued by the MARAD in previous years are listed in **MARAD PUBLICATIONS** and are available upon request from headquarters and field offices.

MARAD REPORT ACRONYMS

AAPA	American Association of Port Authorities
ABS	American Bureau of Shipping
AFL-CIO	American Federation of Labor and Congress of Industrial Organizations
APF	Afloat Prepositioning Force
AID	Agency for International Development
ANS	Alaskan North Slope
APEC	Asia-Pacific Economic Cooperation
APL	American President Lines, Ltd.
BRAC	Base Realignment and Closure
CCC	Commodity Credit Corp.
CCF	Capital Construction Fund
CFE/TLE	Conventional Forces in Europe Treaty Implementation
CFR	Code of Federal Regulations
CHCP	Cargo Handling Cooperative Program
CINCFOR	Forces Command
CMA	Companie d'Affretement
COE	U.S. Army Corps of Engineers
COI	Certificate of Inspection
CORE	National Contingency Response
CPY	Cargo Preference Year
CRF	Construction Reserve Fund
CWA	Cooperative Working Agreements
CY	Calendar Year
DGPS	Differential Global Positioning System
DLA	Defense Logistics Agency
DNA	Defense Nuclear Agency
DOD	Department of Defense
DOE	Department of Energy
DOT	Department of Transportation
DSAA	Defense Security Assistance Agency
DTS	Defense Transportation System
Dwt	Deadweight Tons
ECC	Environmental Coordinating Committee
EMSIS	Emergency Shipping Information System
EMT	Emergency Medical Technician
EPA	Environmental Protection Agency
Eximbank	Export-Import Bank
FAA	Foreign Assistance Act
FEU	40-foot Equivalent Units
FHWA	Federal Highway Administration
FMC	Federal Maritime Commission
FMF	Foreign Military Financing
FTA	Federal Transit Administration
Fund	Federal Ship Financing Fund Liquidating Account
FWS	Fish and Wildlife Service
FY	Fiscal Year
GAA	General Agency Agreement
GAI	Guaranteed Annual Income Program
GATT	General Agreement on Tariffs and Trade

MARAD REPORT ACRONYMS (Con.)

GIS	Geographic Information Systems
GPS	Global Positioning System
HF	High Frequency
JETRO	Japan External Organization
JLOTS	Joint Logistics Over the Shore
IMO	International Maritime Organization
INCA	International Narcotics Control Act
IRM	Information Resource Management
ISTEA	Intermodal Surface Transportation Efficiency Act
IT	Information Technology
ITC	International Tonnage Convention
LAN	Local Area Network
LCA	Lake Carriers Association
LDT	Light Displacement Ton
LOTS	Logistics Over The Shore
LTM	Long Ton/Miles
LVM	Louisiana Vessel Management, Inc.
MAP	Military Assistance Program
MARAD	Maritime Administration
MARDEZ	Maritime Defense Zones
MCDS	Modular Cargo Delivery System
MOC	Memorandum of Consultation
MOU	Memorandum of Understanding
MITAGS	Maritime Institute of Technology and Graduate Studies
MRS	Mobility Requirements Study
MSA	Maritime Security Act
MSB	Maritime Subsidy Board
MSC	Military Sealift Command
MTMC	Military Transportation Management Command
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NCSORG	Naval Control of Shipping Organization
NDRF	National Defense Reserve Fleet
NEC	National Economic Council
NDT	National Dredging Team
NHS	National Highway System
NLRB	National Labor Relations Board
NMREC	National Maritime and Education Resource Center
NMS	National Maritime System
NOAA	National Oceanic and Atmospheric Administration
NRC	National Research Council
NSI	National Shipbuilding Initiative
NSRP	National Shipbuilding Research Program
NYSA	New York Shipping Association
NY/NJ	New York/New Jersey
OAS	Organization of American States
ODS	Operating-Differential Subsidy
ODSA	Operating-Differential Subsidy Agreement
OECD	Organization for Economic Cooperation and Development
OFD	Ocean Freight Differential
OPA	Oil Pollution Act of 1990

MARAD REPORT ACRONYMS (Con.)

OPDS	Offshore Petroleum Discharge System
OSVs	Offshore Service Vessels
PA	Purchase Authorization
P.L.	Public Law
PBOS	Planning Board for Ocean Shipping
PCD	Pacific Coast District
PLS	Position Location Systems
PMA	Pacific Maritime Association
PRC	Peoples Republic of China
QMED	Qualified Members of Engine Department
R&D	Research and Development
RAP	Remedial Action Projects
RDT	Regional Dredging Teams
RO/RO	Roll-On\Roll-Off
ROS	Reduced Operating Status
RRF	Ready Reserve Force
RY	Rate Year
SA	Shipyard Agreement
SHC	U. S. Shipping Coordinating Committee
SI	System International
SMC	Ship Manager Contract
SOCP	Ship Operations Cooperative Program
SPR	Strategic Petroleum Reserve
SRA	Ship Repair Agreement
STARS	Ship Tracking and Retrieval System
T-AVB	Aviation Logistics Support Ship
SUP	Sailor's Union of the Pacific
T-ACS	Auxiliary Crane Ship
TEU	20-foot Equivalent Units
TRANSCOM	U.S. Transportation Command
TRB	Transportation Research Board
U.N.	United Nations
USC	United States Code
USCG	U.S. Coast Guard
USDA	U.S. Department of Agriculture
UTCP	University Transportation Centers Program
VISA	Voluntary Intermodal Sealift Agreement
VNTSC	Volpe National Transportation Systems Center

May 21, 1998

NATIONAL MARITIME DAY, 1998

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release May 21, 1998

NATIONAL MARITIME DAY, 1998

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BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

The United States is and has always been a maritime Nation. Our history is tied to the sea -- from the Santa Maria to the Mayflower, from clipper ships to ocean liners, from the Liberty Ships of World War II to the huge, efficient containerships of the 1990s -- and our development as a Nation has paralleled the growth of our waterborne commerce.

As we look forward to the challenges of the 21st century, we continue to rely on our Nation's maritime industry and the U.S. Merchant Marine to keep America competitive in an increasingly global economy. Ships and barges carry more than one billion tons of commercial cargo annually between ports within our Nation. Internationally, more than 95 percent of our imports and exports by weight are transported on water -- a total of more than one billion metric tons of cargo each year.

We also depend on America's maritime industry and Merchant Marine to fill a crucial role in protecting our national interests and the security of our allies. Through-out our history, in times of conflict or crisis, the owners, operators, and crews of U.S.-flag commercial vessels have provided vital sealift capability in support of our Armed Forces, advancing defense, peacekeeping, and humanitarian missions across the globe.

Our maritime industry has made many important contributions to the economic strength and defense capability of our Nation, and my Administration has worked with the Congress to implement new approaches to ensure the industry's continued viability. Our National Shipbuilding Initiatives are helping to improve the competitiveness of America's maritime industry by seeking to eliminate foreign subsidies, assisting the industry's international marketing efforts, eliminating unnecessary government regulations, and enhancing private sector financing of shipbuilding through Federal loan guarantees. Under the Maritime Security Program, the Federal Government contracts with owners and operators of U.S.-flag vessels to supplement our military sealift capability and gains access to a fleet of modern commercial ships and [illegible] economic interests and our national security by ensuring that U.S.-flag vessels will always sail in the sealanes of the world.

In recognition of the importance of the U.S. Merchant Marine, the Congress, by a joint resolution approved May 20, 1933, has designated May 22 as "National Maritime Day" and has authorized and requested the President to issue annually a proclamation calling for its appropriate observance.

NOW, THEREFORE, I, WILLIAM J. CLINTON, President of the United States of America, do hereby proclaim May 22, 1998, as National Maritime Day. I urge all Americans to observe this day with appropriate programs, ceremonies, and activities and by displaying the flag of the United States
at their homes and in their communities. I also request that all ships sailing under the American flag dress ship on that day.

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

WILLIAM J. CLINTON