Maritime Administration

Department of Transportation

2002
Annual Report

Maritime Administration
2002 Annual Report

Table of Contents

To Congress and Our Partners, Customers, and Employees

Capt. William G. Schubert
Maritime Administrator

I am pleased to present the annual report of the Maritime Administration (MARAD) for Fiscal Year 2002, which ended on September 30, 2002. The report is submitted to Congress in accordance with Section 208 of the Merchant Marine Act of 1936, as amended.

Secretary Norman Y. Mineta responded to the tragic events of September 11, with leadership, effective management, and committment. MARAD played an important part in the government's response to this national tragedy. MARAD's facilitation of the Port Security Grant Program meant that grant applications were solicited, reviewed, and grants awarded in less than five months. This was possible because all of the transactions were electronic, and the process was carefully set up and efficiently administered. During fiscal year 2002, our focus on security has not deterred my mission to enhance every segment of the American maritime industry.

I am pleased to report that opportunities abound in the U.S. maritime industry. One of the first announcements I was privileged to make as Maritime Administrator was about the "flagging in" of the M/V INDUSTRIAL CHALLENGER, a heavy-lift vessel that its owners transferred from the Bahamian flag to the U.S. flag. I hope that more American owners will follow suit. The decline of the U.S.-flag fleet is a major concern for MARAD, and we look forward to having more American owners decide to accept the privileges of U.S. protection and the honor of flying the American flag.

We have moved aggressively to meet the President's Management Agenda goals for streamlining the government and putting our people closer to their constituents and customers. We realigned 13 small divisions into larger organizational elements, which eliminated 13 supervisory positions. By taking away unnecessary layers within our organization, we have achieved a flatter and more responsive agency. MARAD also relocated the missions of the Office of Maritime Labor, Training, and Safety. Our manpower and labor force activities have been added to our national security responsibilities; our work on maritime safety has been joined to our research and Ship Operations Cooperative Program initiatives; and all maritime education and training matters are now part of MARAD's policy and international trade responsibilities.

We at MARAD have also embarked upon an ambitious Strategic Business Plan in order to meet the goals outlined in the President's Management Agenda. This plan has been developed by our employees and brings greater focus on and leverage to the work we do. Our Agency has made a commitment to forge a new way of operating as one truly integrated team. I am confident that our employees' spirit of excellence, integrity, and teamwork will enable us to achieve impressive successes in our exciting journey ahead.

In the year 2003, we will continue to broaden our efforts to improve the marine transportation system, both domestically and internationally. The most urgent task for the U.S. maritime industry will be confronting the security challenges presented to our Nation since September 11, 2001, while simultaneously enhancing our commercial viability and presence across the globe. I am certain that our Nation's ability to overcome these dual challenges will shape the way the rest of the global economy conducts its business.

We believe that pilot short sea shipping initiatives, also known as coastwise shipping, will begin to take hold in 2003 in the northeastern part of the United States. The congestion along Interstate 5, the I-95 corridor, and other major interstate highways has forced transportation planners to look along the coasts, and consider moving the freight off the highways and railways and onto the waterways. Coastal shipping initiatives can guarantee the vibrancy of a national Marine Transportation System network.

On the international front, we intend to continue our discussions with the People's Republic of China to achieve a new Bilateral Maritime Agreement that reflects the expectations of the international transport community from carriers to non-vessel operating common carriers as well as freight forwarders and shipping agents. We recognize the importance of the U.S.-China trade for American companies, and we are committed to supporting international free trade and unrestricted access to China's markets.

Secretary Mineta has called upon the entire Department of Transportation Team to be architects of the future and to redefine our core mission in light of the challenges facing transportation, particularly the challenges of increasing security and reducing congestion. MARAD expects that its 2002 accomplishments will help guide it into a future envisioned by the Secretary where safer, simpler, and smarter transportation solutions will be applied to reduce or eliminate our transportation problems.

CAPTAIN WILLIAM G. SCHUBERT
Maritime Administrator

Highlights

Port Security Grant Program

On June 17, 2002, Secretary of Transportation Norman Y. Mineta announced 77 port security grants totaling $92.3 million dollars. This process was web-based, paperless, and fast. MARAD's participation was critical in designing and developing the process and awarding the grants—a process that was completed in less than five months. There is more information on the Port Security Grant Program in this report under National and Economic Security.

Strategic Business Plan

In May 2002, MARAD senior managers met at an off-site location, and developed a new MARAD Strategic Business Plan with a bold framework for achieving results through 2003. This plan was subsequently discussed with all headquarters, regional, and U.S. Merchant Marine Academy (USMMA) staff. The business plan will guide our efforts to produce tangible results that are important to the maritime industry and the public. There are more details on the Strategic Business Plan under Organizational Excellence.

U.S.-Flag Service Web Site

In September 2002, MARAD launched a web site making it easier for exporters and importers to locate U.S.-flag ships to carry cargo to designated points around the world. Under this system, a shipper simply selects from a drop-down menu the country of final destination of its cargo. Once the country has been identified, a database of U.S.- flag carriers serving that trade route appears. There is more information on this program under Mobility and Economic Growth. The web site is at http://www.marad.dot.gov/usflag.

Integrated Performance Budget

As part of MARAD's implementation of budget and performance integration, a part of the President's Management Agenda, the fiscal year (FY) 2004 President's Budget contains the performance plan. Performance is also discussed throughout the program justifications.

Maritime Day Awards

MARAD presented awards to merchant mariners and veterans recognizing their contributions in time of war and national emergency. On Maritime Day 2002, plaques were presented to representatives of merchant marine activities in World War II, the Korean and Vietnam conflicts, the Persian Gulf War, and on September 11, 2001, when mariners on commercial and government vessels evacuated at least 500,000 people from Lower Manhattan. Details can be found in the Outreach section of this report.

25th Anniversary of the Ready Reserve Force (RRF) and Professional Ship Award

The year 2002 marked the 25th Anniversary of the RRF, MARAD's premier sealift readiness program. The RRF ship CORNHUSKER STATE and its civilian crew earned the Professional Ship Award, a special recognition for exceptional service in providing cargo operations and transportation of equipment in support of Operation ENDURING FREEDOM. The ship and its crew spent six months in the Indian Ocean and the Persian Gulf. There is more about the CORNHUSKER STATE and the RRF under National and Economic Security.

Academy Places for Department of Transportation (DOT) Families

For the U.S. Merchant Marine Academy's Class of 2007, a new admissions plan has begun. Two places in each class will be reserved for the sons and daughters of DOT employees from among the appointments the Maritime Administrator makes. The Administrator will make two selections of DOT-family candidates along with two alternates.

U.S. Marine Transportation Industry

The U.S. marine transportation industry serves the needs of both domestic and international commerce. It comprises companies that carry freight or passengers on the open seas or inland waterways, offer towing services, charter vessels, operate canals and terminals, and develop offshore oil resources.

In 2001, U.S. waterborne commerce amounted to 2.2 billion metric tons. International commerce accounted for 56 percent of the total, up from 48 percent 10 years ago. The increase is due largely to a 79 percent increase in crude oil imports, and a 51 percent decline in domestic (Alaska/U.S. West Coast) crude oil shipments. Oil and other primary commodities (coal, chemicals, crude materials and farm products) accounted for 90 percent of U.S. waterborne commerce (Exhibit 1). Manufactures trades accounted for only 10 percent of U.S. waterborne commerce in 2001, but have doubled over the last 10 years.

U.S. Waterborne Commerce, 2001
(Million Metric Tons)

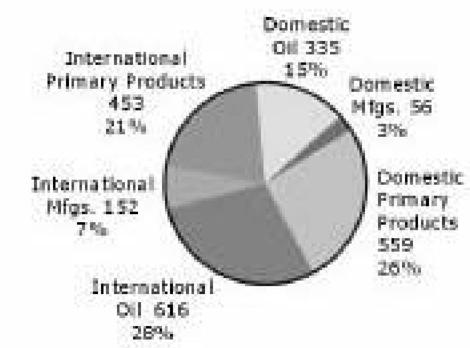


Exhibit 1. Source: U.S. Army Corps of Engineers.

Economic Growth

In 2001, payments for marine transportation services (GDP) amounted to $15.7 billion. For the period 1991 to 2001, the average annual growth of these payments was four percent, lower than the six percent for non-water transportation services (Exhibit 2). Much of the slower growth during the last ten years may be attributed to the decline in Alaska crude oil production, which has reduced domestic crude oil shipments.

Gross Domestic Product (GDP), Marine Transportation Services

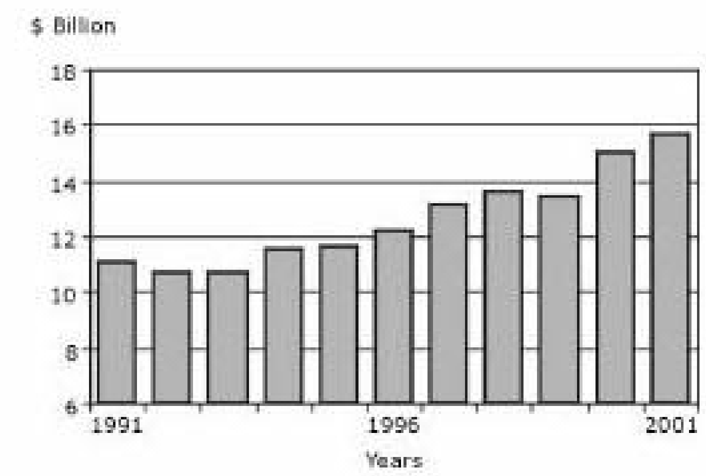


Exhibit 2. Source: Bureau of Economic Analysis.

The recent volatility in marine transportation payments can be traced largely to the impact of changes in oil prices on the demand for tank vessel services. As spot petroleum prices increased in 1999, oil companies drew down inventories. That reduced demand for tank-vessel services. Oil companies rebuilt stocks in 2000 and 2001, contributing to a surge in petroleum trades and tank-vessel earnings.

The supply of tanker services does not react rapidly to trade surges due to delays in repositioning tankers from one trade to another, terminal bottlenecks and normal voyage times. As a result, spot earnings tend to rise sharply as trades surge but fall sharply as trades return to trend levels. For example, average spot earnings for international product tankers increased from $16,300 per day in June 2000 to $43,500, per day in January 2001. By December 2001, average earnings for these tankers had fallen to $13,100 per day.

In 2001, marine transportation services accounted for only five percent of GDP from all transportation services. The low percentage can be attributed to two factors:

- Freight rates per ton-mile for marine transportation tend to be substantially lower than rates for overland shipments. For example, the Bureau of Transportation Statistics estimates that the average freight rate for rail transportation is three times that for marine transportation.
- $20 billion was paid by U.S. citizens to foreign companies for international marine transportation services. These payments are not included in gross domestic product.

U.S. citizens own or control about five percent of the world merchant fleet. In spite of this small percentage, the United States ranks fourth among shipowning nations. However, about 75 percent of U.S.-owned ships are registered in foreign countries. The 25 percent operated under U.S. flag are operated primarily in U.S. domestic trades (22 percent) or Maritime Security Program/cargo preference trades (three percent). Information on world fleet statistics can be found at www.marad.dot.gov/maritime_statistics.

Domestic Fleet

The surge in vessel building in the late 1970's and early 1980's resulted in low charter rates and heavy reliance on spot market transactions. For carriers, the result was two decades of low and erratic spot earnings, and limited investment in new domestic vessels. As of CY-end 2001, the average age of U.S.-owned vessels was 17 years, compared to ten at CY-end 1981.

There are, however, a significant number of new vessels on order for the domestic trades. The orders include:

- Three 140,000 DWT and four 185,000 DWT double-hull tankers, which will move Alaska crude oil to Northern California and the Pacific Northwest refineries. (Two 140,000 DWT tankers were delivered in 2001 and 2002).
- Thirty-four (200+ foot long) offshore supply vessels (OSV's), which will move supplies to offshore drill rigs and oil production platforms. Large OSV's are replacing smaller vessels in servicing the development of U.S. deepwater leases.
- Eight double-hull articulated tank-barge units (ATB's), whichwill move petroleum products in the coastwise trades. In the 1990's, the average length of haul for coastwise tank-vessel shipments fell sharply as imports and pipeline shipments supplanted long haul (1,500+ mile) coastwise product tanker shipments.
- Twelve high-speed ferries. With higher speeds (25+knots), new ferries can offer increased frequencies and faster transit times on existing routes and canmake longer routes feasible.
- Two roll-on/roll-off (RO/RO) vessels and two containerships for domestic common-carrier trades. The new vessels will be larger, faster, and more reliable than the vessels they replace.

Inland barges are being added to the fleet in significant numbers. Over the last five years, 5,093 new dry cargo barges and 339 new tank barges have been added to the fleet.

These new vessels will help integrate marine transportation into production and distribution processes, improve service to the customers, and stabilize carriers' earnings.

International Fleet

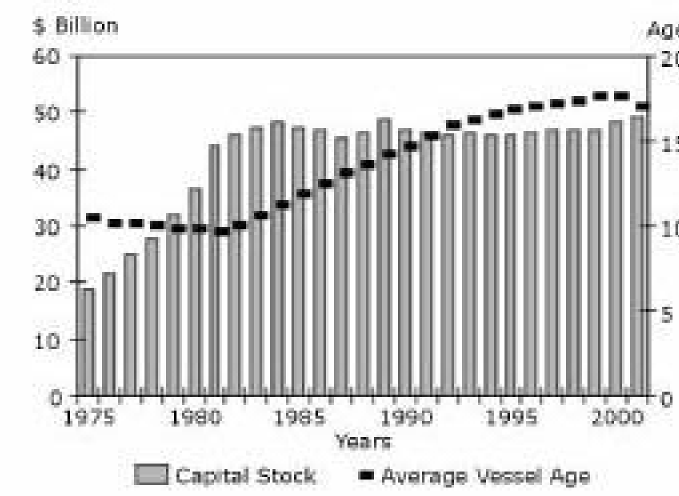
At the end of CY 2001, the international commercial fleet was comprised of 20,895 vessels of 753 million DWT; 107 million DWT of new vessel capacity was on order.

In CY 2001, about 40 percent of the international fleet called at U.S. ports. Fifty-two percent of the international calls were by vessels less than ten years old in up from 48 percent in 1999. The largest upgrades have been for tankers with 54 percent of the calls by vessels less than ten years old, up from 37 percent two years before. The youngest fleet serving U.S. ports was containerships with 65 percent of the calls by vessels less than ten years old.

The largest of the new containerships in U.S. mainstream trades are about 25 percent faster, and at least twice as large as those generally serving the trades ten years ago. The largest containerships tend to concentrate their calls at major U.S. container ports. In CY 2001, the top ten U.S. container ports accounted for 85 percent of the containership capacity calling at U.S. ports. To accommodate the larger vessels and cargo volumes, the major U.S. container ports have lengthened berths, expanded terminals, upgraded container cranes, and improved road and rail accessThe Oil Pollution Act of 1990 requires that all vessels carrying oil to U.S. ports must have double hulls by 2015. In recent years, there has been significant progress in replacing non-double-hull tankers in U.S. trades. For example, in CY 2001, 54 percent of the tanker calls at U.S. ports were by double-hull tankers, up from 40 percent two years earlier.

Given the large number of international vessels on order, fleet upgrades will continue to be substantial for the next three years. The capacity on order represents about 14 percent of the existing international fleet capacity. The most significant upgrades will be in the containership and tanker fleets, where orders represent 24 percent and 22 percent of the respective fleet capacities.

U.S. Marine Transportation, Capital Stock of Vessels and Average Vessel Age



Source: Bureau of Economic Analysis.

International Commercial Vessel Fleets and Orders Year-end 2001

Vessel Type	Fleet Number (Mil.)	Fleet DWT	Orders Number (Mil.)	Orders DWT
Container	2,895	77.5	449	18.6
Ro/Ro	1,512	15.1	159	2.3
Tankers	6,334	318.8	782	68.6
Dry Bulk	5,475	286.2	378	24.5
Other	4,679	55.5	183	2.3
Total	20,895	753.2	1951	107.2

Source: Clarkson Research Studies.

International Vessel Calls At U.S. Ports By Year Built, 2001*

(Thousands of Calls)

Vessel Type	Year Built: Before 1981	1981-1990	After 1990	Total
Container	1.6	4.1	10.4	6.1
Ro/Ro	1.1	2.5	1.5	5.1
Tanker	1.9	5.2	8.2	15.3
Dry Bulk	2.3	4.6	5.1	12.1
Other	1.2	1.7	1.8	4.7
Total	8.1	18.2	27.0	53.3

Source: Maritime Administration, *Vessel Calls at U.S. Ports, 2001*.

*Excludes U.S. Jones Act Vessels.

Introduction and Industry Overview

As an agency of the U.S. Department of Transportation, the mission of the Maritime Administration (MARAD) is to promote the development and maintenance of an adequate, well-balanced United States merchant marine, sufficient to carry the Nation's domestic waterborne commerce and a substantial portion of its waterborne foreign commerce, and capable of serving as a naval and military auxiliary in time of war or national emergency.

The United States was founded as a maritime nation. Marine transportation is vital for our economic and national security. U.S. public policy and private enterprises have long been shaped by a keen appreciation of the strategic importance of the oceans, lakes, and inland waterways. Our Nation's waterways, ports, and their intermodal connections are critical components of America's transportation system, as are the vessels moving people and cargo. Our marine infrastructure and commercial carriers support our domestic trade and markets; our global outreach into overseas markets; and our engagement in world affairs, including protection of U.S. national security interests.

Marine transportation is one the most flexible, cost effective, and environmentally safest mode of domestic and international freight transportation. However, the maritime issues and challenges facing the Nation are significant and complex. Changes in world political trends and economies, domestic and international priorities, and technological advancement occur constantly. The United States depends overwhelmingly on oceanborne shipments for its international trade, and yet has a comparatively small fleet of ships engaged in international commerce under the U.S. flag. Ninety-five percent of the Nation's overseas trade moves by water, but only about three percent is carried by the U.S.-flag fleet. This has disturbing implications for America's national security and economic vigor. Without a U.S.-flag fleet, the Nation's foreign commerce and auxiliary sealift capability would depend entirely on foreign-flag ships.

MARAD administers Federal laws and guidelines designed to meet the Nation's shipping needs for both domestic and international waterborne commerce and for national security. Its responsibilities include the following:

- Primary responsibility for ensuring the availability of efficient water transportation service to shippers and consumers.
- Ensuring that the United States has adequate shipbuilding and repair service, efficient ports, effective intermodal water and land transportation connections.
- Ensuring that the United States has sufficient commercial intermodal shipping capacity for use by the Department of Defense (DOD) in times of emergency.
- Training and educating officers who graduate from the U.S. Merchant Marine Academy and the six statemaritime schools. These officers crew commercial ships as well as reserve sealift vessels in support of DOD military operations.

Major Segments of U.S. Marine Transportation Industry

Vessels of all Flags Engaged in U.S. International Trade [1]

Segment	**Number of Vessels[2]**	**DWT (Mil.)**	**Primary Service(s)**
Container & RO/RO[3]	1,136	39.0	Manufactured/semi-manufactured product shipments
Tankers[3]	1,360	117.0	Crude oil and petroleum product shipments
Dry Bulk Carriers[3]	2,020	91.8	Grain, coal and ore shipments
Other Specialized Vessels[3]	531	18.1	Refrigerated product, lumber, & over-sized shipments

U.S.-Flag Vessels Engaged in Domestic Trade

Segment	**Number of Vessels[2]**	**DWT (Mil.)**	**Primary Service(s)**
Inland Tank Barges	3,400	7.1	Inland petroleum product shipments
Coastal & Inland Deck Barges	5,000	4.0	Construction, bulk materials, manufactured products
Crude Carriers	18	2.5	Alaska/West Coast crude oil shipments
Product Tankers & Coastal Tank Barges[3]	162	4.2	Coastwise petroleum product shipments
Container & RO/RO[3]	38	0.9	Noncontiguous manufactured/
			semi-manuafactured product
Dry Bulk Carriers[3]	50	1.9	shipments
Coastal Dry Cargo Barges	700	2.3	Great Lakes ore, coal, and limestone shipments
Inland Dry Cargo Barges	22,000	32.5	Coal and crude material shipments
Offshore Support Vessels	800	N/A	Inland grain (exports) and coal shipments
Tugs & Towboats	5,500	N/A	Development & maintenance of Gulf offshore oil leases
Passenger/Ferries	1,700	N/A	Barge propulsion, vessel assist
			Vehicle and passenger transportation

[1]Excludes U.S. Jones Act vessels [2]Approximate [3]10,000 DWT or greater.

National And Economic Security

Port Security

The tragic events of the September 11, 2001, terrorist attacks elevated the issue of security to an urgent national priority. DOT focused its efforts on ensuring the safety and security of our national transportation system and identifying critical transportation infrastructure. MARAD was actively involved in a wide variety of DOT security initiatives designed to address vital security needs, and one of those needs was increased security in American ports. MARAD also conducted extensive discussions with the U.S. port industry to determine what actions were taken to increase port security and to identify gaps or issues that needed to be addressed.

Port Security Grant Program

Congress appropriated $92.3 million "for competitive grants to critical national seaports to finance the cost of enhancing facility and operational security." MARAD played a key role in ensuring the effective generation of grant requests, the efficient evaluation of those requests, and in getting a large task successfully completed within a short time.

Discussions among MARAD, the Transportation Security Administration (TSA), and the U.S. Coast Guard (USCG) resulted in agreement that MARAD and the USCG would serve as agents for TSA in carrying out this program. Working together, the three agencies were able to design and develop the grant process, and award the grants within five months—an unusually short time frame. The grant announcement generated nearly $700 million in grant requests containing over 850 port security projects. On June 17, 2002, announced the awarding of 77 port security grants totaling $Secretary of Transportation Norman Y. Mineta 92.3 million. Two more grants were later added, for a total of 79. Appendix 1 contains a list of the grant recipients. Grants were awarded for two categories:

- Security assessments and mitigation strategies based on proposed port or terminal security assessments that ascertained vulnerabilities and identified mitigation strategies.

- Enhanced facility and operational security including, but not limited to, facility access control, physical security, cargo security, and passenger security. Consideration was given to proof-of-concept demonstration projects, which demonstrated how port security would be improved/enhanced by their implementation.

Specifically, port security grants totaling $5 million were provided for security assessments. In addition, $78 million was awarded to enhance facility and operational security, and $9.3 million for "proof-of-concept" projects, which explored the application of technology such as electronic seals, vessel tracking, and electronic notification of vessel arrivals to improve port security.

The unique aspect of this grant program was the creation of a web-based system to execute the program. Using this system, applicants were able to submit their grant applications electronically. The system also allowed the entire evaluation process to be conducted on the web. The evaluation process electronically linked all five MARAD region offices and 47 USCG Captain-of-the-Port offices with MARAD, USCG, and TSA headquarters staffs. Even after the grants were awarded, this web-based system continued to play a key role. The system is designed to assist in monitoring and administering the progress of each grant.

Shortly after the terrorist attacks of September 11, 2001, in New York City and Washington, D.C., Secretary Mineta directed the creation of a "Container Working Group" (CWG) to assess the security vulnerabilities of ocean shipping containers and recommend actions to reduce or eliminate those vulnerabilities. MARAD shared a leadership role in the CWG, along with the senior leadership of the Office of the Secretary, Coast Guard, TSA, and several of the DOT modal agencies. We interviewed a deep cross section of the marine transportation industry's executive leadership: shipowners, port directors, labor unions, marine insurers, cargo brokers, NVOCC's (Non-vessel operating common carriers), and others, relying on their vast expertise to illuminate the dimensions of this issue.

The CWG focused on four intersecting areas of inquiry: Business Practices, Information Technology, Security Technology and International Activities. Working groups were organized for each of these subjects, and extensive interviews were conducted with experts from both the public and private sectors. Their recommendations on means to improve the security of container shipping were provided to the Office of Homeland Security.

International Port Security Initiatives

Organization of American States Technical Advisory Group on Port Security

MARAD serves as chair and secretariat of the Technical Advisory Group (TAG) of the Organization of American States (OAS) Inter-American Committee on Ports. The TAG coordinates multilateral approaches to improving port security in the western hemisphere.

Part of the agenda for the TAG is organizing and conducting annual courses planned under the Inter-American Port Security Training Program (IAPSTP). MARAD manages these courses, which provide port security trainingfor commercial port authority police and security personnel from OAS member countries. By improving the port security of our western hemispheric trading partners, we lessen the potential risks at home.

Maritime Security Reports

MARAD publishes a periodic *Maritime Security Report*, which focuses on international criminal activity and security issues that pose a threat to U.S. commercial maritime interests and the movement of U.S.-civilian cargoes in foreign trade. The report conveys strategic assessments to government and industry on a wide range of relevant security topics such as drug smuggling, piracy, and other types of cargo crime.

Strategic Mobility

MARAD's responsibilities for strategic mobility fall into three broad categories: sealift, port readiness, and the training and availability of qualified mariners. Sealift capability provides large-scale mobility for personnel and materiel in times of war or national emergency, and in the United States, merchant shipping has always provided a significant portion of that capability. MARAD is responsible for assuring the availability of adequate merchant shipping when it is needed. Port readiness ensures that designated commercial strategic ports are available to the military during national emergencies. MARAD also oversees the education and training of commercial mariners to ensure adequate numbers of properly trained and certified mariners, not only for national emergencies, but also for economic purposes.

MARAD maintains a fleet of ships, and administers two programs that provide incentives to the maritime industry to assure availability of ships in times of crisis. These two programs, the Maritime Security Program (MSP) and Voluntary Intermodal Sealift Agreement (VISA) Program, are available to complement DOD's surge requirements. MSP and VISA engage commercial companies in sealift, and provide support to U.S.-flag shipping. They are directed toward the sustainment and resupply phase of a conflict or other emergency.

The Ready Reserve Force is MARAD's premier readiness program. Most RRF ships are standing by in port facilities with partial crews keeping them ready for activation. The RRF is part of the National Defense Reserve Fleet (NDRF), all of which is owned and maintained by MARAD. Other RRF ships are operated infrequently, and the remaining NDRF ships are prepared for long-term storage in a preserved condition.

A Short History of the NDRF

The National Defense Reserve Fleet (NDRF) program was started after World War II when the Merchant Ships Sales Act of 1946 was enacted. As ships used for the war were retired, the program grew from 1,421 ships in the first year to a high point of 2,277 ships in 1950. Ship sales, donations, and disposal efforts have reduced the total number of ships, while other initiatives have added newer ships to the program.

Prior to the establishment of the RRF program in 1976, NDRF vessels supported emergency shipping requirements during crises. During the Korean War, 540 vessels were activated to support military forces. A worldwide tonnage shortfall from 1951 to 1953 required over 600 ships to be activated to lift coal to Northern Europe and grain to India. From 1955 through 1964, another 600 ships were used to store grain for the Department of Agriculture. Another tonnage shortfall following the Suez Canal closing in 1956 caused 223 cargo ships and 29 tankers to be activated. During the Berlin crisis of 1961, 18 vessels were activated and remained in service until 1970. The Vietnam conflict caused 172 vessels to be activated.

The original eight NDRF anchorages were consolidated into three major NDRF anchorages where most of the vessels are currently maintained. There are 95 in the James River Reserve Fleet at Fort Eustis, Virginia; 44 in the Beaumont Reserve Fleet at Beaumont, Texas; and 92 in the Suisun Bay Reserve Fleet at Benicia, California.

As of September 30, 2002, there were 274 vessels in the NDRF. The total number of vessels in MARAD custody at the NDRF facilities at the end of fiscal year 2002 was 303.

A listing of numbers of NDRF ships for every year since 1945 is available on the Internet, at www.marad.dot.gov/programs/rrf.

Maritime Security Program (MSP)

The continued existence of a privately owned U.S.-flag merchant marine is vital to the Nation's military and economic security. During national emergencies, there is no completely reliable alternative to the U.S.-flag fleet of commercial ships and to the availability of trained U.S.-citizen crews. With the long-term decline of the U.S.-flag fleet, the need became clear in the early 1990's for a program to ensure the availability of this vital resource in time of emergency.

The MSP helps the United States retain an active U.S.-flag merchant fleet comprising modern, efficient, and militarily useful commercial dry cargo vessels that can support national security requirements, and maintain a competitive U.S.-flag presence in international commerce. MSP is a 10-year program established under the Maritime Security Act of 1996, and provides approximately $100 million in funding annually for up to 47 vessels to partially offset higher operating costs under U.S. registry. Specifically, the MSP provides financial assistance of $2.1 million per year per vessel, and represents about 13 percent of the cost of operating a U.S.-flag vessel. A complete list of MSP vessels, operators, and shipping capacity is shown in Appendix 2.

The MSP fleet employs a labor force of skilled American seafarers who are available to crew the U.S. Government owned strategic sealift fleet, as well as the U.S. commercial fleet, both in peace and war. The MSP leverages relatively modest Federal support dollars to retain access to a robust U.S. commercial maritime capitalization base valued at more than $9 billion.

During FY 2002, the MSP fleet was upgraded through the substitution of two modern and efficient vessels for two older vessels.

During FY 2002, the number of ships enrolled in the MSP dropped to 46, instead of the full complement of 47 ships, due to the scrapping of Waterman's LASH vessel ROBERT E. LEE in June 2002. This is only a temporary situation as Waterman is currently working closely with the USCG to document another vessel under the U.S. flag in November 2002, as a replacement for the ROBERT E. LEE.

An important element of the MSP is the reflagging of new and more efficient vessels to U.S. registry. Since its implementation in 1996, a total of 18 modern commercial liner vessels, with an average age of less than nine years, have been reflagged to U.S. registry for participation in the MSP.

Voluntary Intermodal Sealift Agreement (VISA)

VISA was approved as the DOD's principal commercial sealift readiness program on January 30, 1997.

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

The objective of the VISA program is to maximize DOD's access to the multi-billion dollar, state-of-the-art, U.S.-commercial intermodal transportation system, while minimizing disruption to commercial operations. VISA has three activation stages with each stage adding additional capacity commitments. VISA activation is time phased to streamline the availability of capacity to coincide with DOD requirements.

An important element of the VISA program is the Joint Planning Advisory Group (JPAG). During JPAG meetings, Government and industry identify and discuss DOD's requirements, recommend concepts of operations to meet requirements, test and exercise program arrangements, andcomply with antitrust requirements for pooling/teaming arrangements.

As of September 30, 2002, there were 52 VISA participants. More than 75 percent of available militarily useful capacity is committed to the VISA program. Furthermore, all VISA participants receive priority consideration for the award of DOD peacetime cargoes. VISA participants are listed in Appendix 3.

The MSP and VISA programs are working to slow the decline of the U.S.-flag merchant fleet, but will not by themselves reverse the continuing trend of a reduced American presence in international ocean transportation.

Ready Reserve Force (RRF)

The RRF was created to maintain surge shipping and resupply capability on short notice to support deployment of forces. The RRF fleet guarantees quick response shipping. Its 76 vessels meet special military requirements such as instream discharge, non-unit containerizable equipment, and offshore petroleum delivery.

While its crews are civilian mariners, the RRF was created to serve the needs of the DOD. Ships of the RRF fleet are activated for service when MARAD is notified by the Navy's Military Sealift Command (MSC). RRF ships are homeported on all three major coasts of the United States; three ships are homeported overseas.

Activations

The CORNHUSKER STATE was activated in November 2001, at its outport location in Cheatham Annex, Virginia. From November 5, 2001, to May 1, 2002, the vessel and its crew participated in OPERATION ENDURING FREEDOM, supporting military missions in the Indian Ocean and the Persian Gulf.

In August 2002, the Maritime Administrator designated the CORNHUSKER STATE to receive the Professional Ship Award. The DOD continued to deploy the RRF crane ship GOPHER STATE in Guam during FY 2002 to support the U.S. Army's Prepositioning Stock Program (APS).

The PETERSBURG and CHESAPEAKE also continued to support the Afloat Prepositioning Force (APF) operating from Guam and Diego Garcia, respectively. The CAPE JACOB, a breakbulk vessel outfitted with a Modular Cargo Discharge System (MCDS) for underway cargo transfers, is also on station at Diego Garcia participating in the APF program.

NATIONAL DEFENSE RESERVE FLEET—SEPTEMBER 30, 2002

NDRF Anchorages	RRF	NDRF Retention	NDRF Non-Retention	Reimbursable Custody	Totals
James River, VA	6	18	68	3	95
Beaumont, TX	6	27	9	2	44
Suisun Bay, CA	4	14	50	24	92
Other Locations	60	6	60	0	72
Totals	76	65	133	29	303

Captain Schubert being sworn in by Central Region Director John Carnes, in Decemeber 2001. Gail Schubert and Associate Administrator for National Security James Caponiti look on.

Spotlight: Central Region

Administrator on Deck

There were three maritime-related celebrations going on in New Orleans, Louisiana, on December 6, 2001: the 25th Anniversary of the RRF, the opening of the Pacific Theater Wing of the National D-Day Museum, and the swearing-in of a new Maritime Administrator. MARAD's participation was coordinated by MARAD's Central Region Office in New Orleans.

During a luncheon ceremony on board the CAPE KENNEDY honoring the Merchant Marine Veterans of World War II attended by local city officials, military officials, and D-Day Museum officials, the Central Region Director had the honor of administering the oath of office to Captain William G. Schubert, the new Maritime Administrator.

Capping off the Pacific Theater grand opening was a parade on December 7. The U.S. Merchant Marine Academy Band and Honor Guard led a truck full of Merchant Marine veterans from World War II. The parade went through downtown New Orleans, honoring all veterans from World War II.

The CAPE KENNEDY was open for public viewing during the grand opening ceremonies. Merchant Marine Veterans of World War II and their families were given private guided tours of MARAD's newest RO/RO vessel. During the two-day open house, more than 1500 visitors viewed the CAPE KENNEDY, which can carry 281 large tanks. As one mariner wistfully uttered, while lost in memories, "If we had had a couple of those...."

Readiness and Reliability

During the entire FY 2002 period, the operational reliability for participating RRF ships was 99 percent. This remarkable record was achieved with a multi-faceted program. MARAD keeps RRF ships in designated states of readiness with reduced crews on board. The ships with the shortest lead time are designated Reduced Operating Status (ROS). An RRF vessel designated ROS-4, for example, must be ready for sea in four days, ROS-5 in five days. Others are designated RRF-10 and RRF-20, indicating they must be ready for sea in 10 or 20 days, respectively.

The readiness of RRF ships is maintained through scheduled maintenance, drydockings, dock trials, and sea trials. Their readiness is tested with "turbo activations."

Turbo activations occur with no notice, and are essentially emergency drills. When it is practical and possible to add a sea trial to these exercises, it is done in order to more fully test the operational aspects of the RRF upon activation. The other RRF component tested is the human factor, the capability of union seafarers (USCG-licensed, certified and unlicensed personnel meeting U.S.-citizen and security requirements) to respond to a no-notice activation, execute vessel activation procedures, and perform the shipboard functions of their respective ranks and ratings during vessel operation. There were 33 turbo activations during FY 2002, each involved four or more RRF vessels.

The use of sea trials is a significant element of the RRF maintenance program. During FY 2002, MARAD conducted 73 sea trials, several of which were increased from 24 hours to 72 hours in order to test more rigorously the main and auxiliary engines and associated machinery.

Force Protection

Force-protection issues were prominent during FY 2002. RRF force protection has been organized around the following four areas:

- Anti-terrorism and force-protection awareness
- Small arms training
- Secure communications and security clearance requirements

Spotlight: RRF 25th Anniversary

"A Steel Bridge to Democracy"

The RRF celebrated its 25th anniversary in FY 2002. On October, 18, 2001, on board the RRF vessel CAPE WRATH in Baltimore Harbor, Baltimore, Maryland, MARAD saluted its partners in sealift: the ship managers, the seafaring unions, the MSC, and the USTRANSCOM. The keynote speaker was Secretary of Transportation Norman Y. Mineta, who spoke of the successes and achievements of the RRF, and all those who helped to make this force of ships what it is today. "Our industry and labor partners make the Ready Reserve Force a reliable, cost-effective source of sealift," he said. "We are proud of its accomplishments, confident of its capabilities, and determined to continue its record of service and success."

Noting that the ceremony had been postponed following the September 11 attacks, Secretary Mineta added, "America's merchant marine, maritime industries, and merchant seafarers have come through for us every time our Nation has needed them. We know they stand ready to do so again."

Rear Admiral Edward Fahy, Director of Plans and Policy of the USTRANSCOM, praised the success of this unique partnership; Rear Admiral David Brewer, III, Commander of the MSC, recalled the inspiration he drew from seeing the cargo ships supporting combat operations during Desert Storm/Desert Shield, and said, "We must not burn this steel bridge to democracy."

During the ceremony, Secretary Mineta and Acting Maritime Deputy Administrator Bruce Carlton presented an RRF flag to one union representative as a symbol of appreciation to all unions, and a certificate of appreciation to one ship manager as a symbol of MARAD's appreciation to all ship managers whose efforts have been so important to the program's success.

Chief Engineer Paul Cammaroto presents CAPE WRATH ballcap to Department of Transportation Secretary Norman Y. Mineta, while RDML Edward Fahy and RADM David Brewer, III applaud.

Anti-terrorism and force-protection awareness: The MSC requires that one senior deck officer be certified as the anti-terrorism officer. This officer must brief the remaining crewmembers on anti-terrorism awareness and proper security precautions to follow. All chief mates on ROS crews attended the proper training courses, and were certified as anti-terrorism officers by the end of FY 2002.

Small arms training: In the past, small arms and ammunition have been shipped to the ships shortly before or during the activation period. During FY 2002, MARAD began providing ships in ROS with small arms and ammunition; all remaining ships in ROS are to have small arms and ammunition by the end of November 2002.

- Chemical, Biological, and Radiological Defense (CBRD) equipment and training

CBRD equipment and training: CBRD familiarization has been instituted at maritime academies and union schools. Further training is available upon activation from Navy or Naval Reserve personnel. MARAD has been procuring CBRD gear, including clothing, boots, and masks, which will be shipped to RRF vessels upon activation.

Training Event Availability

NDRF vessels are made available to various groups for training purposes. NDRF ships are mostly used for vessel boarding, search, and seizure training that involves law-enforcement and ship-interdiction exercises by the U.S. Navy, U.S. Marine Corps and USCG. During FY 2002, a total of 25 training events were held over 97 days, and involved 1,013 attendees. RRF vessels standing by at port facilities are often used for cargo handling training. A total of 53 separate RRF vessel training events were held during FY 2002, including U.S. Navy, U.S. Army, and U.S. Marine Corps cargo handling units. These RRF vessels also supported security exercises conducted by anti-terrorism units from both the USCG and U.S. Marine Corps. FY 2002 saw RRF vessels participating in a total of 135 calendar days of training support involving over 2,000 attendees.

State Maritime Academy Schoolship Maintenance and Repair (M&R) Program

The use of ships is vital in the education of mariners. MARAD furnishes six schoolships, and administers a maintenance and repair program for them. MARAD's M&R program concentrates on regulatory and classification requirements, major industrial shipwork projects, and operational support of the vessels during their annual training voyages. Throughout FY 2002, four schoolships were in service and maintained:

- The EMPIRE STATE at the SUNY Maritime College in New York
- The GOLDEN BEAR at the California Maritime Academy
- The STATE OF MAINE at the Maine Maritime Academy
- The TEXAS CLIPPER II at the Texas Maritime Academy

A fifth schoolship, the STATE OF MICHIGAN, was placed in service in January 2002. A sixth schoolship, the ENTERPRISE, remained under conversion for the Massachusetts Maritime Academy during FY 2002. Delivery is expected in 2003. Massachusetts Maritime Academy was again furnished the EMPIRE STATE for its annual training voyage.

In FY 2002, MARAD and Texas A&M University at Galveston began planning for the future replacement of the TEXAS CLIPPER II. The present vessel was delivered in 1996, with an estimated service life of 10 to 15 years. After seven years in service, and with replacement programs averaging five years, work is in progress with a view towards effecting a seamless transfer from the old ship to the new.

Maritime Education

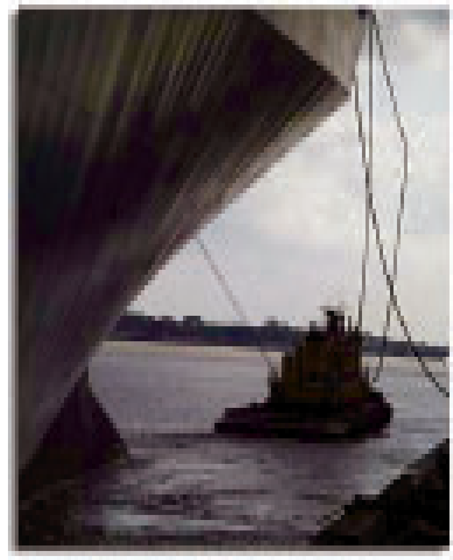
MARAD vigorously supports maritime training and education as well as mariner recruitment and employment retention programs. This support serves to improve the quality of the U.S.- maritime industry through improved services to the people who serve at sea and those who work ashore in diverse professions such as shipbuilding, steamship company operations, and port operations. These activities all help to support the achievement of our national-security strategic goal by providing U.S.-citizen merchant mariners to crew U.S.-flag commercial and government-owned ships. During FY 2002, MARAD made substantial progress in improving the quality of training by implementing international standards of training at the maritime academies and through broad improvements in maritime security training in MARAD's continued response to the terrorist attacks of September 11, 2001.

Spotlight: Schoolships

Welcome to the STATE of MICHIGAN and the ENTERPRISE

In FY 2002, MARAD furnished a new schoolship, the STATE OF MICHIGAN, to the Great Lakes Maritime Academy. This vessel, the former USNS PERSISTENT, was acquired from the USCG in November 2001. The PERSISTENT was acquired by the USCG in 1998, and operated as a drug-interdiction support ship from 1999 to 2001, before being decommissioned and made available for transfer. The ship was originally constructed in 1985 for the MSC as an Oceanographic Surveillance Vessel (T-AGOS) of the STALWART class. It operated in that service from 1985 to 1994. In MARAD service, the PERSISTENT was first assigned to SUNY Maritime College from January to May 2002, before transferring to Michigan for permanent assignment to GLMA in August.

The major conversion of the former RRF general-cargo ship CAPE BON into the schoolship ENTERPRISE continued throughout FY 2002. The vessel remained at Bender Shipbuilding and Repair Co., in Mobile, Alabama, under a contract awarded by General Agent, Interocean Ugland Management Corp., of Voorhees, New Jersey, in December 2001. Upon completion in early 2003, the ENTERPRISE will be assigned to the Massachusetts Maritime Academy in Cape Cod. The name ENTERPRISE honors the academy's first training ship, the former USS ENTERPRISE built in 1874, and assigned to the academy between 1892 and 1909. The ENTERPRISE (II) will be the academy's eighth permanently assigned schoolship.



U.S. Merchant Marine Academy (USMMA)

MARAD operates the USMMA in Kings Point, New York, to educate young men and women for service in the American merchant marine, in the U.S. Armed Forces, and in the Nation's intermodal transportation system.

Graduates receive Bachelor of Science degrees, USCG-issued merchant mariner licenses as deck or engineering officers, and commissions in the U.S. Naval Reserve or other uniformed service.

As a key component of our national security effort, Academy graduates incur an eight-year U.S. Naval Reserve commitment, unless they serve in another uniformed service. The critical maritime skills developed with their military training significantly increases our Nation's defense readiness.

Academy graduates are also committed to a five-year maritime service obligation. This requires them to obtain a USCG-issued merchant mariner officer license in order to graduate from the Academy, and to maintain the license for at least six years. This maritime service obligation may be satisfied in the merchant marine as an officer aboard U.S. merchant ships, or in shoreside maritime or intermodal transportation industry positions if afloat employment is not available, and with the permission of the Maritime Administrator. Active military duty in the U.S. Armed Forces or service with the National Oceanic and Atmospheric Administration also satisfies the obligation.

The Class of 2002, which graduated on June 17, 2002, comprised 100 third mates and 77 third assistant engineers. The 13 women graduates in 2002 brought to 435 the total number of female graduates since the first coeducational graduating class in 1978. Within three months after graduation, about 95 percent of the 177 graduates had obtained employment in the maritime and transportation industry, afloat or ashore, or were serving on active military duty. That percentage increased to nearly 100 percent within six months after graduation.

Average enrollment at the Academy during the 2002-2003 academic year was 904 midshipmen. At the beginning of the academic year, the regiment included 108 women, 10 of whom are scheduled to graduate with the Class of 2003. Members of Congress nominated 1,457 constituents for the class of 2006, and a total of 282 freshmen, called plebes, were enrolled in July 2002. The Academy's web address is www.usmma.edu.

State Academies

MARAD provides 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, California; Great Lakes Maritime Academy, Traverse City, Michigan; Maine Maritime Academy, Castine, State maritime academy cadets who participate in the Student

Maritime Security

MARAD's National Sealift Training Program (NSTP) for senior deck and engineer officers is offered by the Global Maritime and Transportation School (GMATS) at the USMMA, Kings Point, New York. In FY 2002, 34 senior deck and engineer officers completed this program to improve U.S.-flag strategic sealift support capability, improve maritime security, and reduce vulnerability to piracy and hostage threats.

In FY 2002, GMATS created a new course titled "Marine Terminal and Seaport Security." One- and two-week pilot versions of this course were conducted at the USMMA in August 2002, for select members of the New York Police Department (NYPD) and for a 34-member group of the Florida Department of Law Enforcement.

Working with the MSC, MARAD trained approximately 1,500 U.S. mariners in chemical and biological defense (CBD) in FY 2002. The objective of this program is to have all U.S. mariners trained in the one-day course by 2004. Over 3,000 mariners have completed this training since its inception in FY 2000.

During FY 2002, MARAD aggressively supported the USCG's maritime security initiative to improve seafarer identification. In particular, agency senior staff worked intensively on a "fast track" initiative by the International Labor Organization (ILO) for a new convention on seafarer identity documents. This new convention should replace ILO's Seafarers' Identity Convention, 1958 (ILO 108), and receive wide ratification by all governments concerned with shipping. During FY 2002, deliberations in Geneva, Switzerland, and Washington, D.C., included an assessment of the feasibility of biometric standards for international seafarer credentialing.

International Maritime Labor Standards

Maritime education and legal staff continued to work with two special ILO Working Groups that met three times during this period in Geneva, Switzerland. The meetings were tripartite in nature, reflecting excellent participation by governments, shipowners, and seafarers. Significant progress was made towards creation of a single and coherent document, consolidating and updating the many ILO maritime conventions and recommendations into a consensus-based standard targeted to attract wide ratification by governments. Agreement was reached on the structure of the document, similar to the IMO/Standards of Training, Certification, and Watchkeeping (STCW) Convention, encompassing mandatory principles and standards and non-mandatory guidance.

Supplemental Training

MARAD provides supplemental training for personnel in marine fire fighting and defense readiness. In FY 2002, 1,387 personnel were trained in ship and barge fire fighting, including U.S.-citizen seafarers, USCG personnel, and fire fighters. MARAD-sponsored basic and advanced fire fighting is offered at MARAD's fire school in Swanton, Ohio, and the MSC/MARAD fire training facility in Earle, New Jersey. Of the students attending the school in Swanton, Ohio, 150 fire fighters and USCG personnel received a customized course related to assisting with local marine fire fighting training requirements.

Mariner Availability

Changes in the U.S. maritime industries in the past 30 years have led to a shrinking pool of qualified mariners, and one of MARAD's responsibilities is ensuring that there are enough qualified mariners to meet the requirements of a national emergency. MARAD's activities have focused on looking beyond the number of mariners, to evaluate mariner characteristics, and the skill mix of mariners available to sail. Based on these efforts, MARAD has determined that there are adequate numbers of mariners to meet overall requirements, but there may be a potential shortage of unlicensed, non-sailing mariners, who would be called upon in the event replacements are needed. MARAD's ultimate goal is to assure that adequate numbers of properly trained and certified mariners are available and willing to crew MARAD vessels for national emergencies and economic purposes. Each goal pursued and accomplished during fiscal year 2002 involved the cooperation and partnership of the Government and the maritime industry.

MARAD leaders met with maritime labor organizations and the USCG during FY 2002 to create contingency plans for maximizing mariner availability. As a result of these meetings, several goals pertaining to mariner certification and availability were accomplished.

- New standards for the training and certification of mariners (STCW) became effective in February 2002. MARAD's GMATS developed a USCG-approved three-week course to provide the training necessary to provisionally re-certify mariners lacking recent sailing experience compliant with STCW-95 requirements. The course will be shared with the maritime labor training schools and the maritime academies so that the required training can be provided at a number of locations.

MARAD initiated the process of obtaining and verifying up-to-date contact information for all graduates of the USMMA who still have a service obligation. Graduates of the USMMA have an eight-year commitment to serve their country. Service from this well-educated and well-trained group of young men and women is essential to meet the goal of assuring mariner availability.

MARAD committed FY 2002 agency funds to initiate development of a mariner tracking system. This new system will allow MARAD and its partners to maintain accurate and up-to-date information on mariner qualifications, and will enhance MARAD's ability to contact mariners to crew the Government's vessels in the critically short time frames required during an activation. An Internet-based component will allow mariners to update contact information in a timely manner. Scheduled completion date for system development is September 2003.

The Mariner Survey 2002 was issued and completed in September 2002. It was a follow up to the first survey of merchant mariners conducted during 2001. The major focus of the 2002 survey effort was to update and expand information on key readiness and training issues. Initial analysis of the results of Survey 2002 shows:

- A modest increase in the percentage of mariners who would volunteer in a national defense emergency;
- High rates of response overall and from actively sailing, higher ranking mariners;
- Most respondents (approximately two-thirds) expect to sail until retirement;
- Adequate numbers of qualified mariners to meet overall requirements, but potential shortages of available unlicensed, non-sailing mariners.

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. In keeping with the highest tradition of honoring the men and women of America's merchant marine, in FY 2002, MARAD authorized the Merchant Marine Expeditionary Award to those mariners who served from September 11, 2001, on U.S.-flag ships in support of Operation ENDURING FREEDOM. In addition, MARAD continued assisting in replacing merchant marine decorations issued to merchant mariners who served during World War II, the conflicts in Korea and Vietnam, and Operation Desert Storm. During FY 2002, MARAD responded to more than 1,200 inquiries on awards and related issues.

Port Readiness

MARAD supports three vital components of strategic mobility: ships for sealift, mariners to crew them, and readiness at U.S. ports. Port readiness supports the DOT's national security goal of assuring that DOD-designated commercial strategic ports are available to the military during national emergencies.

MARAD has developed an extensive program dealing with military port readiness and emergency port operations. The program is designed to prepare U.S. seaports to simultaneously handle the movement and security of commercial cargo and passengers and the deployment of U.S. military forces. This must be accomplished in a manner that meets the demands of the national military strategy and minimizes commercial transportation disruption. MARAD's program trains deployment stakeholders; helps manage U.S. port assets by creating a coordination network; and provides mechanisms to obtain port facilities, equipment, and services.

In the event of a deployment or other requirement of the Nation's defense, commercial ports will be used by the military for both surge and sustainment cargoes. Fourteen commercial ports have been identified as strategic defense ports.

In peacetime, MARAD issues pre-emergency Port Planning Orders to strategic ports based on military deployment requirements. They are issued for information and guidance to inform the port that certain port facilities may be needed by a defense agency in the event of a deployment. The planning orders are non-binding and are designed to help the orderly transition from peacetime port operation to a deployment. As part of the program, MARAD continues to monitor the readiness of strategic commercial ports through semi-annual port readiness assessment visits, port readiness exercises, and monthly survey reports that are provided by the commercial ports.

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 placed in the American market and 60 percent being placed in the foreign insurance markets. This compares with 43 percent American market placement for hull and machinery insurance in FY 2001.

North Atlantic Treaty Organization (NATO) Planning Board for Ocean Shipping (PBOS) Participation

MARAD continues to serve as the lead agency for U.S. participation in the work and activities of NATO's PBOS, which is responsible for developing and maintaining plans for civil shipping support to NATO in crisis and war.

MARAD represents the United States through participation in PBOS meetings and events to enhance readiness planning in support of NATO, including exercises and training events for civilian shipping experts. MARAD representatives hold the PBOS chairmanship and maintain the PBOS Secretariat, which conducts the everyday work of the Planning Board. PBOS also provides advice to the NATO military authorities on sealift matters relevant to the planning and execution of NATO military deployments.

In response to the events of September 11, 2001, the North Atlantic Council, the highest political body in NATO, tasked PBOS to serve as the focal point within NATO for the exchange of information and advice on the protection of civil maritime assets against acts of terrorism.

Marine and War Risk Insurance Approved in FY 2002

Kind of Insurance	Total Amount	American	Foreign
Marine Hull & Machinery	$3,272,053,564	40%	60%
Protection & Indemnity*			
War Risk Hull & Machinery	3,092,157,827	33%	67%
War Risk Protection & Indemnity	3,092,157,827	33%	67%

* Protection and indemnity insurance coverage is obtained principally from assessable mutual associations managed in the British market, and it is not possible to arrive at the total amount or percentage figures for American and foreign participation.

During FY 2002, MARAD issued the following eight MARAD Advisories:

01-7	Maritime Industry Reporting of Suspected/Actual Terrorist Incidents
01-8	Vessel Reporting to NATO Shipping Center for Merchant Ships Transiting the Suez Canal
02-1	Naval Coordination and Protection of Shipping Exercise in Water off the Republic of Korea
02-2	Vessel Reporting to NATO Shipping Center for Merchant Ships Transiting the Suez Canal
02-3	Naval Coordination and Protection of Shipping - Exercises BELL BUOY 02 and RIMPAC 02
02-4	Naval Coordination and Protection of Shipping - Exercise RIMPAC 02
02-5	Maritime Alert and Threat Dissemination
02-6	Maritime Alert and Homeland Security Advisory Threat Condition Level High (Orange)

Emergency Operations: MARAD Advisories

MARAD Advisories rapidly disseminate information on government policy, dangers to the U.S. flag fleet, safety issues pertaining to vessel operations, and other timely maritime matters. MARAD routinely issues them to ship operators and other U.S. maritime interests via Internet e-mail. MARAD Advisories are also published in the National Imagery and Mapping Agency (NIMA) weekly "Notice to Mariners." Depending on the importance of the MARAD Advisory, NIMA will re-broadcast the Advisory directly to ships as a Broadcast Warning. MARAD also posts MARAD Advisories on its website, making them more accessible to the shipping industry and the public.

Jones Act

The Jones Act (Section 27 of the Merchant Marine Act of 1920) requires that maritime cargoes and passengers moving between U.S. ports be transported in vessels built and maintained in the United States and owned by American citizens. MARAD provides assistance to shippers in need of qualified U.S.-flag vessels, and provides a direct shipper assistance program for the mutual benefit of the shippers and carriers of the oceangoing coastwise trade.

Initiation of New Customer Service Program

In 2002 MARAD initiated a new Domestic Shipper Assistance Program. Specifically, the new e-mail-based information distribution system helps shippers in the Jones Act domestic trade in locating U.S.-flag coastwise qualified vessels. The system distributes these requirements electronically to more than 168 vessel brokers, owners, and operators.

As a result of this program coastwise qualified vessel operators were able to bid on several million dollars worth of freight, and shippers gained exposure to several alternative carriers for moving their cargo. Typically, MARAD receives more than 150 questions and requests for shipper assistance each year regarding the Jones Act.

Small Vessel Waiver Program

The small vessel waiver program was developed in accordance with Title V of Public Law 105-383 passed by Congress in November 1998, which made waivers of the U.S.-build requirement of the coastwise trade laws a function of the executive branch for vessels carrying 12 or fewer passengers.

Before this legislation was passed, anyone wanting a waiver of the U.S.-build requirements needed to request special legislation, which usually took two to three years. The regulations developed to implement the law allowed boat owners to request MARAD to grant such a waiver and became effective in November 1999.

The first waiver applications were received in February 2000. All waiver requests received were published in the *Federal Register* for a 30-day public comment period, and became a part of the DOT docket along with any comments received and waivers ultimately granted or denied. Between April 2000, when the first waivers were granted, and September 2002, when the sunset provision of the enabling legislation ended MARAD's waiver authority, MARAD granted 248 waivers. Typical processing time for an administrative waiver was about two months from the date of receipt to date of decision. Even after the close of this very popular program, MARAD continued to receive many requests for waivers and inquiries as to whether the program would be reinstated.

Even after the close of this very popular program, MARAD continued to receive many requests for waivers and inquiries as to whether the program would be reinstated.

Mobility and Economic Growth

Marine Transportation System

The U.S. Marine Transportation System (MTS) plays a major role in the movement of goods and people, domestically and internationally. It consists of waterways, ports, and intermodal landside connections, as well as vessels and vehicles for moving freight and people. The Maritime Administration (MARAD) promotes the improvement of the MTS by facilitating cooperation; administering grant programs; developing strategy and policy; and performing and promoting research, including pilot and demonstration projects. The results address security concerns and promote the free flow of intermodal traffic.

Ninety-five percent of our overseas trade moves in or out of the Nation on oceangoing vessels. A projected doubling of our domestic and international maritime trade by the year 2020 will require massive improvements in our MTS infrastructure, policies, and practices. Increased highway and rail congestion will place additional stress on our marine system infrastructure.

MARAD is active in two national groups addressing this problem: the MTS National Advisory Council (MTSNAC) which MARAD sponsors, and the Interagency Committee for the MTS (ICMTS). The MTSNAC is a non-federal, industry-focused council to advise the Secretary of Transportation, consisting of 30 stakeholders, users, and beneficiaries of the MTS. The ICMTS is a federal committee consisting of 18 Federal agencies.

MTS Regional Outreach Initiative

MARAD sponsored a series of nine regional MTS listening sessions in September 2002, during which the regional stakeholders provided MARAD and MTSNAC with valuable input on what MTS needs must be identified and addressed in a SEA-21 proposal. The SEA-21 initiative would accomplish for water what the Transportation Equity Act, TEA-21, did for highways. Additionally, the meetings focused on updating regional constituents on national programs, and developing MTS regional efforts.

Intermodal Systems

Marine Transportation System Assessment

MARAD developed a comprehensive strategy to assess the policy, financing, and investments needed to ensure a performance-based, world-class marine transportation system that improves global competitiveness and national security for the United States. The four-track approach includes the National Maritime Infrastructure Needs Assessment, innovative financing, federal legislation, and federal assistance to regional MTS initiatives.

MARAD also conducted a study of the intermodal access to the US marine transportation system. We sought and gained authority to survey the marine transportation industry, specifically the marine ports and terminals, from the Office of Management and Budget. This study will be conducted on an annual basis.

MARAD analyzed the responses from a significant 70 percent of the deep-draft marine port and terminal industries, and published *Intermodal Access to US Ports - Report on Survey Findings* in August 2002. A key finding of the report is that

roadway, rail, and waterside access at U.S. ports may be good enough now to keep the cargo moving, but they probably will not be in coming years. Expected increases in cargo traffic will strain the system, especially in already congested metropolitan areas and major trade corridors. Unacceptable conditions reflect local roads leading to the ports, at-grade crossings with railroad tracks, general railroad access issues, lack of availability of truck-only routes, and insufficient channel depth for container ports. Also clarified in the report was the growing importance of traffic information and of web-based traffic information. MARAD is working with the Department to address these issues in the current effort to reauthorize the Transportation Equity Act.

Spotlight: North Atlantic Region

In the Wake of 9/11

The events of September 11, 2001 profoundly changed the thinking about transportation, particularly water transportation, in New York Harbor. Maritime transportation assets proved to be security assets as well, with commercial and government boats providing safe and rapid evacuation, and then providing transportation for rescue personnel and materials at a time when other transportation was severely affected. Ferry service expanded in the early months of FY 2002.

Personnel in the North Atlantic Region were displaced from their offices for a short time. Soon, they were back at work, involved in a meeting in Manhattan hosted by the Association of the Bar of the City of New York. The meeting was entitled “Rebuilding and Renewing Transportation in Lower Manhattan After September 11: Decisions, Priorities, and Timing,” which was co-sponsored by New York University’s Rudin Center for Transportation Policy and Management, the New York State Bar Association, and the Regional Planning Authority. Those attending the meeting outlined a 10-year plan, which included restoring PATH train service to lower Manhattan, construction of an additional ferry terminal and service to the Wall Street area, the Cross Harbor Freight Tunnel Project, and the future economic benefits to New York City resulting from these proposed transportation and infrastructure initiatives.

The North Atlantic Region is also actively working with groups considering expansion of waterborne transportation. One such activity involved a Community Planning Workshop on the “Long Island Sound Waterborne Transportation Plan” held in Manhattan. The workshop brought together the maritime and business communities to evaluate additional ferry service in Long Island Sound connecting New York and Connecticut.

National Maritime Infrastructure Needs Assessment

MARAD established the framework for a national maritime infrastructure needs assessment. This quantitative framework will enable MARAD to substantiate new investments in marine infrastructure from public and private sources to address aging infrastructure, changes in the marine intermodal interface, and increased concerns about security. A systematic and quantitative framework is critical to ensure efficient capacity, productivity, and performance in the marine transportation system.

Policy Development

Throughout FY 2002, MARAD supported the development of the Freight Analysis Framework (FAF) as a policy analysis tool aimed at helping decision makers to understand the geographic relationships between domestic and international trade flows and the nation's intermodal transportation systems. By using this tool, state and local governments and the private sector can determine which transportation corridors are or will become heavily congested in the future, and better plan intermodal solutions to help alleviate these bottlenecks in the intermodal transportation network.

Federal Assistance for Regional MTS Initiatives

MARAD entered into a cooperative agreement with the Delaware River Maritime Enterprise Council (DRMEC) on authority contained in the Merchant Marine Act of 1936. At the same time, MARAD signed a Memorandum of Agreement with the Military Traffic Management Command (MTMC) to work together with DRMEC on military/commercial demonstrations.

MARAD's objective in partnering with the private and public entities is to facilitate collaboration between commercial, military, government and academic institutions to design, develop, and operate a demonstration of the Regional Agile Port Intermodal Distribution (RAPID) system.

Cargo Handling Cooperative Program (CHCP)

- **Electronic Seal Testing**. The CHCP is a public-private partnership with the primary focus on industry-driven technology priorities. MARAD is its federal government sponsor. The CHCP is testing and evaluating electronic seals as a potential security device for intermodal containers used in the international transportation system. This project is an excellent example of ways that advances in security technology can also work to make freight transportation more efficient. Today, intermodal freight containers are sealed with a piece of wire or a bolt, which neither alert authorities that someone may have tampered with the container nor give waybill information. Electronic seals are one way to increase security by recording those instances where a container seal may have been compromised, and can also give information on the origin and destination of the container and its contents. The CHCP is working with the Center for the Commercial Deployment of Transportation Technology (CCDoTT) to review, test, demonstrate, and report on electronic seal development.

- **Marine-to-Rail Systems**. The CHCP is also assisting the intermodal industry in improving the efficiency and productivity of marine terminals through direct loading and discharging of containers from ship to rail. This marine rail project has been started in the Pacific Northwest to demonstrate the potential increase in container throughput capacity. The demonstration will provide a baseline of information for the development of a regional project involving three Pacific Northwest ports and a related inland intermodal transfer center. There is also a project being developed with a ship line, rail carrier, and a distribution center to model and demonstrate a complete marine rail system to move containers from shipboard to inland destinations. With this system, a two- or three-fold increase in throughput capacity can be obtained at marine terminals. This project assists MARAD in the achievement of increased freight mobility, reduced congestion, and provides faster throughput for national security purposes.

Spotlight: Western Region
Longshore Labor Dispute

On July 1, 2002, the collective bargaining agreements between the International Longshore and Warehouse Union (ILWU) and the Pacific Maritime Association (PMA) representing carriers and stevedore contractors operating in major West Coast ports in California, Oregon, and Washington State expired. The ports continued operating while both sides negotiated on a new contract. The contract was extended on a day-to-day basis through September 1, after which no further extensions were negotiated. On September 30, as a result of the continuing labor dispute between the PMA and the ILWU, the U.S. West Coast ports were effectively shut down.

This crisis had the potential for substantial disruption of the entire national economy. The Western Region offices provided reports three times each day to MARAD headquarters and to DOT. The Western Region's efficiency in gathering and reporting accurate information brought the office congratulatory acknowledgements for its reporting and analysis. As the fiscal year ended with the dispute unresolved, the lead Federal agencies dealing with the dispute looked to MARAD for background information, updated reports, and research.

Port Commerce, Funding, and Infrastructure

MARAD provides the U.S. port industry with a variety of economic and research assistance. Furthermore, MARAD's port conveyance program provides the public port industry with information to assist in meeting capacity needs. MARAD produces three reports each year analyzing the port industry's current and projected capital expenditures, financial strength, [and guidance] on risk management. In addition, MARAD participates in demonstrating technologies designed to help military and commercial interests work together.

Port Facility Conveyance Program

MARAD administers Public Law 103-160, Section 2927, a public benefit conveyance program that transfers surplus Federal real property to State and local public entities for the development and operation of port facilities. The purpose of the program is to create jobs, revitalize local economies, and increase maritime port capacity to meet the Nation's commerce and defense needs. Conveyances are made at no monetary consideration, provided the property is used and maintained in perpetuity as a port facility. MARAD has oversight responsibility after a conveyance.

During FY 2002, MARAD completed three port conveyances.

- The Port of Long Beach, California, received 274 acres of surplus U.S. Navy property. The port is using this land to expand its capacity by developing new marine terminal facilities.
- The Tri-City Regional Port District in Illinois received 580 acres of the Charles Melvin Price Army Supply Center property. MARAD is continuing to work with the U.S. Army and the port to facilitate the conveyance of the remaining approximately 180 acres, the portion of the property that is currently undergoing environmental cleanup work.
- The Port of Stockton received 412 acres of the former U.S. Navy facility located on Rough & Ready Island. Most of the property, 248 acres, is open land, but it does include six warehouses, two wharf-side transit sheds, and a rail yard.

This is the second port conveyance that the port has obtained. A third portion of the property awaits conveyance while the Navy continues the necessary environmental remediation.

Port Capital Expenditures

The United States Port Development Expenditure Report analyzes the public port industry's capital expenditures for 2000, and projected expenditures for 2001-2005, including the financing methods used to fund these expenditures.

U.S. Port Capital Expenditures for 2000
(Thousands of Dollars)

Region	Expenditures	Percent
North Atlantic	$223,186	22.0%
South Atlantic	192,567	18.2%
Gulf	222,160	22.0%
South Pacific	263,030	24.9%
North Pacific	130,461	12.3%
Great Lakes	5,046	0.6%
Total	$1,057,063	100.0%

U.S. Port Capital Expenditures Projected for 2001-2005
(Thousands of Dollars)

Region	Expenditures	Percent
North Atlantic	$1,563,764	16.6%
South Atlantic	1,772,685	18.8%
Gulf	1,619,322	17.1%
South Pacific	3,190,488	33.8%
North Pacific	934,418	11.2%
Great Lakes	56,700	0.7%
Alaska, Hawaii, Puerto Rico, and the Virgin Islands	45,032	0.5%
Total	$9,433,535	100.0%

Public Port Financing

MARAD continues to maintain an extensive database of U.S. port financial data (covering 1978-2001) that permits in-depth analyses of the port industry. In cooperation with American Association of Port Authorities' Finance Committee, MARAD published in November 2001 the *Public Port Finance Survey* containing FY 2000 data. The FY 2001 report is scheduled to be published in January 2003. The survey is updated annually.

Center for the Commercial Deployment of Transportation Technologies (CCDoTT)

In FY 2002, MARAD entered into a new agreement with the USTRANSCOM to assist in managing the CCDoTT located at California State University, Long Beach, CA. The CCDoTT program demonstrates existing, emerging, and developing technologies in cargo handling, tagging, tracking, information management systems, and high-speed sealift. These technologies 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. The CCDoTT web site is www.ccdott.org.

Inland Waterways

MARAD continues to actively promote and develop the domestic merchant marine in support of DOT's strategic goal of "advancing America's economic growth and domestic and international competitiveness through efficient and flexible transportation."

Inland Waterways Initiative

MARAD established the Inland Waterway Intermodal Cooperative Program (IWICP), which has as its primary goal the improvement of the inland waterway intermodal transport system. The IWICP represents port authorities, barge lines, and trade organizations involved in doing business on the inland waterways system. This group has already identified several high-priority issues, and formulated a strategy for addressing them. The current IWICP member organizations are addressing such topic areas as Container-On-Barge, where new markets are available for assisting the national transportation system increase both efficiency and productivity.

Container on Barge

A research agreement between MARAD and the Port of Pittsburgh, Pennsylvania, will serve to promote the use of inland waterways to alleviate congestion on highways and railways, as well as provide a more environmentally friendly way to move freight. The purpose of this agreement is to explore the container-on-barge concept in order to promote waterway traffic between Pittsburgh, Pennsylvania, and Monterrey, Mexico. MARAD has provided $50,000 in start-up funds towards the project. The study is expected to be completed by December 2002.

Missouri River Master Water Control Manual Revision

The Army Corps of Engineers (Corps) has continued its efforts in FY 2002 to revise the Missouri River Master Water Control Manual. This is the manual that the Corps utilizes to manage the release of water from the seven main-stem reservoirs on the headwaters of the Missouri River for navigation, flood control, and water supply.

MARAD staff have worked closely with the Corps to ensure that inland commercial navigation interests were fairly represented in the Master Manual Revision and Annual Operating Plan. MARAD staff organized meetings with inland towing company executives to discuss the issues and develop a consensus. MARAD has acted as an advocate for the inland navigation industry throughout the Corps' efforts to revise the Master Water Control Manual.

MARAD also entered into a Memorandum of Understanding with the other federal agencies in the Missouri River Basin establishing a Missouri River Federal Interagency Roundtable. The purpose of this roundtable is to help all the federal agencies to coordinate their activities to achieve the greatest benefit for those who live and work in this basin.

Short Sea Shipping

This fiscal year, MARAD partnered with the Coastwise Coalition and other organizations to develop a core constituency for the start of a robust short sea shipping system in North America. As a result of this activity, several diverse groups including the Environmental Defense Fund, the USTRANSCOM, as well as U.S.-flag liner and tanker operators planned the first of its kind Short Sea Shipping Conference in November 2002. The conference goal was to develop a policy consistent with all interest groups, while providing the United States with viable alternatives to gridlock, congestion, and air pollution, as well as a new alternative venue for expediting commerce. The foundation was set for a joint U.S-European Union–Canada Memorandum of Understanding on sharing short sea shipping technology and expertise.

Ferry Systems

MARAD chairs the Federal Interagency Committee for the Marine Transportation System's (ICMTS) Ferry Subcommittee to address issues unique to the ferry industry. The subcommittee draws its membership from several federal agencies, including the USCG, MARAD, Federal Highway Administration, U.S. Army Corps of Engineers, Bureau of Transportation Statistics, U.S. Customs, and Federal Transit Administration.

Serious interest in initiating new ferry services across several of the Great Lakes remains high in New York, Pennsylvania, Wisconsin, and Ohio. MARAD's Title XI loan guarantee shipbuilding program has generated interest, and applications have been filed for Great Lakes ferry projects. Several feasibility studies have been completed, with the Cleveland-Cuyahoga Port Authority anxious to begin a $1 million study of ferry services across Lake Erie. This study's funding is in the amount of $800,000 under TEA-21's National Corridor Planning and Development Program and the Coordinated Border Infrastructure Program, along with the port providing $200,000. A study such as this will attempt to confirm the viability of a freight and passenger service across Lake Erie, and prepare business, financial, and marketing plans.

Upper Mississippi River/ Illinois Waterway Navigation Study

The U.S. Army Corps of Engineers restarted the Upper Mississippi River/Illinois Waterway Navigation Study in 2001. The purpose of the study is to investigate congestion at locks on the Upper Mississippi and Illinois Waterway. The Corps has adopted a collaborative approach to the completion of the study, and has asked the Department of Agriculture, Environmental Protection Agency, and MARAD to assist them. MARAD participates on three of the Corps' study committees: the Principals Committee, the Regional Interagency Work Team, and the Study Team Review Committee. The Corps published an interim report in July 2002.

Missouri River Basin Interagency Roundtable Memorandum of Understanding

MARAD entered into a Memorandum of Understanding with 15 other Federal agencies operating in the Missouri River Basin this year. The Missouri River Basin Interagency Roundtable (Roundtable) is committed to promoting an interagency interdisciplinary approach to program coordination and problem solving within the Missouri River Basin.

Prototype Mooring Buoy

In 1997, the River Industry Action Committee (RIAC), the Corps, and MARAD began discussing the possibility of designing a mooring buoy that could be placed above and below locks to facilitate the efficient movement of tows through the locks. Since then, two prototypes have been built, tested, and important design changes made. The second prototype was designed and funded by MARAD and the Corps. The end of the testing period is drawing near with the second design performing well.

The first design is still useful; however, plans now are to move it to a traditional waiting area for tows. This area contains a large mussel bed and, in cooperation with the Missouri Department of Conservation, it is hoped that by keeping waiting tows off of the riverbank, tows can continue to utilize this area without harming the mussels.

The mooring buoy design has gained favor by other river basins' Corps divisions, as well as a State DOT. All are interested in placing this type of buoy in their jurisdictions.

Great Lakes

Overview

During the 2001 navigational season, the U.S.-flag Great Lakes vessels hauled 102.1 million net tons of dry-bulk cargoes, a decrease of 9.9 percent from the previous year.

The Lake Carriers' Association, representing most of the domestic Great Lakes carriers, asserts the bankruptcy of LTV Steel had a major detrimental impact on the carriage of the main component of steel making, iron ore.

Although movement of western coal was up 3.7 percent, stone shipment numbers were down 2.1 percent. Some increases were seen in cement and sand, with salt and grain numbers remaining stagnant.

The Lakes Carriers' Association dealt with many obstacles and still face many challenges. An influx of imported steel has impacted the region's steel makers and their suppliers. Below normal water levels led to increased necessity for dredging in the navigational channels.

A need for a replacement of a heavy-duty icebreaker led to a commitment by Congress to replace the MACKINAW with a multi-purpose ship for the USCG. An effort of many years to build a twin lock at Sault Ste. Marie, Michigan, to provide reliability to the Great Lakes marine transport system is another example of the many issues facing the Lakes' marine traders.

Great Lakes: MARAD Promotion and Outreach

MARAD is involved with many maritime-related groups ranging from marine commerce, harbor navigation and safety committees, environmental, and world trade organizations. Participation includes trade groups such as the Midwest Foreign Commerce Club, Intermodal Association of Chicago, and Ocean Freight Agents Association. Other maritime groups include the Milwaukee Navigation and Safety Committee, Calumet River Navigation Committee, and International Shipmasters' Association.

MARAD developed and continues to improve and update the U.S. Great Lakes Merchant Seaman Employment Fact Sheet to serve both U.S. vessel fleets and potential mariners. It provides a listing of companies conducting direct hiring and unions representing mariners. A supplemental directory of web sites is included for additional Great Lakes specific information to the mariner. This can be viewed on the MARAD web site at www.marad.dot.gov/publications/GreatLakesEmploy.htm.

The MARAD Great Lakes Region Office continues to support the DOT's Regional Emergency Transportation Coordinator by attending annual training and responding to requests for assistance. A staff member serves as the regional emergency representative as support to the Federal Emergency Management Agency as needed throughout the year. Also, MARAD revised and improved a maritime resource section to the DOT Region V Emergency Response Plan.

Listed below are other examples of DOT program elements supported in the region:

- In a partnership of federal and state agencies, the Great Lakes Dredging Team continues to monitor dredging of U.S. harbors and channels throughout the Great Lakes to uphold navigational needs of the commercial waterway users.
- MARAD and the Detroit/Wayne County Port Authority sponsored a MTS outreach program in Detroit, Michigan, to emphasize the marine communities' navigational needs in the Great Lakes area.
- An economically disadvantaged high school was the recipient of replaced computer equipment through the DOT's Garrett A. Morgan Technology and Transportation Futures Program.

Shipbuilding

Economic Impact

The significance of the U.S. shipbuilding industry to the Nation's economy was estimated in the recent report, *The Economic Impact of the U.S. Shipbuilding Industry.* This study was funded by MARAD, and carried out by the Shipbuilders Council of America. The following excerpts are important findings from the study.

"U.S. commercial shipbuilders' activities make a substantial contribution to U.S. economy by increasing U.S. output (GDP), increasing the number of jobs, increasing personal income, and increasing tax revenues. As a result of the commercial shipbuilding activities in 2001:

- Total U.S. output was increased by $11.0 billion;
- 147,230 total jobs in the U.S. economy were created;
- U.S. personal income was increased by $9.4 billion; and
- federal, state, and local government tax revenues were increased by $3.4 billion.

Spotlight: Great Lakes Region

The Fire Training Center

MARAD's Fire Training Center in Swanton, Ohio, provides combined basic and advanced marine fire fighting training to wide ranging groups of ship personnel from the Great Lakes, deep sea, tugs, and towboats operating along the Mississippi and Ohio Rivers. Including an increased demand for fire fighting training from the casino boat industry, 563 personnel were trained at the center in FY 2002.

- In the interest of incident response/shipboard fire fighting, the MARAD Great Lakes Region Office initiated a program to train local fire departments in portside fire fighting. Hosted by the Port of Milwaukee, 120 members of fire departments in Illinois and Wisconsin received classroom instruction in the intricacies of fighting fires aboard portside-docked ships. Instructors from MARAD's Fire Training Center provided the expert indoctrination to this type of specialized response. A tour of a docked 1000-foot Great Lakes vessel was conducted by MARAD's sister agency, the USCG, for a greater understanding of the differences between a land-based and water-based emergency response. A description of this training can be found on MARAD's web site at www.marad.dot.gov.
- In cooperation with the American Maritime Officers (Star Center), MARAD instructors are providing fire fighting training to meet STCW for individual merchant seamen where the full basic/advanced fire fighting training is not required.
- Six USCG cutters from the 9th Coast Guard District and port security personnel from the 8th Coast Guard District attended MARAD's Fire Training Center for specialized fire fighting training to meet the USCG's unique requirements.
- In preparation for possible deployment, hospital ship personnel from the Naval/Marine Corps Center, Toledo, Ohio, attended MARAD's Fire Training Center. Basic fire fighting training was tailored to meet the needs for initial response to fires and emergencies.
- Outreach programs were conducted in Cleveland, Ohio, and Traverse City, Michigan, for the Great Lakes science research vessels and Upper Great Lakes Captains Association, respectively. The focal points of the programs were fire prevention and crew responsibilities.

These economic contributions are not due just to the U.S. commercial shipbuilders' activities at their shipyards, but also to the activities in the companies that supply these shipyards. There are active commercial shipyards in at least 37 states, and these shipyards purchase materials, services, and capital equipment that are produced in all 50 states and the District of Columbia.

Moreover, the study also established that the U.S. commercial shipbuilding industry, which grew at an average annual rate of 6.8 percent between 1992 and 2001, outperformed the U.S. economy, which grew at an average annual rate of 3.4 percent over the same period. The estimated total value of shipments (gross revenues) of the U.S. commercial shipbuilding industry in 2001 was $3.9 billion. Of the $3.9 billion of gross revenues, about 47 percent, or $1.8 billion, go to pay companies throughout the U.S. that supply the shipyards. The remaining 53 percent of the $3.9 billion of gross revenues is disbursed or stays at the shipyard in the form of employee compensation ($1.7 billion), gross profits of the company ($0.3 billion), and indirect business tax payments such as sales/excise taxes and property taxes ($0.02 billion). In turn, the owners and employees pay taxes on the income they receive.

It should be noted that these figures assess the contribution of the commercial sector of the U.S. shipbuilding industry alone. Construction and repair of military vessels is a separate and much larger industry. For example, the value of shipments from the construction and repair of military vessels in 1997 was almost two and half times the value of shipments from the construction and repair of commercial ships.

Facilities

In FY 2002, MARAD compiled an electronic catalog of commercial shipbuilding and ship repair facilities currently in operation in the United States. The shipbuilding industry in the U.S. is divided into two distinct segments: there are six very large shipyards, which have most of the contracts for ships 1,000 GT and over, and 348 shipyards of varying sizes which perform a wide variety of work. In all, some 354 shipyards, located in 35 states, have been identified as being actively engaged in commercial shipbuilding and/or ship repair. Appendix 5, "Shipyards in the United States," shows the number of such facilities and their location by states. The electronic catalog itself may be viewed on line at http://www.marad.dot.gov/nmrec.

Based upon data obtained by MARAD, the commercial new shipbuilding orderbook from the shipbuilders in the catalog totaled 770 self-propelled and non-self-propelled vessels in FY 2002. For a breakdown of the numbers of self-propelled and non-self-propelled vessels for the period 1997 to 2000, see Appendix 6, Historical Orderbook for Vessels Built in the United States.

Financing for Shipbuilding and Ship Conversion:

Title XI

The primary purpose of the Title XI Program is to promote the growth and modernization of the U.S. merchant marine and U.S. shipyards. Title XI authorizes the U.S. Government to guarantee the repayment of debt obligations, including unpaid interest, obtained in the private sector by (1) U.S. or foreign shipowners for the purpose of financing or refinancing either U.S.-flag vessels or eligible export vessels constructed, reconstructed, or reconditioned in U.S. shipyards, and (2) U.S. shipyards for the purpose of financing advanced shipbuilding technology and modern shipbuilding technology of a privately owned general shipyard facility located in the U.S.

The Title XI Program is administered by the Secretary of Transportation through MARAD. MARAD's Title XI Program permits guarantees in an amount not to exceed 87.5 percent of the actual cost of projects eligible for financing. Some eligible projects are limited to 75 percent of actual cost. The maximum guarantee period is 25 years.

Title XI Activities, FY 2002

MARAD issued eight Title XI commitments to guarantee obligations with respect to 22 vessels being constructed at shipyards in the United States. Those eight commitments were for the following vessel types: 11 ferries, one passenger vessel, six double-hull tank barges, two liftboats, one offshore drill rig, and one dry dock reconstruction. These commitments were for an aggregate amount of $225,355,000.

Approximately $728.3 million in Title XI guarantees were issued during FY 2002 in connection with commitments previously issued.

As of September 30, 2002, Title XI guarantees totaling $4.3 billion were outstanding, and Title XI applications totaling over $5.9 billion were pending for approval of Title XI financing. Additional information on MARAD's Title XI Program can be found at the Program's web site at www.marad.dot.gov/TitleXI.

Capital Construction Fund

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

The CCF Program enables operators to build vessels for the U.S.-foreign trade, Great Lakes, and the noncontiguous domestic trade such as between the West Coast and Hawaii. It aids in the construction, reconstruction, or acquisition of a wide variety of vessels, including containerships, tankers, bulk carriers, tugs, barges, supply vessels, ferries, and passenger vessels. During calendar year 2001, $333.6 million was deposited into these accounts. Since the program was initiated in 1971, fundholders have deposited $7.9 billion in CCF accounts, and withdrawn $5.8 billion for modernization and expansion of the U.S. merchant marine. As of September 30, 2001, approximately 139 companies were parties to CCF agreements.

Construction Reserve Fund

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

The CRF is used predominantly by owners of vessels operating in coastwise trades, the inland waterways, and other trades not eligible for the CCF program. Its benefits are not as broad as those of the CCF. The number of companies with CRF balances increased from 22 to 25 during FY 2001. The total monies on deposit increased to $87.4 million.

Maritime Technology

MARAD has not received any specific R&D appropriation for the past six fiscal years. However, the Office of Shipbuilding and Marine Technology has been able to fashion and promote a serious MARAD shipbuilding R&D program with $24 million of funds from outside sources.

One source of outside funding ($20 million) was the MARITECH program. MARITECH was a DOD-funded five-year program designed to encourage the shipbuilding industry to direct and lead in the development of advanced technology and other initiatives to improve its commercial competitiveness and to preserve its industrial workforce base. Of the 65 projects chosen for Federal assistance, MARAD administered 40 with a value of $172 million. The program ended by its terms in 1998, but the projects continued to be funded until their completion in 2002.

The 40 projects handled by MARAD have paid dividends for the participating shipyards. For example, two of the Nation's smaller shipyards (employing 100 to 250) have succeeded in cutting vessel construction time by one-third, increasing their backlog of vessel orders, and investing in new facilities that double the production capability of the shipyards with only a 50 percent increase in production personnel. At a medium-size shipyard, technological research and investments in laser cutting equipment have dramatically changed the ability of the shipyard to produce accurate parts that subsequently resulted in greater accuracy control with significant time and cost savings. At several larger shipyards, MARITECH projects resulted in innovative ship designs for product carriers, tankers, and RO/RO vehicle carriers that were subsequently built.

In FY 2002, MARAD played a key role in the Department of Commerce/NOAA Fisheries Survey Vessel (FSV) Replacement Program. During this period, MARAD served as the lead member of the interagency team in the design of these unique, acoustically quiet, environmentally friendly research vessels, serving as one of the principal members of NOAA's source selection and acquisition group, and is now involved in FSV construction oversight.

MARAD also provides professional, technical, and administrative expertise in assisting in the administration of the high-speed vessel R&D element of the CCDoTT program—a joint undertaking of MARAD and DOD with California State University, Long Beach. In FY 2002, as a consultant, MARAD has been engaged in four high-speed vessel projects (with a value of $1.5 million) funded through DOD appropriations.

National Maritime Resource and Education Center

The National Maritime Resource and Education Center (NMREC) provides a centralized, readily accessible source of information for the shipbuilding industry. The scope of coverage encompasses such topics as domestic and international shipbuilding standards, activities of the various classification societies, recent industry developments, shipbuilding business issues, energy and environmental matters, calendar of shipbuilding-related events, recently published technical papers, Title XI information, and other matters of interest that affect U.S. shipbuilding.

In FY 2002, NMREC's role expanded. This was especially visible on its web site, www.marad.dot.gov/nmrec. This expansion provided more basic information relating to shipbuilding issues, energy and the environment, current technological developments in the maritime field, and marine-related activities of sister agencies at both the Federal and local levels impacting upon MARAD's industry stakeholders. Traditional MARAD publications relating to shipbuilding facilities and orderbooks have also been reformatted to make for easier reading and published at earlier dates in the year.

NMREC also uses direct communications to provide responses to requests for domestic and international shipbuilding standards and related information to the industry, the general public, other government agencies, and academia. Since it was originally established, NMREC has provided to its clients the equivalent of almost 80,000 pages of standards, standards-related documents, and other shipbuilding information upon request.

Congressional Study on Maritime Research & Technology

During FY 2002, MARAD submitted a report to Congress on maritime research and technology development. The report reviews R&D with special emphasis on the marine transportation system. The study found research efforts in the maritime area to be far less than similar efforts for other transportation modes, and recommends initiatives through cost-sharing efforts among federal and state governments and private industry. Research efforts are particularly needed because of the time required for infrastructure development.

Spotlight: Maritime Technology

Improved Computerized Deployment System (ICODES)

In an emergency, a great deal of time can be lost by a captain and crew trying to figure out how to load an unfamiliar ship. MARAD's ICODES team is solving that problem with the development and maintenance of a vessel stowage library. The program is essentially a decision-support system devised by DOD to assist personnel in quickly developing and conveying cargo stow plans for all manner of dry cargo ships, commercial and military. MARAD's partners in this venture are, among others, MTMC, MSC, USTRANSCOM, the Navy, Marine Corps, and Army. ICODES works through the acquisition of technical information for all designated ships, including plans and documents, and verification by on-board surveys of cargo spaces and interviews with the vessel operators. This ship information is then processed into specifically formatted drawings and trim and stability data files defining the vessels' characteristics, and converted to object-defined packages that can be read by the ICODES system.

This year, the ICODES team surveyed a total of 25 ships developing detailed ICODES plans and data for these ships. They also updated the ICODES information for another 40 vessels.

Cargo Preference

MARAD oversees the administration of and compliance with U.S. cargo preference laws and regulations. Those laws require shippers to use U.S.-flag vessels to transport any Government-financed oceanborne cargoes. MARAD is charged with ensuring the use of U.S.-flag vessels, monitors bilateral and similar agreements, and identifies discriminatory or potentially discriminatory trade practices against U.S.-flag vessels.

Major programs 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 DOD cargo shipped on commercial ocean carriers.

In FY 2002, in accord with the President's Management Agenda, MARAD's Office of Cargo Preference developed three new web sites that make it easier for exporters, importers, and government agencies to (1) locate U.S.-flag ships to transport cargo to designated foreign nations (http://www.marad.dot.gov/usflag); (2) allow electronic paperless filing of reports about Eximbank cargoes (http://www.marad.dot.gov/exim); and (3) allow public view of USDA and AID compliance with their cargo preference obligations for shipments of food aid (http://www.marad.dot.gov/offices/capos%20reports). The newly developed sites are part of MARAD's ongoing efforts to facilitate compliance with cargo preference laws. To view cargo preference laws and regulations, click on http://www.marad.dot.gov/offices/cargo_pref.html.

Monitoring 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 annually to Congress on compliance with the following major cargo preference laws:

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

- **The Military Cargo Preference Act of 1904 (10 U.S.C. 2631)** 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 reasonable rates.

- **The Maritime Security Act of 1996.** Section 17 of the 1996 Act permits Great Lakes ports to participate in the handling of Public Law 480, Title II humanitarian food aid-packaged commodities awarded on a lowest- landed cost basis without reference to vessel flag. The law allows these ports to act as bridge ports, providing loading and unloading services, even though the cargo may actually be shipped from another U.S. port, and thus providing stevedoring jobs during the winter months when the Great Lakes are closed to vessel traffic.

- **Public Resolution (PR) 17 of the 73rd Congress** requires that all cargoes generated by the Eximbank or a similar instrumentality of the Government be shipped on U.S.-flag vessels, unless a waiver is granted. Waiver procedure policy is set forth on MARAD's web site located at www.marad.dot.gov/offices/cargo_pref.html. Also included at this site is a list of U.S.-flag carriers, U.S.-flag vessels, and U.S.-flag service.

- **Public Law 105-383** established that substandard vessels and vessels operated by operators of substandard vessels are prohibited from the carriage of government-impelled cargo for up to one year, after such determination has been published electronically. In addition, active links are included on MARAD's cargo preference web site (www.marad.dot.gov/offices/cargo_pref.html) to the USCG's listing of vessels, owners, and operators prohibited from carrying Government-impelled cargo. The Secretary of Transportation has delegated enforcement authority to MARAD. The easy availability of this information has resulted in increased industry use.

MARAD monitors the shipping activities of federal agencies, independent entities, and government corporations. Statistics are maintained on a CY, or FY, or cargo preference year (CPY) basis dependent upon program requirements. See Appendix 7 for an overview.

Civilian Agencies

Israeli Cash Transfer

Under a "side letter" agreement, the government of Israel and U.S. Agency for International Development (AID) agreed that 50 percent of the bulk grain generated by the Israeli Cash Transfer Program for FY 2002 would be transported on U.S.-flag vessels.

The agreement required that 533,333 tons of grain move on U.S.-flag vessels. MARAD's records indicate that for FY 2002 only 493,356 tons were carried, leaving an imbalance of 39,977 tons. To satisfy this deficit position, MARAD has required that the cargoes, which will move under the FY 2003 agreement, be applied to FY 2002 to correct the imbalance.

Export-Import Bank (Eximbank)

All Eximbank loans and long-term guarantees are subject to PR 17, which requires U.S.-flag utilization. MARAD may issue waivers allowing foreign-flag employment whenever U.S.-flag employment is unavailable. A general waiver permits the recipient's national-flag vessels to carry up to 50 percent of the cargo generated by the Export-Import Bank as long as the recipient country does not discriminate against the United States. MARAD is continuing its close collaboration with Eximbank, exporters, importers, and carriers to assure effective communication between the parties. MARAD has instituted electronic filing of Eximbank reports in accord with the President's Management Agenda.

Strategic Petroleum Reserve (SPR)

For national security reasons, the President has ordered the filling of the SPR to its intended goal of 700 million barrels. As previously agreed, offshore oil companies will use crude petroleum, acquired under a program known as Royalty in Kind, as payment for its leasing fees to the federal government. Under the Cargo Preference Act of 1954, the

Department of Energy (DOE) is required to transport at least 50 percent of the oil on U.S.-flag tankers. In order to accurately measure the compliance posture, long-ton miles are used to monitor the program. This method more accurately reflects the broad geographical distances in transporting oil than tonnage alone for compliance. A Memorandum of Understanding between MARAD and DOE allows monitoring on a cumulative basis. At the end of CY 2002, MARAD anticipates the program will be in a deficit position, with only 45 percent being carried on U.S-flag tankers.

Defense Security Cooperation Agency (DSCA)

The DSCA is the sponsoring DOD agency for items purchased through foreign military financing grant transfers, such as those under the Foreign Assistance Act of 1961. The Cargo Preference Act of 1954 requires that at least 50 percent of the oceanborne cargoes be transported on U.S.-flag vessels. DSCA's policy requires all shipments to be transported on U.S.-flag vessels unless a waiver is issued by MARAD.

The majority of funding is going to three countries—Greece, Egypt, and Israel. With MARAD's concurrence, each of these countries has requested and was granted a general waiver by DSCA. The waiver allows the recipient's national merchant fleets to participate up to 50 percent in the movement of the cargoes, which are monitored on a calendar-year basis.

Military Cargoes

MARAD initiates and recommends regulations and procedures for the DOD to follow in administering cargo preference. Program efforts concentrate on meetings and discussions with DOD component commands, contractors, suppliers, freight forwarders, and shipping companies to focus attention on meeting the needs of all constituents within the context of U.S.-flag carriage requirements.

Cargo shipped for DOD is subject to the Military Cargo Preference Act of 1904. The preponderance of DOD dry cargo is booked on U.S.-flag vessels by the Military Traffic Management Command for the various DOD shipper services as part of the Defense Transportation System (DTS). The rates and services provided by the ocean carriers constitute their transportation contracts with MTMC.

MARAD has been receiving quarterly reports from MTMC on the movement of DOD-sponsored shipments of personal effects. This exchange of information is the result of a Memorandum of Agreement signed on March 2, 1996, between MARAD and MTMC.

MARAD also receives data from MTMC for the movement of privately owned vehicles (POVs) belonging to DOD service members being transported between points in the continental United States and points overseas. Data is derived from MTMC's contract, new in 1998, with a single service provider responsible for managing the shipment of all POVs for military personnel.

A significant amount of DOD cargo moves in the commercial sector outside the DTS. Unfortunately, the cargo that is shipped by DOD contractors utilizing commercial corporate traffic departments or second- or third-party providers, such as freight forwarders and logistics managers, frequently moves without data being reported to either DOD or MARAD.

Consequently, the tonnage and revenue data from commercial sources is typically less than complete and unable to be accurately reflected in Appendix 7, as noted in footnotes 15 and 16. Under DOD acquisition regulations, cargo preference does not apply to subcontractors providing commercial off-the-shelf items when ocean transportation is not the purpose of the contract. Therefore, there may be no requirement for tonnage or revenue to be reported for some DOD commercial shipments.

Agricultural Cargoes

The statutory sources of agricultural cargo preference programs are Titles I, II, and III of Public Law 83-480; Section 416(b) of the Agricultural Act of 1949; and the Food for Progress Act of 1985. These programs have a 75 percent U.S.-flag shipping requirement. Section 17 of the Maritime Security Act of 1996 permits Great Lakes ports to participate in handling Title II-packaged commodities awarded on a lowest-landed cost basis without reference to flag of vessel.

Certain events occurred during the past CPY that had an impact on agricultural cargo subject to preference. (Note: CPY's run April 1-March 31.) Shipments of 3.1 million metric tons under the Section 416(b) program were completed, most of which were bulk wheat. A substantial amount of the commodity remaining under the pilot program Global Food for Education Initiative was also completed.

Although a portion of these programs was shipped in the subsequent CPY, shipments during CPY 2001/2002 remained approximately the same as the previous CPY. Collectively, 74.4 percent of the six million metric tons of humanitarian food-aid commodities were transported on U.S.-flag vessels during the CPY. Wheat again was the primary commodity shipped during the year. Liner-type vessels transported 31.8 percent of the six million metric ton total of food aid cargoes, while tankers and bulk carriers carried 18.7 percent and 49.5 percent, respectively, of the commodities.

The Agricultural Act of 1949 provides the following cargo preference programs:

- **Title I** – Provides for U.S. Government financing of sales of U.S. agricultural commodities to developing countries on concessional credit terms. Approximately 754,000 metric tons of food aid was shipped during CPY 2001/2002. This was about 105,000 metric tons (12 percent) less than the prior year, and 820,000 metric tons (52 percent) less than shipments during CPY 1994/1995.

- **Title II** – A donation program administered by AID generated approximately 1.8 million metric tons of packaged, processed, and bulk commodities for least-developed countries. Shipments decreased by 387,000 metric tons (18 percent) over the previous CPY. However, this is one million metric tons (37 percent) less than shipped during CPY 1994/1995.

- **Title III –** This category is still referred to by the title covering it in the 1949 act, but it now covers the Food for Development Program, which 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. Congress did not appropriate any funding for this program during CPY 2001/2002. As a result, no cargo was shipped. This represented a decrease of 24,000 metric tons from the previous year, and compares with about 1.1 million metric tons of Title III shipments made during CPY 1994/1995.

- **Section 416(b)** - is a donation program established primarily to distribute surplus commodities to the extent such surpluses exist. There were over 3.1 million metric tons shipped for the current year under the wheat initiative and the Global Food for Education Initiative. Shipments were 440,000 metric tons (17 percent) more than the prior year, and 2.9 million metric tons (18 times) greater than shipped during CPY 1994/1995.

- **Food for Progress -** provides agricultural commodities to developing countries on a grant basis in exchange for development policy reforms. During the current CPY, 421,000 metric tons of commodities were donated. This was 6,000 metric tons (1.5 percent) more than the previous CPY, and 173,000 metric tons (29 percent) less than CPY 1994/1995 shipments.

Ocean Freight Differential (OFD)

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

DOT 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 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 Commodity Credit Corporation (CCC) $57.6 million for OFD invoices and documents submitted during FY 2002. None of the payments were for OFD obligations incurred on shipments during the current CPY. OFD obligations covering CPY 2001/2002 remain outstanding, and will be paid upon receipt of invoices from USDA. CCC was not reimbursed for OFD, which included inland freight and bagging and stacking costs. Based on payments made during FY 2002, the average OFD cost for which MARAD reimbursed USDA was $42.22 per metric ton, an increase of $8.87 per metric ton, or 27 percent, from the previous year. This increase was due, in part, to payments made for prior-year shipments, and an increase in shipments with foreign-flag offers. OFD obligations that remain outstanding are expected to increase the average OFD rate paid for shipments made during CPY 2001/2002.

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 2002, USDA invoiced MARAD $125.3 million for excess freight costs for FY's 1994 and 1995. MARAD's analysis indicates that such shipping costs did not exceed the 20 percent threshold for these fiscal years.

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 of 1936, as amended. This includes Public Law 480, Section 416(b), 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 2001, a total of 5,609,741 metric tons of such agricultural products were exported. The minimum tonnage calculated for FY 2001 is 3,516,884 metric tons. This represents a surplus of 2,092,857 metric tons.

Even though congressional appropriations for FY 2001 were lower than the previous year, the foreign food aid tonnage exported during the period was above the base period. This was due to lower commodity costs and shipments of surplus wheat under the Section 416(b) program. Since FY 1994, shipments had been declining; however, this was reversed in FY's 1998 and 1999. The prior lack of tonnage resulted in a substantial downsizing in the dry-bulk U.S.-fleet, and the virtual elimination of the breakbulk U.S.-fleet.

MARAD is encouraged by a new Global Food for Education Initiative being implemented by the Administration.

During FY 2002, USDA was unable to convince participating countries to obligate all program funds and funds carried over from the previous year. Some of the commodity provided by the funding carryover will be transported in FY 2003.

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 provided the vessels are available at rates that are deemed to be fair and reasonable. MARAD is responsible for providing the shipper agencies with guidance on whether an offered rate is fair and reasonable. Regulations governing the calculation of fair and reasonable guideline rates are codified in 46 CFR Part 382.

During FY 2002, MARAD developed and initiated a broad new customer focus and outreach program that benefited all interested parties. More extensive personal contacts—reaching out to vessel operators and government shipper agencies—were made. MARAD has explored and implemented ways to increase communication and services to MARAD's customers.

MARAD is now making better use of electronic communication to provide more timely, accurate, fair, and reasonable guideline rate determinations. As a result, in an increasingly complex cargo movement environment with smaller cargo parcels of multiple types moving to and from multiple ports, MARAD was able to maintain a 97 percent 24-hour turnaround time for guideline rate determinations.

International Negotiations

The U.S. maritime industry must contend with barriers imposed by foreign governments that restrict market access. These restrictions impinge on U.S. maritime companies' access to foreign transportation markets, add to costs, limit revenues, and impede efficient operations of the U.S. maritime industry in international trade. Removal of such barriers improves the operating efficiency of U.S. shipping companies. For these reasons, MARAD has concentrated on several 'high-impact' areas during FY 2002.

Market-Opening Efforts in China

During the fiscal year, MARAD continued its efforts to open China's restrictive maritime sector. In December of 2001, China's Ministry of Communications (MOC) issued new regulations on International Maritime Transportation that either impose new restrictions on non-Chinese ocean carriers or confirm existing limitations.

The regulations also restrict the market access of ocean transportation intermediaries and shippers who use their services. In June, the MOC issued draft implementing rules that either confirmed or increase the restrictions on non-Chinese companies. Subsequently, the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) issued a document that restricted foreign companies seeking to engage in the intermodal transportation and logistics business in China.

Working in conjunction with the Department of State and the Office of the U.S. Trade Representative (USTR), MARAD has communicated U.S. objections to the regulations and draft rules to authorities in Beijing. In March 2002, the Maritime Administrator met with Chinese officials in Beijing, and stated U.S. objections to the regulations. In addition, the Administrator has written letters to the Chinese on behalf of the United States. MARAD has also consulted extensively with U.S. industry groups on the business effects of the regulations, and has informed foreign trading partners, including the European Union and Japan, of U.S. concerns.

The following is a summary of the major restrictions in the MOC Regulations and the MOFTEC Notice:

- Requirement for filing confidential service contract information with the MOC and a lack of a verifiable guarantee of confidentiality to protect sensitive business information gathered by MOC;
- Restrictions on the establishment of wholly foreign-owned vessel agency companies;
- Geographic and other restrictions on the establishment of full service branch offices of wholly foreign-owned shipping companies, including both vessel operators and NVOCC's;
- Restrictions on the normal conduct of international liner operations with China, between China and third countries, and between China and Hong Kong, Macao and Taiwan;
- Limitations on investment in ocean transportation and auxiliary services;
- Imposition of prohibitive cash deposit requirements in lieu of surety bonds for NVOCC's to operate in China, as well as other limitations on foreign NVOCC's;
- MOFTEC's Notice on logistics that appears to restrict the ability to offer a full range of maritime transportation and related logistics services.

Maritime Services in the World Trade Organization (WTO) and Free Trade Negotiations

Following a meeting of trade ministers in November 2001, in Doha, Qatar, that launched a new round of trade negotiations, work began on organizing the new round, including the start of overall services negotiations. The last maritime transport negotiations in the WTO were suspended on June 30, 1996, and the United States made no commitments. MARAD staff have continued to provide technical guidance to the Office of the Special Trade Representative during these negotiations.

The U.S. maritime industry's opposition to coverage of maritime services by the WTO has not changed. Coverage of U.S. maritime policies in the WTO could further limit the already low level of support that the United States maintains in the maritime sector, such as cargo preference. Coverage by the WTO could also compromise the ability of the maritime industry to seek relief from restrictive foreign practices under existing unilateral measures that are administered by the Federal Maritime Commission.

MARAD also participated in negotiations led by theUSTR on a number of regional and bilateral free trade agreements. These included the Free Trade Area of the Americas (FTAA) and Free Trade Agreements (FTA's) with Chile and Singapore. MARAD staff participated in a negotiating meeting with Chile held in Santiago in April 2002, and took part in a number of video conferences with both Singapore and Chile. MARAD's chief objective in this process was to ensure that U.S. maritime laws and regulations are not adversely affected by these agreements.

Organization for Economic Cooperation and Development (OECD)

In three meetings of the OECD's Maritime Transport Committee (MTC), the Acting Deputy Maritime Administrator served as the committee's chairman, and MARAD staff participated on the U.S. delegation.

In December 2001, the MTC focused on the problems created by substandard shipping. A Workshop on Liner Shipping Competition Policy was also held. The exchange of views included presentations by U.S. speakers on the benefits of the Ocean Shipping Reform Act (OSRA).

The MTC met in a special workshop session in March 2002, to outline a new work program on maritime security issues, which are in line with the OECD's role as a non-regulatory, policy advisory international organization. At its next full meeting in July 2002, the committee decided to undertake work immediately on two projects and to consider two others later. The first priority project is to increase transparency in the ownership and control of ships through a thorough review of ship registration practices globally. The second is to analyze risks to which the transport sector is exposed, the economic costs and impacts of mitigating those risks, and the economic costs of failing to secure the transport system against identified risks. The other two projects being considered if resources permit involve verification of cargoes and best security practices.

MARAD also continued to advise and assist the USTR on international shipbuilding policy.

MARAD monitored activities of the OECD's Council Working Party on Shipbuilding, in which other parties decided to begin negotiations in late 2002 on a new agreement to eliminate shipbuilding subsidies and other trade distorting practices.

International Maritime Organization Marine Environmental Protection Committee Session 47 (MEPC 47)

MARAD is a member participant on the U.S. delegation to the International Maritime Organization Marine Environmental Protection Committee through the U.S. Shipping Coordination Committee (SHC) and related interagency working groups. MARAD was instrumental in developing the U.S. position for submission to the IMO at the 47th session in London, England. Major actions taken at MEPA 47 that MARAD helped facilitate include the development of an international convention for the control and management of ships' ballast water and sediments, the agreement to develop guidelines on ship recycling and the inclusion of the declaration with the IMO that the U.S. will not be bound by the recently adopted amendments to regulation 13G of Annex 1 of the MARPOL Convention. MARAD is working on language for MEPC 48 to include establishing working groups on ballast water, recycling of ships, and greenhouse emissions from ships.

Africa Initiative

Since 1999, at the request of the White House, DOT has been providing technical assistance to the Government of Nigeria in the areas of port management, aviation, roadways, railways and urban transport. MARAD has been assisting in this effort through training of Ministry of Transport personnel and assisting Nigerian Ports Authority personnel in making their international container terminals more efficient and productive. The goal of the assistance is to raise the standards of Nigeria's international container terminal activities to make them more competitive in the global market. Recent efforts have convinced Nigerian Government officials that privatization of container terminals is the most effective way to increase container terminal efficiency and productivity. Additionally, a port security contractor team was sent to several ports in Nigeria to develop a controlled environment that will enhance maritime security in Nigeria's ports. These activities meet the DOT goal of increasing global trade, providing more mobility of goods, and increasing transportation security.

Human and Natural Environment

The Department of Transportation, in identifying its strategic goal in the area of human and natural environment, has set as its goal to protect and enhance communities and the natural environment affected by transportation.

Ship Disposal

During FY 2002, ship disposal was among DOT's management challenges. MARAD is the U.S. Government's disposal agent for merchant-type vessels of 1,500 gross tons or more. It is mandated by Congress to dispose of all obsolete ships in the NDRF by October 2006.

Since 1994, environmental concerns and hazardous material regulatory obstacles have prevented the export of ships, which had until that time been a disposal option that maximized financial returns to the taxpayer. There was a time when scrapping ships did not cost the U.S. Government anything, and was, in fact, a source of revenue. However, the export option is suspended, and domestic scrappers are rarely willing to pay to take ships. Without a consistent funding stream for scrapping and limited options, MARAD has shown a great deal of ingenuity, both in containing the immediate threat and in negotiating new ways to remove the ships.

At the end of FY 2002, there were 133 obsolete vessels nationwide awaiting disposal. Twenty-seven of those are assessed as high-risk because of their deteriorated condition. The 27 high-risk vessels, in particular, present an environmental threat due to the potential for oil discharges. The threat includes both environmental damage and significant clean-up costs. MARAD did not receive FY 2002 funding for the disposal of obsolete vessels.

An aggressive program of maximizing FY 2001 funds and pursuing all feasible disposal options in FY 2002 has laid the foundation for cost-effective accelerated ship disposal through interagency initiatives and industry response to requests for innovative proposals.

Specific accomplishments in the removal of vessels from the NDRF in FY 2002 include:

- Six vessels were removed for disposal from the JRRF, which is part of the NDRF, including four FY 2001-funded scrapping contracts and two FY 1999 sales contracts. Four of the six vessels were completely dismantled, and two were in the process of being dismantled at the end of the fiscal year.
- Four vessels that were removed from the NDRF prior to FY 2002 were also completely dismantled during the year.
- One vessel was sunk as an artificial fish reef.
- A heavy-weather mooring contract was completed on Vessel WATTS (Mobile, Alabama).

Also, in FY 2002, MARAD began several initiatives to focus on cost-effective disposal alternatives to domestic scrapping for obsolete vessels in the NDRF. Two initiatives involve multi-agency workgroups exploring the establishment of responsible procedures that hopefully will lead to the export of ships for foreign recycling, and the development of

national best-management practices for preparing ships for use as artificial reefs.

MARAD issued a ship disposal Program Research and Development Announcement (PRDA) in *FedBizOps* in November 2001. The PRDA requested innovative engineering, technical production, and management approaches for disposal of vessels. As of September 30, 2002, 46 proposals had been received; 27 proposals had been evaluated; numerous proposals were under consideration for vessel export for recycling and for domestic scrapping; and one contract had been awarded for domestic scrapping of one vessel.

MARAD's Vessel Artificial Reefing Initiative was established in February 2002, in conjunction with the EPA and numerous other stakeholder agencies. Environmental best-management practices are being developed through contaminants class workgroups, and are expected to be completed in FY 2003. MARAD also requested a legislative change to allow the expenditure of Federal funds to be used to pay for some of the costs associated with preparing obsolete vessels for use as artificial reefs. Currently, states requesting the vessels bear the entire cost to prepare vessels for sinking as artificial reefs. MARAD further solicited interest, and is organizing Basel Convention countries, the IMO, and the ILO in an international program to ensure environmentally responsible and sustainable ship disposal.

On November 1, 2001, the JRRF Obsolete Vessels Fuel Oil Removal and Oil Spill Risk Mitigation Team received the Secretary's Team Award for its achievements.

Environment and the Marine Transportation System (MTS)

As maritime trade expands and increases the strain on the surface transportation system, so will the potential impacts that maritime transportation has on the environment. MARAD is mindful of increased environmental concerns caused by the use of the MTS, and considers monitoring those concerns an important part of the agency's stewardship. There are two particularly critical environmental impacts associated with the MTS: air emissions and energy consumption, and the introduction of aquatic nuisance species, particularly in ballast water.

Spotlight: South Atlantic Region

Oil Removal Activities in the JRRF

The JRRF has the majority of the NDRF vessels distributed among MARAD's three reserve fleets. Numerous obsolete vessels awaiting disposal, some at the fleet since the 1940's, have an assortment of petroleum products aboard. Anecdotal evidence would indicate that the personnel at JRRF manage to keep the river clean: osprey nest and fish among the ships, and local fishermen know it as one of the most rewarding fishing grounds in the area.

However, one of these obsolete NDRF vessels, the EXPORT CHALLENGER, leaked oil from its hull in the summer of 1998. What followed was an expensive oil-removal operation that ensured no other tanks would leak. A similar incident involving the ex-DONNER in August, 2000, raised concerns among MARAD, the USCG, and the Virginia Department of Environmental Quality about possible leaks occurring on other ships with similarly deteriorating hulls.

Thereafter, MARAD's South Atlantic Region (SAR) has investigated different approaches to removing petroleum products from vessels. Using organic resources and past experience, the SAR has gathered data, evaluated feasible removal solutions, estimated subsequent expenses, and reviewed vessel-oil-removal priorities to help formulate an agency-wide strategy.

Regardless of the method investigated, removal of petroleum products is a costly process, requiring an outlay of equipment, skilled labor, and technical oversight. Generally, ship scrapping is the preferred method, which would completely mitigate oil and other onboard environmental hazards. Expenses such as the transportation of the vessel to and from the fleet, replacing the oil with ballast for stability purposes, and accessing the tanks can be eliminated by utilizing ship scrapping rather than single oil-removal methods. Within the last year, the following ships have been removed from the JRRF.

Vessel	Date Entered	Date Left	Total Oil Removed (Long Tons)
EXPORT COMMERCE	27-Sep-84	10-Jun-98	223.4
AMERICAN VICTORY	19-Dec-47	08-Sep-99	264.6
SUFFOLK COUNTY	16-Dec-73	23-Nov-99	0.8
CAPE CHALMERS	11-Sep-84	16-Dec-99	1210.6
SUSTAIN	21-Oct-97	29-Dec-99	0
ATAKAPA	01-Oct-81	13-Apr-00	0
VEGA	28-Apr-94	28-Apr-00	173.8
EXPORT BUILDER	28-Nov-84	21-Sep-00	225.96
GUAM	08-Mar-00	14-Dec-00	0
ALAMOGORDO	21-Mar-95	10-Jan-01	21.3
WASHINGTON	13-Feb-78	26-Jan-01	489.6
ADVENTUROUS	27-Feb-96	31-Jan-01	4.47
SPIEGEL GROVE	17-Sep-90	12-Jun-01	27.4
EXPORT CHALLENGER	21-Dec-87	29-Aug-01	3.3
LYNCH	21-Oct-91	29-Aug-01	223.5
GEN ALEX M PATCH	26-May-70	23-Oct-01	1473.7
APL 57	19-Aug-91	30-Oct-01	0
WAYNE VICTORY	06-Nov-53	21-Nov-01	201.6
CRANDALL	11-Feb-76	30-Nov-01	0
CRILLEY	02-Sep-76	30-Nov-01	0
WOOD COUNTY	01-Apr-92	06-Jun-02	6.6
LORAIN COUNTY	31-Jan-73	13-Sep-02	0.3
TOTAL:			1682.2

Air Emissions and Clean Energy. There have been significant technological advances in low emissions and energy-efficient power for landside transportation applications, but little attention has been given to applying those advances to the marine sector. MARAD created the Marine Energy and Clean Air Initiative to ensure that technological advances will be seamlessly integrated with the national landside transportation system.

This cooperative program with industry, academia, and other government agencies works to improve marine energy efficiency and reduce marine-related air pollution. The broad objective of the program is to demonstrate higher efficiency marine power plants that can reduce exhaust emissions by up to 90 percent. Beginning in April 2002, the *Energy and Emissions Newsletter* was published by MARAD's NMREC, and is available on the MARAD website, http://marad.dot.gov/nmrec/whatsnew/whatsnew.html.

MARAD also facilitated a study of the feasibility of using the Hydrogen-on-Demand System aboard marine vessels through an agreement with private industry, which led to the start of a design phase for a prototype vessel.

Aquatic Nuisance Species. The introduction of aquatic nuisance species is becoming a significant impediment to the MTS. Because foreign ballast water discharged into U.S. harbors may contain exotic species and pathogens that threaten to damage important ecosystems and fisheries, vessels are prohibited from taking on and discharging ballast water in certain port areas, making cargo loading and unloading severely constrained. Other impediments include changes in vessel routings to avoid special areas of concern and mid-ocean ballast water exchanges.

MARAD has addressed this complex issue by developing the Federal Ballast Water Demonstration Project (FedBallast), which involves several Federal and private stakeholders that provide a seamless process to test and develop ballast water treatment systems. This dual-phased approach is designed to move technology testing from the lab to stationary ships and ultimately to commercially operating vessels.

RRF Environmental Program

MARAD has voluntarily instituted an aggressive and highly proactive environmental program for its RRF ships. Although "public vessel status" exempts MARAD ships from compliance with the Oil Pollution Act of 1990 and MARPOL requirements, which come from the International Convention for the Prevention of Pollution from Ships, MARAD continues to take environmental stewardship responsibly.

The primary exposure for both the RRF and NDRF vessels is a bunker-oil spill. Thus, the proactive containment booming policy requires hands-on boom training and a substantial provision of boom footage at the three NDRF fleets, and booming whenever possible and practical during bunkering and internal bunker-transfer operations.

Shipbuilding and the Environment

MARAD also assures that its Title XI loan guarantee projects for building ships and improving shipyards are in compliance with applicable environmental requirements. In FY 2002, MARAD reviewed 15 Title XI applications for environmental compliance, two of which required comprehensive environmental oversight that is ongoing. MARAD continues to participate in the environmental evaluation of the Massachusetts Heavy Industry (MHI) shipyard in Quincy, Massachusetts. MARAD's Office of Environmental Activities provided assistance to the Port of Baltimore in evaluating the condition of an inactive-ship dismantling site.

Management and Industry Support

MARAD continued conducting its third round of environmental audits which began in FY 1999 and was completed in FY 2002. There were no deficiencies found at any of the MARAD facilities.

However, as a result of these reviews MARAD has dramatically increased facility compliance and environmental stewardship initiatives. In MARAD's western region where this waste is considered hazardous, the waste is disposed of according to State and local regulations with zero violations. In all fleet facilities, the amounts of toxic chemicals were below reporting thresholds. MARAD successfully completed several key environmental projects including aboveground and underground storage tank removal.

The MARAD-operated USMMA has dramatically increased its use of environmentally friendly landscaping in an effort to reduce runoff into the Long Island Sound. MARAD is actively reducing the use of selected hazardous substances at all facilities each year, so that by December 31, 2006, there will be an overall reduction of 50 percent. In FY 2002, MARAD implemented a pre-screening process that effectively reduced the amount of hazardous substances (primarily chemicals) at its facilities by 20 percent.

Environmental Outreach

During FY 2002, the South Atlantic Region was fully engaged in environmental outreach efforts within the community. SAR employees played a significant role in volunteer events that enhanced environmental quality in the local community. SAR actively promoted and supported the "Great American Cleanup in Norfolk" campaign sponsored by the Norfolk Environmental Commission. The SAR office participated in several activities including a Clean Commute Day, Clean the Bay Day, Earth Day, and a clothing recycling/re-use event. For these efforts, the Norfolk Environmental Commission selected SAR to receive a 2002 Environmental Action Award.

Organizational Excellence

Strategic Business Plan and Industry Champions

It is a top priority of the Maritime Administrator that MARAD provides programs and services that actively help to improve the current state of America's maritime industry. To this end, the 40 employees that make up MARAD's leadership held a three-day retreat at Piney Point, Maryland, in early May. The resulting product, after three intense days of hard work, was the Strategic Business Plan.

As the Strategic Business Plan was developed to involve every employee, the Administrator took the unprecedented step of holding roll-out meetings to share and gain input on the Plan from all employees. During July, rollouts were held in Washington, D.C.; New Orleans, Louisiana; and Norfolk, Virginia. In August, a rollout was conducted in San Francisco, California, and finally, in October, a rollout was conducted at the USMMA. Much feedback has been gathered, and is being integrated where appropriate.

The Strategic Business plan states MARAD's mission is to "Strengthen U.S. maritime industries to support the economic and security needs of the nation."

Our core values are Excellence, Integrity, and Teamwork.

The Strategic Business Plan also outlined four goals, each with a champion who is responsible for seeing that the relevant action items and dates are accomplished.

The Associate Administrator for National Security is the goal champion for delivering relevant, value-added products and services. Accomplishments in FY 2002 with respect to this goal include the following:

- Integration of marine security into the curriculum at the USMMA, and development of programs on maritime security at the GMATS. Personnel from the New York City Police Department and port authorities in Florida have already taken the courses at GMATS.
- Meeting with stakeholders to refocus implementation of the STCW for seafarers.
- Reallocation of personnel resources for the Title XI ship financing guarantee program.

The Director of the Office of Human Resources is the goal champion for attracting, developing, and retaining a diverse, high-quality, motivated workforce. With this goal in mind, the Office of Management and Information Services and the Office of Human Resources implemented a restructuring initiative reducing headquarters divisions from 30 to 14, eliminating additional offices, and realigning certain functions. This initiative was in place to begin on October 1, 2002; MARAD was one of three DOT agencies able to report in September 2002 that it had results in working to become more citizen-centered and to de-layer its structure.

The Acting Deputy Administrator is the goal champion for building strong industry relationships based on trust and mutual respect. The first step in this area was the designation of senior agency officials as "industry champions" for the diverse array of maritime service providers and users. These industry champions will work with their external stakeholders to understand their requirements and plan for meeting their needs.

The Director of the Office of Congressional and Public Affairs is the goal champion for achieving leadership and recognition within the Government, Congress, public, and industry for maritime policies and programs. Progress toward this goal was marked by the following achievements:

- In August 2002, a successful course was held at the USMMA's GMATS to educate congressional staff on the maritime industry.
- A MARAD team in FY 2002 began developing a coordinated outreach and strategic plan that the Office of Congressional and Public Affairs will implement in FY 2003 that fully complements the MARAD Strategic Business Plan.
- Positive media coverage of the James River Reserve Fleet Turbo Activation in the *Baltimore Sun*.

The leadership of MARAD is continuing to ask for ideas from every member of the MARAD team to provide our stakeholders with the best products and services, as well as ways to free up MARAD's limited assets so that more resources may be devoted to items outlined in the Strategic Business Plan.

President's Management Agenda

The President's Management Agenda calls for addressing five Government-wide initiatives: Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanded Electronic Government, and Budget and Performance Integration.

Strategic Management of Human Capital

MARAD's leadership plans to increase employee satisfaction through greater recognition of employee contributions to the success of the organization. The Office of Human Resources and the Director of Civil Rights partnered to develop and coordinate the agency's first Executive Leadership Conference. The agency's top 40 leaders met at that conference and developed a three-year leadership strategy and action plan. The plan is anticipated to improve both employee effectiveness and satisfaction by focusing staff resources.

The Office of Human Resources and the Director of Civil Rights have also partnered to educate employees on personnel and civil rights issues and concerns. Over the last two years, MARAD's human capital has been a priority focus of this partnership, and a number of initiatives in the recently developed "Putting People First" initiatives closely align with the human capital goal of the President's Management Agenda.

Through collaborative efforts, a number of new human capital initiatives were developed to ensure that the agency has a high performing workforce equipped with the skills and resources needed to meet the challenges and opportunities of the 21st century. Both offices supported initiatives on workforce planning and succession planning. The “Employee of the Month” and “Peer of the Month” Awards were created. “The Administrator’s Corner,” which provides information for and about the MARAD team as well as current information on human resource trends, awards, and educational opportunities, also was created. In addition, the agency’s annual awards program was redesigned and held offsite for the first time.

MARAD’s employment totaled 888 at the end of FY 2002. During the year, we hired a total of 61 employees: 34 percent of the new hires were female; 23 percent were minorities, and eight percent were people with disabilities.

Two Career Opportunities Training Agreement Program (COTA), formerly Upward Mobility, positions were established. In addition, five cross-training positions were advertised under MARAD’s Career Enhancement Program, and two positions were advertised under the Department’s Rotational Assignment Program. Also, 51 applications were approved for tuition assistance through the MARAD Tuition Assistance Program.

MARAD employees received the following awards: One Senior Executive Service member received the Meritorious Presidential Rank Award, three employees received the Secretary’s Silver Medal, three received the Excellence Award, two received the EEO/Affirmative Action Award, and one received the Volunteerism/Community Service Award. In addition, 20 employees, as a group, received the Secretary’s Team Award, 15 employees received the Partnering for Excellence Award, and 10 MARAD employees received the Environmental Achievement Award. Thirteen employees received the Maritime Administrator’s Bronze Medal Award, and three received MARAD’s EEO Award in recognition of and appreciation for contributions made toward the furtherance of equal employment opportunity.

Mentoring Program

The MARAD’s Women’s Council, which is managed through the agency’s civil rights program, redesigned and implemented WAVES—Working to Achieve Your Vision of Excellence and Success–the agency’s mentoring program. The program was redesigned to more effectively align with current management and leadership philosophies, help the agency meet projected workforce needs, enable senior leaders and managers to share their institutional knowledge with future agency leaders, and improve the overall competency of the MARAD team. As of September 30, 2002, the WAVES committee, composed of volunteers from throughout MARAD, had achieved its goals of launching a timely kickoff, presenting appropriate training and assignments, and having 10 working pairs of mentors and protegees at various levels in the agency.

The program also will help meet diversity goals, improve employee morale, opportunities for advancement, and employee retention. The mentoring committee and its external partners, the Internal Revenue Service and the Office of Personnel Management, received the prestigious “Thanks A Million” Award for excellence from Secretary Mineta.

Director of Civil Rights

In addition to the collaborative activities outlined above, the Director of Civil Rights also developed a new Maritime Administrative Order, which addresses harassment and sexual harassment, and continued to support educational initiatives through its management of the Minority Serving Institutions Summer Internship Program. MARAD also continued providing support to Bradbury Heights Elementary School (in Prince George’s County, Maryland), MARAD’s adopted school in support of DOT’s educational initiative. In addition, the agency supported and commemorated special emphasis programs including Hispanic Heritage Month, Native American Heritage Month, Martin Luther King, Jr., Day, African American Heritage Month, Women’s History Month, and Asian American Pacific Islander Month.

Competitive Sourcing

To achieve efficient and effective competition between public and private sources, the Administration has committed itself to simplifying and improving the procedures for evaluating public and private sources, to better publicizing the activities subject to competition, and to ensuring senior-level agency attention to the promotion of competition.

In accordance with the Federal Activities Inventory Reform (FAIR) Act, agencies are assessing the susceptibility to competition of the activities their workforces are performing. MARAD submitted its FAIR Act inventory for FY 2002 in a timely fashion to the Office of the Secretary of Transportation for review and submission to the Office of Management and Budget (OMB). After OMB review, the inventories are made available to the public. Interested parties may challenge the omission or inclusion of any particular activity.

Agencies are developing specific performance plans to meet the FY 2002 goal of completing public-private or direct conversion competition on not less than five percent of the full-time equivalent employees (FTE’s) listed on the FAIR Act inventories. The performance target will increase by 10 percent in FY 2003. MARAD’s plan calls for studying its three NDRF sites. A contractor has been acquired to conduct the required OMB Circular A-76 study, so the competition of all FTE’s associated with the sites can be completed by September 30, 2003.

During the FY 2002 and FY 2003 period, MARAD is studying 149 commercial FTE’s on the FY 2001 FAIR Act inventory using the OMB Circular A-76 process. By the end of FY 2003, we will have competed 33 percent of MARAD’s commercial positions on the FAIR Act inventory, well ahead of the 15 percent target under the competitive sourcing initiative of the President’s Management Agenda, FY 2002.

Improved Financial Performance

MARAD’s Office of Accounting continues to enhance MARAD’s financial management systems and reengineer MARAD’s business practices to make full use of resources to provide efficient high-quality, cost-effective, and responsive services for achieving the Administration’s goals. MARAD’s focus is on upgrading the agency’s accounting systems, achieving clean-audit opinions on MARAD’s financial statements, and enhancing and expanding the uses of web-based accounting. MARAD has made significant progress on migrating from our current accounting systems to the Departmental accounting systems. For the last three fiscal years, MARAD successfully achieved clean-audit opinions, and received praise from two DOT Secretaries. MARAD has been actively participating as a pilot for testing and implementing the DOT-wide web-based travel management system.

On May 15, 2002, the Office of Financial Management, Office of the Secretary, approved MARAD's Delphi Implementation plan. MARAD will convert to DELPHI in April 2003. The implementation is presently on schedule.

Acquisitions/Grants

Acquisitions activities in FY 2002 combined the goal of improved financial management with that of expanded electronic government information technology and, in some cases, with important aspects of national security. The successful teaming with the USCG and the TSA to award 79 grants totaling approximately $92.3 million to improve and strengthen security at the Nation's ports is mentioned under National Security.

However, it is important in this context to emphasize that the grants were solicited, submitted, evaluated, awarded, and administered in a completely electronic and paper-free environment, and more importantly, completed in less than five months from announcement to award.

Other important achievements in the area of Acquisitions include the following:

- Vigorous pursuit of several PRDA's that resulted in innovative proposals from the maritime industry to dispose of the most environmentally at-risk vessels moored at the NDRF sites.
- Development of an innovative online training application for the Government purchase card program.
- Initiation of electronic acquisition management reviews, thereby significantly reducing the cost and resources required providing contract oversight.
- Electronic awarding and distributing of virtually all contracts, orders, and modifications valued at approximately $234 million.

Expanded Electronic Government Information Technology

MARAD has expanded its use of electronic information technology agency wide. Such achievements as administering the Port Security Grant Program and providing Internet-based information to shippers seeking U.S.-flag carriers are documented elsewhere in this annual report. MARAD's e-government initiatives have three broad elements: support of contract upgrades, new security requirements, and Enterprise Architecture (EA) implementation.

During FY 2002, MARAD implemented its own firewall on the web server to increase protection from unauthorized access to MARAD's Local Area Network (LAN) from the Internet. MARAD also implemented network-level security measures by integrating Cisco intrusion detection software on the LAN switching equipment. Finally, MARAD implemented host-level security protection on selected file servers. Taken together, the new security measures provide MARAD Headquarters LAN users with a multi-tiered security infrastructure. MARAD also continued to manage the anti-viral program and, once again, the agency avoided any serious damage from potentially disruptive virus attacks.

During the year, Information Resource Management developed MARAD's first net-based applications system, the Electronic Invoice System (EIS), which is now undergoing system-level testing. The system allows access to a protected EIS web site by system stakeholders via the Internet.

In the RRF program offices in headquarters and in the regional offices, MARAD completed a business process review that examined how the agency conducted business operations, where areas of improvement could be found, what the current IT systems provide, and what IT capabilities are needed to support the improved business process.

Following the business process improvement phases, IT requirements were developed to support the business process. The requirements for the RRF Management System (RMS) were completed in late summer 2002.

MARAD is required to complete its EA plan during 2003. The development of that plan is on track, and is expected to be successfully completed in a timely fashion.

Improvements made to the NDRF during FY 2002 also include the following:

- MARAD became the second government agency to implement a totally paperless property-disposal system, with the operational deployment of the Excess Material Management System. This system allows regions to electronically identify and process excess material for transfer or disposal. Disposal actions are electronically integrated with the General Services Administration (GSA).
- The newly designed MARAD Logistics Support System, which allows the agency to more effectively support commercial purchases, began its operational deployment.
- The RRF added 340,000 square feet of RO/RO deck space to help meet DOD lift requirements. The CAPE WASHINGTON was the last of seven ships in the project, and its deck expansion was completed in FY 2002.
- Funding was received for the ramp-enhancement project, which will provide RRF RO/RO ships with the capability to discharge cargo in stream instead of alongside a pier.
- Supply-support overhauls or upgrades were completed for nine ships; an additional four are in progress.
- Spare-part stow evolutions were completed for seven ships.
- Modernization was completed for the Personal Computer Shipboard Allowance List, the established RRF supply management program. Installation completed on 21 ships; set to continue in FY 2003.
- Automatic external defibrillators were provided on ships that are regularly crewed to improve the capability of helping crewmembers if they experience cardiac arrest.

Budget and Performance Integration

MARAD made substantial progress in integrating budget and performance during FY 2002.

During the spring and summer of 2002, MARAD prepared its first budget request to the Department for FY 2004 that integrated what has in previous years been separately presented as a performance plan within the budget. MARAD conducted its first annual performance planning meeting with senior management in early May 2002. This meeting was held in order to ensure that past results and future performance goals influenced the budget formulation process. The FY 2004 performance budget request that emerged at the end of this process describes how the requested funding will contribute to the achievement of both the DOT strategic and performance goals and the performance impact if the requested funds cannot be provided.

MARAD took steps during FY 2002 to use performance data to help make program and budget decisions and to improve program effectiveness. As a result, MARAD conducted its first quarterly performance review in October 2002, to discuss annual 2002 performance results for all MARAD output goals. In the future, MARAD plans to conduct quarterly performance reviews within 30 days of the close of each quarter.

These reviews are designed to facilitate discussions on program effectiveness, success in meeting existing output goals, suggestions for new output goals and measures, and identification of any additional opportunities to improve program efficiency. All senior managers participate in these reviews.

In July 2002, MARAD prepared a self-assessment to the Department that rated the agency's actual performance to date in this area at "yellow," and the agency's plans to achieve full compliance at "green."

Budget

The FY 2002-enacted appropriations provided $224.7 million for MARAD. This was $121 million more than the President's budget request. The House and Senate Appropriations Committees did not agree to the proposed transfer of the MSP to DOD and instead provided the full authorization and request level of $98.7 million to MARAD. The Committees provided the request level of $89 million for operations and training, and added $33 million for maritime guaranteed loan subsidy. No funds were included for the Ship Disposal Program.

For the second year, appropriations for operations and training included $13 million for much needed capital improvements at the USMMA. The Academy used the funds to make significant progress in the barracks and pier renovation projects, install new roofs, address environmental deficiencies identified by EPA, make renovations for compliance with the Americans With Disabilities Act, and accomplish numerous maintenance and repair projects, many of which were health- and safety-related.

The FY 2003 President's budget also included $11.2 million for the Ship Disposal Program. This program is one of MARAD's biggest concerns. The request would allow MARAD to dispose of some of the obsolete vessels that pose a severe environmental threat in the NDRF.

The FY 2003 President's budget was released to Congress in February 2002. The request totaled $211.6 million. In light of the need to focus scarce resources on homeland security after the attacks of September 11, 2001, the budget request maintains base level funding, and contains salary, and inflationary increases for all accounts.

Legal Services and Agency Decisions

Administrative Decisions

In FY 2002, the Maritime Administrator took a number of administrative actions to help strengthen the U.S. Merchant Marine. Significantly, the Maritime Administrator approved the use by Central Gulf Lines, Inc. of its third and final authorization under Section 615 of the Merchant Marine Act of 1936, as amended. The vessel covered by the authorization is a 52,200-deadweight ton multipurpose bulk vessel being built by Oshima Shipyard in Nagasaki, Japan. On delivery, the vessel was sold to Liberty Shipping Group Limited Partnership, and documented in the United States. Pursuant to the Section 615 authorization, the vessel was immediately eligible to transport cargoes reserved to privately owned U.S.-flag commercial vessels by the Cargo Preference Act of 1954, as amended. The Maritime Administrator also approved several replacements for MSP vessels covered by MSP operating agreements. In particular, Maersk Line, Limited was given permission to substitute four containerships in its MSP operating agreements. All of the militarily useful substituted vessels are from three to ten years newer than the vessels being replaced with one-third faster speed and over double the capacity.

Rulemaking

MARAD's regulations are contained in Chapter II of Title 46 of the *Code of Federal Regulations*. Actively engaged in rulemaking throughout the reporting year, MARAD published three final rules. One final rule (Part 221) implemented statutory requirements to refuse approval of vessel transfer to a foreign registry when the vessel's fishery endorsement has been revoked under the Secretary of Commerce's fishing capacity reduction program. A second final rule (Part 298) implemented the recently enacted Section 1109 of the Merchant Marine Act, 1936, as amended. The final rule allows the Secretary of Transportation to hold funds from Title XI obligors as collateral by depositing them with the United States Treasury, and investing them in Treasury obligations. A third final rule (Part 356) allows MARAD to waive procedural requirements of the American Fisheries Act in order that non-material discrepancies in a vessel's documentation would not arbitrarily cause vessel owners to lose their fishery endorsement.

International

MARAD's Office of the Chief Counsel provided leadership in an ambitious undertaking at the United Nations' ILO. The goal of this project is to complete and ready for adoption in FY 2005 a single unified instrument incorporating relevant provisions (updated as appropriate) of more than 60 current ILO conventions dealing with maritime labor issues. The Office of the Chief Counsel also continued to participate actively in negotiations at the United Nations' Committee on International Trade Law (UNCITRAL) on the development of a new international cargo liability regime to reflect modern transportation practices. In addition, legal advice was provided concerning detailed maritime derogation questions raised by the Consulate of the Russian Federation, and ongoing negotiations concerning the Understanding on

Rules and Procedures Governing the Settlement of Disputes (Annex 2 to the April 14, 1994, Marrakesh Agreement Establishing the World Trade Organization), and in advance of U.S. negotiations dealing with numerous free trade agreements. Particular emphasis was placed on free trade talks with Singapore and the Free Trade of the Americas discussions.

RRF Claims Settlement

MARAD continued to act as the personal injury claims agent for Government-owned RRF vessels in FY 2002. Seventeen administrative claims for damages were presented during the fiscal year. Five claims were settled administratively, resulting in monetary awards of $18,500. In addition, MARAD's ship managers reported claims pending that were expected to be settled within their independent settlement authority. During FY 2002, MARAD records reflect eight litigated personal injury cases were resolved with assistance from MARAD, resulting in monetary awards to the plaintiffs totaling approximately $980 thousand.

American Fishery Act

Implementation of the new citizenship requirements of the American Fishery Act (AFA), which became effective October 1, 2001, continued. The AFA requires MARAD to examine the ownership structure of certain vessels that desire to operate within the fisheries of the United States in order to ensure 75 percent of the ownership and control of each vessel is vested in U.S. Citizens. In FY 2002, the AFA resulted in the designation of approximately 500 vessels as being owned and controlled by United States citizens.

Determinations were not issued on petitions that related solely to the interests of a mortgagee as the requirements to hold a preferred mortgage on fishing industry vessels were subsequently amended.

The Supplemental Appropriations Act, 2001, Public Law 107-20, amended the requirements to hold a preferred mortgage on fishing industry vessels of 100 feet or greater in registered length, and instructed MARAD not to consider the citizenship of a lender, in its capacity as a lender, in determining the eligibility of a vessel owner to document a vessel with a fishery endorsement prior to April 1, 2003. Consequently, MARAD initiated the process of amending regulations to implement various changes enacted as part of the Supplemental Appropriations Act.

In August of 2002, MARAD published a Notice of Proposed Policy Review with a request for comments in the *Federal Register* (67 *FR* 50406). The rule at issue, 46 *C.F.R.* § 221.13, grants general prior approval of time charters and other forms of temporary use agreements to persons who are not United States citizens. MARAD is currently reviewing public comments received on the policy.

A suit brought by Victory Maritime, Inc. challenged an interpretation adopted by the AID of Section 901(b) of the 1936 Act. MARAD concluded that, under Section 901(b), 75 percent U.S.-flag percentage of cargo preference must be applied by vessel type (namely, "dry cargo liner," "dry bulk carrier," and "tanker") and geographic area, specifically on a country-by-country basis. The Department of Justice agreed, and the case is administratively closed pending promulgation of clarifying regulations by MARAD.

The Coast Guard Authorization Act for FY 1998 authorized MARAD to grant waivers of the U.S.- build requirement for coastwise trade to permit foreign-built small passenger vessels to carry 12 or fewer passengers in coastwise trade. That authority expired on September 30, 2002. Prior to the expiration, MARAD granted about 240 such waivers.

Ship Financing

MARAD issued eight commitments to guarantee obligations covering the financing, in part, of 22 vessels being constructed in U.S. shipyards. Those commitments included one passenger vessel, two liftboats, one offshore drilling unit, six double-hull tank barges, 11 ferries, and one commitment for dry-dock reconstruction. The aggregate amount of these commitments was $225,355,000.

In addition, there were closings on seven commitments to guarantee obligations covering the financing, in part, of 80 vessels: 62 covered hopper barges, one cruise vessel, two liftboats, one offshore drilling unit, four double-hull tank barges, two passenger catamarans, four passenger monohulls, and four articulated tug/barge units. These seven commitments were for an aggregate amount of $355,632,000.

The dispute of Project America Ship I (PASI) and its parent company American Classic Voyages, Inc. (AMCV) with the Northrop Grumman Ship Systems, Inc. (formerly Ingalls Shipbuilding, Inc.) continued into FY 2002. Extensive negotiations failed to resolve the dispute, and AMCV encountered financial difficulties.

On October 19, 2001, AMCV and many of its subsidiaries filed for reorganization under Chapter 11 of the Bankruptcy Code. The Title XI debt of PASI and most of the Title XI debt of AMCV defaulted. MARAD was forced to pay $187.3 million to honor its PASI guarantee, and $142.3 million on its guarantees of four AMCV subsidiaries. MARAD's security for PASI was the partially completed hull under construction at the shipyard. The shipyard entered into a contract to sell the hull and agreed to remit the proceeds of the sale, less the reasonable costs of disposing of the hull, to MARAD. MARAD's security for AMCV's other Title XI debt was mortgages on four cruise ships, plus a security interest in an almost completed cruise ship. On May 6, 2002, the Bankruptcy Court affirmed the assumption of the Title XI debt on the American Queen. MARAD plans to sell the four remaining vessels.

During FY 2002, Friede Goldman Halter, Inc. and its subsidiaries (collectively, FGO) remained debtors under Chapter 11 of the Bankruptcy Code. FGO's assets include shipyards in Mississippi and Texas, where MARAD was financing construction of two deepwater drilling rigs for Petrodrill and a car carrier for Pasha Hawaii Transport Lines (PASHA). Construction on these vessels halted as a result of the bankruptcy.

The Firemans Fund performance bond for Petrodrill paid a cash settlement of over $115 million to settle the Petrodrill claims and the rigs were moved to Cianbro Corporation in Portland, Maine, where they are currently being completed with the insurance proceeds and the remaining Title XI funds. MARAD and PASHA brought suit to compel Travelers Surety Companies to perform its surety obligations so that the vessel can be completed. In addition, FGO itself owes Title XI debt of $20.3 million in connection with a shipyard improvement loan. MARAD is negotiating with FGO on the disposition of this shipyard.

During FY 2002, the bankruptcy of Massachusetts Heavy Industries, Inc. and MHI Shipbuilding, LLC (collectively MHI) continued until March 2002, when it was dismissed by the Bankruptcy Court. MARAD is foreclosing on the shipyard land and equipment, and anticipates conducting a foreclosure auction on January 16, 2003.

Legislation

On November 28, 2001, the President signed into law the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act for Fiscal Year 2002. The Act appropriated $98.7 million for the MSP, slightly over $89 million for MARAD's operations and training, and approximately $33.9 million for the Title XI loan guarantee program. Concurrently, the measure rescinded $4.4 million of unobligated balances for ship construction.

On December 28, 2001, the President signed the National Defense Authorization Act for FY 2002. Title XXXV of the Act sets forth the authorization of appropriations for MARAD's operations and training and for loan guarantees under Title XI of the Merchant Marine Act, 1936. The measure also amended Title XI of the Merchant Marine Act, 1936 to permit the Secretary to hold and invest Title XI project collateral funds in the U.S. Treasury.

The new provision results in a more uniform process for perfecting security interests, and saves time and money for both the government and the loan guarantee applicants. The FY 2002 authorization of appropriations also further defined the term "war risks" under Title XII of the Merchant Marine Act, 1936 to include confiscation, expropriation, nationalization, and deprivation of vessels.

On January 10, 2002, the President signed into law the Department of Defense Appropriations Act for Fiscal Year 2002. Among other things, the act appropriated to the TSA $93.3 million for grants to enhance seaport security. Pursuant to the law, grants were awarded based on individual port needs as determined by the Under Secretary of Transportation for Security, the Maritime Administrator, and the Commandant of the Coast Guard.

On August 2, 2002, the President signed into law the 2002 Supplemental Appropriations Act for Further Recovery From and Response to Terrorist Attacks on the United States. The bill appropriated $125 million for port security activities to the TSA. The provision making the appropriation stated that the funds were to be distributed under the same terms and conditions as provided for under the Department of Defense Appropriations Act for Fiscal Year 2002.

At the close of FY 2002, Congress had not completed work on MARAD's annual appropriations for FY 2003. H.R. 4546, the National Defense Authorization Act for Fiscal Year 2003, passed the House on May 10, 2002, and contained MARAD's annual authorizing provisions in Title XXXV of the bill. In addition to provisions authorizing Title XI and operations and training, the bill contains provisions to authorize the transfer of an obsolete vessel of the NDRF to a museum, allow the Secretary to provide financial assistance to States that seek obsolete vessels for artificial reefs, and authorize the Secretary to seek independent analysis on Title XI loan guarantee applications. The Senate counterpart of H.R. 4546 does not contain MARAD-related provisions. The bills await action by the conference committee.

At the close of the fiscal year, MARAD appropriations for FY 2003 were also not finalized. On July 24, 2002, the Senate Appropriations Committee reported out S. 2778, the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act for Fiscal Year 2003, which contains MARAD appropriations for FY 2003. The bill saw no further action in either house prior to the end of FY 2002.

Similarly, work on the Department of Defense Appropriations Act for Fiscal Year 2003 was not completed during FY 2002. On October 23, 2002, the President signed the measure into law, which contains $20 million for the disposal of obsolete NDRF vessels in the James River. .

Although FY 2002 saw a significant amount of other maritime legislative activity, no other maritime-related bills were signed into law.

Litigation

In FY 2002, MARAD faced a variety of litigation challenges before federal courts, administrative boards, labor arbitrations, and in matters involving different government agencies. Most cases dealt with traditional litigation such as contract disputes, personnel actions, environmental litigation, personnel injury claims and suits, civil rights cases, vessel accident litigation, and general litigation issues relating to the application of maritime laws.

MARAD attorneys continue to provide substantive legal support to the Department of Justice in handling litigation involving MARAD. Additionally, they worked with the DOD on developing the legal framework for ordering Merchant Marine Reserve Officers aboard the NDRF, enforcing the service obligations of graduates of the maritime academies, and were active in negotiations with State and Federal agencies on environmental issues.

The focus remains on resolving cases without taking the matters through to trial. In coordination with MARAD's Director of Civil Rights and Office of Human Resources, many disputes continue to be resolved well before they reach the formal complaint stage. Through mediation and negotiation, matters that could grow into complaints have been resolved often to the satisfaction of all parties concerned. Most of these cases have involved personnel and civil rights issues. However, complicated contract cases and environmental litigation were also successfully resolved through negotiation.

At the end of FY 2002, MARAD continues to defend itself in comprehensive environmental response compensation and liability cases. The most financially significant of these cases arise out of the operations of MARAD's predecessor agencies during World War II in constructing vessels. However, this area of litigation is declining.

MARAD also was involved in approximately 2,000 cases dealing with asbestos-related injuries. MARAD continues to assist the Department of Justice in preparing these cases, although most of these matters are administratively stayed by a district court decision.

During the fiscal year, there was a significant amount of litigation relating to the cargo preference program. While some of this litigation has been resolved, several significant matters are still pending. Of particular importance in this regard is the decision of the Department of Justice adopting as the legal position for the federal government much of the Agency's legal position on cargo preference.

In the civil rights field, the U.S. Court of Appeals for the Fifth Circuit recently affirmed a Federal District Court's summary dismissal of a pending case. Another case is currently pending trial in Federal District Court. This case involves a challenge, based on the Rehabilitation Act, to an Agency termination of employment for inability to perform the duties of the position, and is scheduled to go to trial in May 2003.

A number of matters were also litigated before the Equal Employment Opportunity Commission (EEOC). Two of these were resolved through the alternative dispute resolution process. Another was resolved in conjunction with the EEOC administrative judge. However, that settlement is currently under challenge by the complainant. Presently, there are three matters either under investigation or awaiting an order from the EEOC setting an administrative hearing.

During the reporting period, two Merit Systems Protection Board (MSPB) cases were concluded. Another MSPB case is currently pending trial.

Two cases involve contract litigation. One case is a maritime lien claim by an unpaid subcontractor. The second involves a contract dispute between a ship manager and a subcontractor. In both cases, the agency sought to have the complaints dismissed or stayed by compelling the parties to the contract to arbitrate their disputes without the involvement of the agency. The second matter was successfully resolved through negotiations.

At the end of the period, approximately 16 personal injury claims were pending in Federal District Court or on appeal. Most of these claims involved seamen injured aboard Agency vessels. However, some involved individuals, such as longshoremen, invitees, etc. who were not entitled to seafarer status. There is a continued trend of a declining number of cases in this area. This is attributable to increased safety efforts by the Agency, as well as a reduction in the number of days of operations by the RRF. In the event of multiple vessel activations, this trend can be expected to reverse upwards.

Full litigation support is also provided for cases arising out of Agency actions and programs, such as those brought under the Federal Tort Claims Act (FTCA), the Suits in Admiralty Act, the Public Vessels Act, and the Administrative Procedures Act. FTCA litigation has primarily centered on automobile accident cases. At the close of the fiscal year, the Agency had pending before it for administrative determination or in litigation 16 claims brought under the FTCA.

Accounting

The draft financial statements will be available by November 30, 2002. The audited financial statements will be available by January 31, 2003.

Audits

In FY 2002, DOT's Office of the Inspector General (OIG) and the General Accounting Office (GAO) started audit work or submitted principal final reports of interest to MARAD activities as follows:

OIG

"Information Technology Omnibus Procurement Program - DOT" (Report No. FI-2002-089, Dated: April 15, 2002) File 10-301

"Title XI Loan Guarantee Program – MARAD" (Work Underway – Project No. 02M1001M000, Notification Letter Dated: November 6, 2001) File 10-303

"Top Management Challenges Facing DOT" (Work Underway – No Project Number Issued, Notification Letter Dated: December 21, 2001); Comments from Captain Schubert (Dated: January 11, 2002) File 10-304

"Energy Management and Conservation Program – DOT" (Work Underway – Project No. 02F30077F000, Notification Letter Dated: February 25, 2002) File 10-305

"FY 2002 Financial Statements – DOT" (Work Underway – Project No. 02F3012F000, Notification Letter Dated: March 13, 2002) File 10-306

"Cost Accounting Systems for DOT Operating Administrations" (Work Underway – Project No. 02F3013F000, Notification Letter Dated: March 25, 2002) File 10-307

"Protection of Web Systems" (Work Underway – Project No. 0F3002F000, Notification Letter Dated: May 14, 2002) File 10-308

"Government Travel Charge Cards, DOT" (Work Underway – Project No.02F301F000, Notification Letter Dated: July 2, 2002) File 10-309

"Spending Money From Treasury Miscellaneous Receipts Accounts – DOT" (Final Audit Report No. FI-2002-102, Dated: September 12, 2002) File 10-310

GAO

"Federal Invasive Species Strategies" (Work Underway – Job Code 360158, Notification Letter Dated: November 15, 2001) File 11-388

"USCG's Maritime Security Efforts"(Work Underway – Job Code 544021, Notification Letter Dated: December 5, 2001) File 11-389

"MARITIME TRANSPORTATION: Federal Financing and a Framework for Infrastructure Investments"(GAO Final Report No. GAO-02-1033, Issued: September 9, 2002) File 11-390

"Chemical Demilitarization Program – Lessons Learned" (Work Underway – Job Code 350133, Notification Letter Dated: January 9, 2002) File 11-391

"Agency Implementation of the Federal Civil Penalties Inflation Adjustment Act (28 USC 2461)" (Work Underway – Job Code 450105, Notification Letter Dated: March 19, 2002) File 11-392

"Effective Strategic Workforce Planning"(Work Underway – Job Code 450100, Notification Letter Dated: April 22, 2002) File 11-393

"Efforts to Safeguard Overseas Containers Destined for the U.S."(Work Underway – Job Code 320106, Notification Letter Dated: May 13, 2002) File 11-394

"Progress in Federal Adoption of Smart Card Technology" (Work Underway – Job Code 310433, Notification Letter Dated: May 13, 2002) File 11-395

"Title XI Maritime Loan Guarantee Program – MARAD" (Work Underway – Job Code 250087 Notification Letter Dated: June 10, 2002) File 11-396

"Performance and Accountability – DOT" (Job Code 542006, Notification Letter Dated: June 14, 2002) File 11-397

"Information Sharing for Commercial and Military Seaport Security" (Work Underway – Job Code 350240, Notification Letter Dated: July 12, 2002) File 11-398

"RSPA's Efforts to Coordinate Intermodal Research Activities Throughout DOT" (Job Code 838054, Notification Letter Dated: August 29, 2002) File 11-399

"Information Returns for Vendors" (Job Code 440132, Notification Letter Dated: September 4, 2002) File 11-400

"Assessment of Federal Assistance in Response to the September 11th Terrorist Attacks" (Job Code 544046, Notification Letter Dated: September 5, 2002) File 11-401

Outreach

Part of the mission of the Maritime Administration (MARAD) is promotional, promoting the development and maintenance of the U.S. merchant marine and maritime industries. Outreach is, therefore, an important part of MARAD's work, both on a formal and informal basis.

Ship Operations Cooperative Program (SOCP)

The Ship Operations Cooperative Program (SOCP) is an industry-government partnership to enhance the U.S. maritime industry. It began ten years ago, as a result of a MARAD workshop for the U.S. shipping industry and selected government organizations, and MARAD is still its sponsor. SOCP started with five members; it now has 93, including ship operators, ship managers, shipyards, ship designers, maritime suppliers, marine insurance companies, educational/training organizations, and U.S.-based international ship classification societies.

SOCP conducts initiatives in such areas as industry improvement, facilitating dialogue on industry and regulatory issues, and the testing and evaluation of new technology and products. SOCP was working on its Smart Card Project for Mariner Identification even before the events of September 11, 2001, brought port security issues to the fore. As a result, a pilot project is being developed with costs being shared by MARAD and SOCP.

SOCP has done important work in the formulation of STCW. SOCP was a key player in evaluating STCW impacts on the industry, and recommended to the USCG possible STCW implementation strategies.

SOCP meets at least twice a year, and portions of its meetings are broadcast on the Internet.

Education Outreach

Garrett A. Morgan Technology and Transportation Futures Program

MARAD works with DOT's Garrett A. Morgan Technology and Transportation Futures Program to stimulate interest in transportation careers and furthering education in today's youth.

MARAD co-chairs the Internet advisory group for the Morgan Program. This group develops and maintains the DOT site (http://education.dot.gov), and supports other activities. In FY 2002, the Internet advisory group featured a DOT website contest for high school students. Secretary Mineta kicked off the contest in an event with a local high school.

University Transportation Centers (UTC's)

MARAD assisted DOT's Research and Special Programs Administration (RSPA) in reviewing proposals for continued program funding for 17 of the UTC's. These UTC's have been a great asset to the advancement of transportation education and research in the U.S. MARAD again assisted the Rhode Island UTC with evaluation of proposed research and development efforts for the coming year.

Maritime Education and Training Outreach

Consonant with the Agency's strategic planning for outreach, an initiative with secondary schools and pre-undergraduate programs in careers afloat and shipyard employment was explored. The purpose of this activity is to aggressively promote student interest in maritime careers. The goal is to create alliances of key people who will have tangible effects on improvement of the understanding and relationship that schools can have with the maritime industry.

As an example, MARAD is partnering with the MSC to provide platforms for training and sea experience. With regard to shipyard training, discussions are underway with members of the National Shipbuilding Research Program (NSRP) to establish a cooperative program that would foster utilization of consensus-based shipyard employment skills standards at traditional shipbuilding sites. This program is also intended to benefit inner-city high schools near the shipyard sites.

Research Promotion and Outreach

Ship Maneuvering Research in Houston Ship Channel

Data gathering research work proposed by the MARAD-chaired Society of Naval Architects and Marine Engineers (SNAME) Panel H-10 (Ship Controllability) and sponsored by the U.S. Army Corps of Engineers was completed. The data gathered included vertical measurements of the ship's location relative to the bottom providing systematic measurements never before available for modeling the movements of vessels in shallow and restricted waters.

TRB Workshop Session "Human Factors in Transportation"

MARAD co-chaired a day-long session entitled "Effectiveness of Simulation for Training: Advanced Instructional Technologies" at the Human Factors in Transportation Workshop sponsored by the Transportation Research Board (TRB). The session examined the effectiveness of training and education through simulation, computer-based training, distance learning, virtual learning, mentoring, and other advanced instructional technologies in different transportation modes.

IMO Ship Maneuvering Requirements

The Design and Equipment Subcommittee of the IMO finalized minimum performance standards and their guidelines for ship controllability. These standards involve capabilities in deep and unrestricted waters, and have been under evaluation for about seven years. The resulting standards will become official recommendations to national governments upon formal approval by the IMO Maritime Safety Committee. MARAD through chairmanship of Panel H-10 provided industry-wide support to the USCG who leads U.S. participation at IMO.

Aquatic Plant Remote Sensing Project

MARAD assisted with the DOT-sponsored remote sensing effort with the management of a project to explore the utility of sensing growth of aquatic plants. The ability of satellite photographs to detect the extent and trend of growth of water hyacinths was accomplished successfully. Photographs before and after cutting of water hyacinths on a stretch of the Rio Grande River showed an excellent degree of effectiveness in detection when compared with field surveys in identifying the plant and its coverage of the waterway.

Maritime Day Awards

On Maritime Day, May 22, 2002, MARAD hosted a ceremonial observance at the Navy Memorial in Washington, DC. The focus this year was “Honoring Living Heroes of the U.S. Merchant Marine,” and video presentations highlighted the contributions made by merchant mariners in World War II, the Korean and Vietnam conflicts, the Persian Gulf War, and on September 11, 2001. According to the Captain of the Port of New York, between half a million and a million people were evacuated by water from Lower Manhattan.

Contributions of the maritime community, including Kings Point midshipmen, included pumping most of the water to fight the fires, and providing transportation for rescue workers and supplies at a time when most of the city’s other modes of transportation could not function.

Individuals representing each group of mariners received an award from the Maritime Administrator. Those at the gathering included representatives from Congress, industry, unions, and government.

Maritime Heritage Outreach

Obsolete parts and equipment from ships that are marked for disposal are made available to memorial ship organizations to help preserve the operational or historical character of vessels. During the year, 130 transfers were completed, totaling approximately 2,500 items. The memorial ships JEREMIAH O’BRIEN, RED OAK VICTORY and Battleship USS MASSACHUSETTS were among the recipients. Long-term loans of historical artifacts for public display are also made available to specific organizations; currently, 586 items are on long-term loan. Special legislation allows donation of vessels for specific historical purposes. No ships were donated during the year; however, one donation (GLACIER to Glacier Society) was prepared during the year and transfer is anticipated in early FY 2003.

Customer Satisfaction Program

In 1998, as a result of Executive Order No. 12862, a MARAD Customer Satisfaction Committee was formed. The Committee consists of a representative from each MARAD program office. In 1999, the Committee developed two forms: 1) the Customer Service Questionnaire (CSQ), a mechanism to evaluate the perception of how MARAD conducts business, and 2) the Program Performance Survey (PPS), which identifies areas for improvement in program service or product delivery and to monitor the overall level of customer satisfaction. All major MARAD programs are evaluated on a three-year cycle. In 2000, a third form was developed, the Conference/Exhibit Survey , which is used to evaluate MARAD’s performance at MARAD-sponsored and cosponsored conferences and exhibits in which MARAD participates.

The *Maritime Administration Customer Satisfaction Report - August 2002* was published, and is currently available on MARAD’s web site (www.marad.dot.gov) under the customer service link.

FINANCIAL STATEMENTS

U.S. DEPARTMENT OF TRANSPORTATION—Maritime Administration

Exhibit 1. Statement of Financial Condition
September 30, 2002 and September 30, 2001

	September 30	
ASSETS	**2002**	**2001**
Selected Current Assets		
Funded Balances with Treasury:		
Budget Funds	$751,596,000	$ 803,500,000
Deposit Funds	1 0,000	10,000
	751,606,000	803,510,000
Federal Security Holdings	276,291,000	86,125,000
Accounts Receivable:		
Government Agencies	181,156,000	170,236,000
The Public184,000		
	181,156,000	170,420,000
Advances To:		
Government Agencies		
The Public		
Total Selected Current Assets	**$ 1,209,053,000**	**$1,060,055,000**
Loans Receivable:		
Repayment in Dollars	470,325,605	128,228,000
Allowances ()	**(381,570,605)**	**(90,840,000)**
	88,755,000	37,388,000
Real Property and Equipment:		
Land	3,962,000	3,962,000
Structures and Facilities	54,548,687	56,470,000
Equipment, Vessels, Inventory	300,088,313	292,849,000
Leasehold Improvements	**0**	**0**
	358,599,000	353,281,000
Total Other Assets	**$447,354,000**	**$390,669,000**
Total Assets	**$1,656,407,000**	**$1,450,724,000**

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

FINANCIAL STATEMENTS

U.S. DEPARTMENT OF TRANSPORTATION—Maritime Administration

Exhibit 1. Statement of Financial Condition
September 30, 2002 and September 30, 2001

	September 30	
LIABILITIES	**2002**	**2001**
Selected Current Liabilities (Note 2)		
Accounts Payable		
(Including Funded Accrued Liabilities):		
Government Agencies	$ 428,582,000	$ 440,832,000
The Public	**278,870,000**	**45,279,000**
	707,452,000	486,111,000
Accrued Liabilities for Loan Guaranteed	383,993,000	400,359,000
Unfunded Liabilities:		
Environmental Liabilities	372,500,000	320,000,000
Other Liabilities	21,605,000	93,557,000
Federal Employee's Benefits Payable	17,389,000	22,182,000
	411,494,000	435,739,000
Total Selected Current Liabilities	1,502,939,000	1,322,209,000
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	**$ 1,502,939,000**	**$ 1,322,209,000**
Government Equity		
Unexpended Budget Authority:		
Unobligated	256,084,000	24,325,000
Undelivered Orders	239,660,000	309,183,000
	495,744,000	333,508,000
Unfinanced Budget Authority ()		
Unfilled Customer Orders	(114,362,000)	0
Contract Authority		
	(114,362,000)	0
Invested Capital	(227,914,000)	(204,993,000)
Total Government Equity	**$153,468,000**	**$128,515,000**
Total Liabilities and Government Equ ity	**$1,656,407,000**	**$1,450,724,000**

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

FINANCIAL STATEMENTS
U.S. DEPARTMENT OF TRANSPORTATION—Maritime Administration

Exhibit 2. Statement of Financial Condition	**Year Ended September 30**	
	2002	**2001**
OPERATIONS OF THE MARITIME ADMINISTRATION		
Net Costs of Operating Activities		
Reserve Fleet Programs:		
Maintenance and Preservation	$ 4,412,000	$ 3,903,137
Direct Subsidies and National Defense Costs:		
OperatingDifferential	5,088,000	27,130,769
Ocean Freight Differential	54,331,000	141,005,726
Title XI Credit Reform Program And Financing Fund	130,280,000	211,245,633
Maritime Security Program	96,192,000	98,405,136
Administrative (includes Financial Assistance to State Maritime Schools, School ships, Student Incentive	89,286,000	82,049,000
Other Operating Income Net of Expenes	**362,672,000**	**302,700,599**
Net Cost of Maritime Administration	**$742,261,000**	**$866,440,000**
Operations of Revolving Funds (-Income):		
Vessel Operations Revolving Fund	(319,946,000)	(410,710,746)
War Risk Revolving Fund	(1,958,000)	(1,560,068)
Construction Differential Fund	(1,884,000)	(2,167,645)
Federal Ship Financing Fund	(384,000,)	(1,739,276)
Gifts and Bequests	(97,000)	(1,321,865)
Special Studies	(3,000)	(18,400)
	(324,272,000)	(417,518,000)
Net Cost of Combined Operations	**$417,989,000**	**$448,922,000**

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

Report to Congress Funds Administered by the Maritime Administration Not appropriated to the Maritime Administration 1st Quarter, Fiscal Year 2003

Accounts Funds are Credited to	Fund Source	Intended Use	Amount
Vessel Operating Revolving Fund (VORF)			
VORF	U.S. Department of the Navy	1st Quarter – CHESAPEAKE Operations and port security	4,236,940
VORF	U.S. Department of the Navy	1st Quarter – GOPHER STATE Operations and port security	4,135,000
VORF	U.S. Department of the Navy	1st Quarter – PETERSBURG Operations and port security	4,179,060
VORF	U.S. Department of the Navy	1st Quarter – CAPE JACOB Operations and port security	6,881,818
VORF	U.S. Department of the Navy	Naval reserve training aboard CAPE GIBSON	2,500
VORF	U.S. Department of the Navy	Emergency sustainment – CAPE HENRY	2,243,136
VORF	Bureau of Labor Statistics	Monthly import and trade data	2,500
VORF	Bureau of Economic Analysis	Monthly data to BEA	18,000
VORF	U.S. Department of the Navy	Continue No Notice Activation Test – TURBO 02-04	428,000
VORF	U.S.Army	1176th CAPE WASHINGTON for Training	1,250
VORF	U.S. Department of the Navy	Training on the SS CAPE GIBSON or CAPE GIRARDEAU	2,500
VORF	U.S. Department of the Navy	Project Enduring Freedom activation/deactivation of CAPE JOHNSON & CAPE JOHN	700,000
VORF	U.S. Department of the Navy	Project Enduring Freedom activation/deactivation of CAPE JOHNSON & CAPE JOHN	4,460,000
VORF	U.S. Department of the Navy	Project Enduring Freedom activation/deactivation of CAPE GIBSON	2,501,235
VORF	U.S. Department of the Navy	CAPE JACOB Dry Docking	300,000
VORF	U.S. Department of the Navy	Training on the CAPE GIRARDEAU	2,500
VORF	Military Sealift Command (MSC)	Officer Training for MARAD RRF Officers (USN)	46,000
VORF	Department of the Navy	Funding provided for two Aviation Logistics Support Ships (TAVBs) for certain equipment installations upgrades	170,000
VORF	Navy Engineering Logistics Office (NELO)	Operations and maintenance of a training vessel	450,475
VORF	U.S. Department of the Navy	Funding provided for the National Defense Sealift Fund for the operation and maintenance of the National Defense Reserve Fleet Ready Reserve Force (salary support costs shown in Oper. and Training (O&T))	205,649,000
VORF	U.S. Department of the Navy	Funding for the operation of the CAPE TRINITY	300,000
VORF	U.S. Department of the Navy	CAPE JOHNSON, exercise	910,000
VORF	U.S. Department of the Navy	CAPE JOHN, exercise	840,000
VORF	U.S. Department of the Navy	Funding provided for two Aviation Logistics Support Ships (TAVBs) for reefers, office and medical equipment	80,000
Total Vessel Operating Revolving Fund (VORF)			**238,539,914**

Report to Congress Funds Administered by the Maritime Administration Not appropriated to the Maritime Administration 1st Quarter, Fiscal Year 2003 (Continued)

Accounts Funds are Credited to	Fund Source	Intended Use	Amount
Operations and Training (O&T)			
O&T	Naval Sea Systems Command (NAVSEA)	First Quarter Inactive Fleet Maintenance – salary support	131,250
O&T	United States Marines	Training aboard USNS PATRIOT STATE	10,100
O&T	United States Army	Training aboard Ready Reserve Fleet (RRF) vessel	1,250
O&T	Bureau of Econ. Analysis (BEA)	Monthly data to BEA	18,000
O&T	U.S. Department of the Navy	Project Enduring Freedom activation/deactivation of CAPE JOHNSON & CAPE JOHN (salary support)	100,000
O&T	DOT/Research and Special Programs Admin. (RSPA)	Conduct research of new vessel technologies that can reduce pollution and develop a comprehensive database of waterborne fleet	53,000
O&T	Space and Naval Warfare Systems Command	Ship Tracking and Routing System (STARs)	150,000
O&T	U.S. Department of the Army Reserve fleet	Annual custody of the STURGIS at the James River	23,000
O&T	TRANSCOM	Cooperative advanced logistics research and development	100,000
O&T	U. S. Coast Guard (USCG)	Assist in funding contract to develop and maintain an electronic grants system for the Port Security Grants Program	252,000
O&T	U.S. Department of the Navy (USN)	Salary support costs from the National Defense Sealift Fund for the operation and maintenance of the National Defense Reserve Fleet Ready Reserve Force	35,889,000
O&T	DOT/OST	Information Tech. Support Services, OST Civil Rights	6,000
O&T	USCG	Mooring of USCG ships at the Suisan Bay Reserve Fleet	11,000
O&T	USCG	Marine Board Support	99,000
Total Operations and Training (O&T)			**36,843,600**
Gifts and Bequests Trust Fund (GF)			
GF	USMMA (1/4 of 2002 actual)		534,369
Total Gifts and Bequests Trust Fund (GF)			**534,369**
Global Maritime and Transportation School (GMATS)			
GMATS	USMMA Global Maritime and Transportation (GMATS) Program (Non-appropriated) from tuition paid by trainees	The mission of the U.S. Merchant Marine Academy GMATS is to offer leading-edge education and training to maritime and transportation professionals. The GMATS program is a "non-appropriated fund instrumentality" (NAFI) of the U.S. Merchant Marine Academy generating funds through tuition, meal and lodging fees. (1/4 of 2002 actual)	1,198,750
Total Global Maritime and Transportation School (GMATS)*			**1,198,750**

* This amount was derived from the Income Statements provided by the GMATS program. These figures have not been audited by an accounting firm.

Report to Congress Funds Administered by the Maritime Administration Not appropriated to the Maritime Administration 1st Quarter, Fiscal Year 2003 (Continued)

Accounts Funds are Credited to	Fund Source	Intended Use	Amount
Special Studies, Services, and Projects Trust Fund (SSSP)			
SSSP	U.S. Department of the Army Corp of Engineers (USACE)	The other flow of funds into MARAD that does not involve reimbursable agreements comes from the sale of data and data products, primarily from the MAnRAD/USACE produced United States Foreign Waterborne Statistics (USFWTS) program. (1/4 of 2002 actual)	7,738
Total Special Studies, Services, and Projects Trust Fund (SSSP)			**7,738**

Summary Quarter 1, 2003

Total Vessel Operating Revolving Fund	**238,539,914**
Total Operations & Training	**36,843,600**
Total Gifts and Bequests	**534,369**
Total GMATS	**1,198,750**
Total Special Studies, Services, and Projects 7,738	
Total FY 2003 YTD Funding Authority	**277,124,371**

This is the total funding authority received/accepted through Quarter 1 of fiscal year 2003, and cannot exceed the estimated offsetting collections apportioned by the Office of Management and Budget.

Notes to Financial Statements
September 30, 2002 and September 30, 2001

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 2002 & 2001 financial information is based on MARAD's FY 2002 & 2001 audited financial statements required by the Chief Financial Officer Act.

2. Contingent liabilities for Title XI guaranteed loans aggregated $4.3 billion as of September 30, 2002.

3. There were no conditional liabilities for pre-launching War-Risk Builder's Insurance on September 30, 2002.

4. The Federal Ship Financing Fund incurred no defaults during FY 2002.

5. The Title XI Credit Reform Program incurred six default in fiscal year 2002 in the amount of $350.5 million.

6. Real Property and Equipment are reported net of allowances for FY 2002.

Appendix 1: Department of Transportation – Port Security Grants Awards Announced June 17, 2002

Name of Grant RecoAPL Limited	Award Amount
APL Limited	$1,230,490
Atlantic Energy Inc.	109,590
BASF Corporation	398,000
Board of Commissioners of the Port of New Orleans	3,684,450
Boston Police Department	2,878,947
Brazos River Harbor Navigation District	85,000
Broward County Board of County Commissioners	6,844,800
Canaveral Port Authority	1,650,000
Chevron Phillips Chemical Company LP	30,000
CITGO Petroleum Corporation	201,757
City of Baltimore	500,000
City of Ketchikan	122,721
City of Norfolk	500,000
City of Valdez	764,000
Clipper Navigation Inc.	127,000
Colonial Terminals Inc.	942,600
Columbia River Steamship Operators Association	623,000
Crowley Liner Services Inc.	268,000
Cross Sound Ferry Services Inc.	96,636
Delaware River Maritime Enterprise Council Inc.	850,000
Detroit-Windsor Truck Ferry Inc.	135,000
Diamond State Port Corp./Port of Wilmington DE	500,000
Dynegy Midstream Services Inc.	60,000
Eagle Marine Services Ltd. a subsidiary of APL Ltd. Port of Los Angeles	1,900,000
Everett Police Department	150,000
Georgia Ports Authority	1,312,000
Harbor Dept. of the City of Long Beach	4,335,000
Inland Rivers Ports & Terminals Inc.	562,722
Jacksonville Marine Transportation Exchange Inc.	220,800
Jacksonville Seaport Authority	297,000
Lake Charles Harbor and Terminal District	200,000
LBC Baton Rouge LLC	80,000
LBC Houston L.P.	142,000
Maritime Exchange for the Delaware River and Bay	250,000
Maritime Incident Resource and Training Partnership	100,000
Maryland Port Administration	3,264,000
Matson Navigation Company	125,000
Memphis & Shelby County Port Commission	198,052
Miami River Marine Group	49,157
Miami-Dade County	6,370,801
Municipality of Anchorage	458,208
NaviTag Technologies	787,073
New York City Department of Transportation	1,923,760
New York City Economic Development Corp.	2,500,000
NH Department of Safety	200,000
City of Long Beach	340,000
North Carolina State Ports Authority	250,000
Pasha Stevedoring & Terminals L.P.	80,000
Port Authority of New York and New Jersey	3,502,000
Port of Beaumont Navigation District of Jefferson County Texas	560,000

Continued

Appendix 1: Department of Transportation – Port Security Grants Awards Announced June 17, 2002 (Continued)

Name of Grant RecoAPL Limited	Award Amount
Port of Corpus Christi Authority	2,273,277
Port of Galveston	1,611,206
Port of Houston Authority Harris County Texas	1,800,000
Port of Los Angeles	1,500,000
Port of Oakland	4,867,071
Port of San Francisco	500,000
Port of Seattle	4,769,724
Port of Texas City	1,735,883
Port of Vancouver USA	90,000
ProvPort Inc.	261,500
Puerto Rico Ports Authority	3,000,000
San Diego Unified Port District	2,233,000
South Carolina State Ports Authority	1,844,500
State of Connecticut	200,000
State of Hawaii Department of Transportation Harbors Division	650,000
Tampa Port Authority	3,500,000
The City of Key West	510,500
The Maritime Association of the Port of Charleston	15,000
The Port of South Louisiana	624,000
Tri-state Maritime Safety Association	150,000
Virginia Port Authority	5,293,140
Washington State Ferries	110,000
Woods Hole Martha’s Vineyard and Nantucket Steamship Authority	8,000
City of Portland Maine	175,000
City of Pittsburgh	175,000
Blue & Gold Fleet L.P.	102,542
TOTAL:	$92,206,707

Appendix 2: MSP Operators and Vessels as of September 30, 2002

Company	Ship Name	Ship Type	TEUs
American Ship Management, LLC	APL KOREA	CONT CI 1	3,900
American Ship Management, LLC	APL PHILIPINES	CONT CI 1	3,900
American Ship Management, LLC	APL SINGAPORE	CONT C11	3,900
American Ship Management, LLC	APL THAILAND	CONT CI 1	3,900
American Ship Management, LLC	PRESIDENT ADAMS	CONT C10	3,600
American Ship Management, LLC	PRESIDENT JACKSON	CONT C10	3,600
American Ship Management, LLC	PRESIDENT KENNEDY	CONT CIO	3,600
American Ship Management, LLC	PRESIDENT POLK	CONT C10	3,600
American Ship Management, LLC	PRESIDENT TRUMAN	CONT C10	3,600
Central Gulf Lines, Inc.	GREEN COVE	RO/RO	N/A
Central Gulf Lines, Inc.	GREEN POINT	RO/RO	N/A
Central Gulf Lines, Inc.	GREEN LAKE	RO/RO	N/A
American International Car Carrier, Inc.	FAUST	RO/RO	N/A
American International Car Carrier, Inc.	FIDELIO	RO/RO	N/A
American International Car Carrier, Inc.	TANABATA	RO/RO	N/A
First American Bulk Carrier Corp.	CHESAPEAKE BAY	CONT	2,409
First American Bulk Carrier Corp.	DELAWARE BAY	CONT	2,409
E-Ships, Inc.	ENDEAVOR	CONT	1,834
E-Ships, Inc.	ENDURANCE	CONT	1,834
E-Ships, Inc.	ENTERPRISE	CONT	1,834
First Ocean Bulk Carrier-I, LLC	LYKES NAVIGATOR	CONT	2,698
First Ocean Bulk Carrier-II, LLC	LYKES DISCOVERER	CONT	2698
First Ocean Bulk Carrier-III, LLC	LYKES LIBERATOR	CONT	2,698
Maersk Line, Limited	MAERSK CALIFORNIA	CONT	1,400
Maersk Line, Limited	MAERSK COLORADO	CONT	1,169
Maersk Line, Limited	MAERSK TENNESSEE	CONT	1,325
Maersk Line, Limited	MAERSK TEXAS	CONT	1,325
OSG Car Carriers, Inc.	OVERSEAS JOYCE	RO/RO	N/A
U.S. Ship Management, Inc.	SEALAND ACHIEVER	CONT ACV	3,606
U.S. Ship Management, Inc.	SEALAND FLORIDA	CONT ACV	3,606
U.S. Ship Management, Inc.	SEALAND PRIDE	CONT SL-31	2,890
U.S. Ship Management, Inc.	SEALAND MOTIVATOR	CONT SL-31	2,890
U.S. Ship Management, Inc.	SEALAND COMMITMENT	CONT ACV	3,606
U.S. Ship Management, Inc.	SEA-LAND ATLANTIC	CONT ACV	3,606
U.S. Ship Management, Inc.	SEA-LAND DEFENDER	CONT D9J	2,306
U.S. Ship Management, Inc.	SEA-LAND ENDURANCE	CONT D9J	2,306
U.S. Ship Management, Inc.	SEA-LAND EXPLORER	CONT D9J	2,306
U.S. Ship Management, Inc.	SEA-LAND INNOVATOR	CONT D9J	2,306
U.S. Ship Management, Inc.	SEA-LAND INTEGRITY	CONT ACV	3,606
U.S. Ship Management, Inc.	SEA-LAND LIBERATOR	CONT D9J	2306
U.S. Ship Management, Inc.	SEA-LAND PATRIOT	CONT D9J	2,306
U.S. Ship Management, Inc.	SEA-LAND PERFORMANCE	CONT ACV	3,606
U.S. Ship Management, Inc.	SEA-LAND QUALITY	CONT ACV	3,606
Waterman Steamship, Corporation	LYKES MOTIVATOR	CONT	2,500
Waterman Steamship, Corporation	ROBERT E. LEE *	LASH	1,246
Waterman Steamship, Corporation	GREEN DALE	RO/RO	N/A
Waterman Steamship, Corporation	LYKES EXPLORER	CONT	2,698

*Subject to replacement in FY 2003

CONT – Container Ship
LASH – Lighter Aboard Ship
RO/RO – Roll-On/Roll-Off

Appendix 3: VISA Participants as of September 30, 2002

America Cargo Transport, Inc.
American Automar, Inc.
American President Lines, Ltd.
American Roll-On Roll-Off Carrier, LLC
American Ship Management, L.L.C.*
American International Car Carrier, Inc.*
Bay Towing Corporation
Beyel Brothers Inc.
Central Gulf Lines, Inc.*
Coastal Transportation, Inc.
Columbia Coastal Transport, LLC
Crowley Liner Services, Inc.
Crowley Marine Services, Inc.
CSX Lines, LLC
Delta Towing
E-Ships, Inc.*
Farrell Lines Incorporated
First American Bulk Carrier Corp.*
First Ocean Bulk Carrier-I, LLC*
First Ocean Bulk Carrier-II, LLC*
First Ocean Bulk Carrier-III, LLC*
Foss Maritime Company
Liberty Shipping Group Limited Partnership
Lockwood Brothers, Inc.
Lykes Lines Limited, LLC
Lynden Incorporated
Maersk Line, Limited*
Matson Navigation Company, Inc.
Maybank Navigation Company, LLC
McAllister Towing and Transportation Co., Inc.
Moby Marine Corporation
Odyssea Shipping Line LLC
OSG Car Carriers, Inc.*
Patriot Shipping, L.L.C.
RR & VO L.L.C.
Resolve Towing & Salvage, Inc.
Samson Tug & Barge Company, Inc.
Sea Star Line, LLC
SeaTac Marine Services, Inc.
Sealift Inc.
Signet Maritime Corporation
STEA Corporation
Superior Marine Services, Inc.
TECO Ocean Shipping
Totem Ocean Trailer Express, Inc.
Trailer Bridge, Inc.
TransAtlantic Lines LLC
Troika International, Ltd.
U.S. Ship Management, Inc.*
Van Ommeren Shipping (USA) LLC
Waterman Steamship Corporation*
Weeks Marine, Inc.

*MSP Participants

Appendix 4:
FOREIGN TRANSFERS AND OTHER SECTION 9 APPROVALS – FY 2002[1]

U.S. PRIVATELY-OWNED VESSELS

Program Summary	**Number**	**Gross Tons**
Transfer to Foreign Ownership and/or Registry		
Vessels of 1,000 Gross Tons and Over	43	974,338
Vessels of Under 1,000 Gross Tons	0	0
Total	43	974,338
Modifications	4	29,171
Violations		
Reported	9	
Mitigated or Settled	9	
Rescissions (Sales to Aliens)	0	
Mortgages 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.

FOREIGN TRANSFER APPROVALS – Vessels of 1,000 Gross Tons and Over

	Pursuant to Section 9 (U.S.-Owned and U.S. Documented)	
	Number of Vessels	**Gross Tons**
Barge	1	4,114
Cargo	1	10,195
Deck Barge	1	7,815
Fishing	6	9,586
Freight Barge	1	1,868
Mobile Offshore Drilling Unit	8	41,771
Passenger	2	36,192
Tank Barge	1	1,063
Yacht	1	1,252
Total	**22**	**113,856**

Appendix 4:
FOREIGN TRANSFERS AND OTHER SECTION 9 APPROVALS – FY 2002
(Continued)

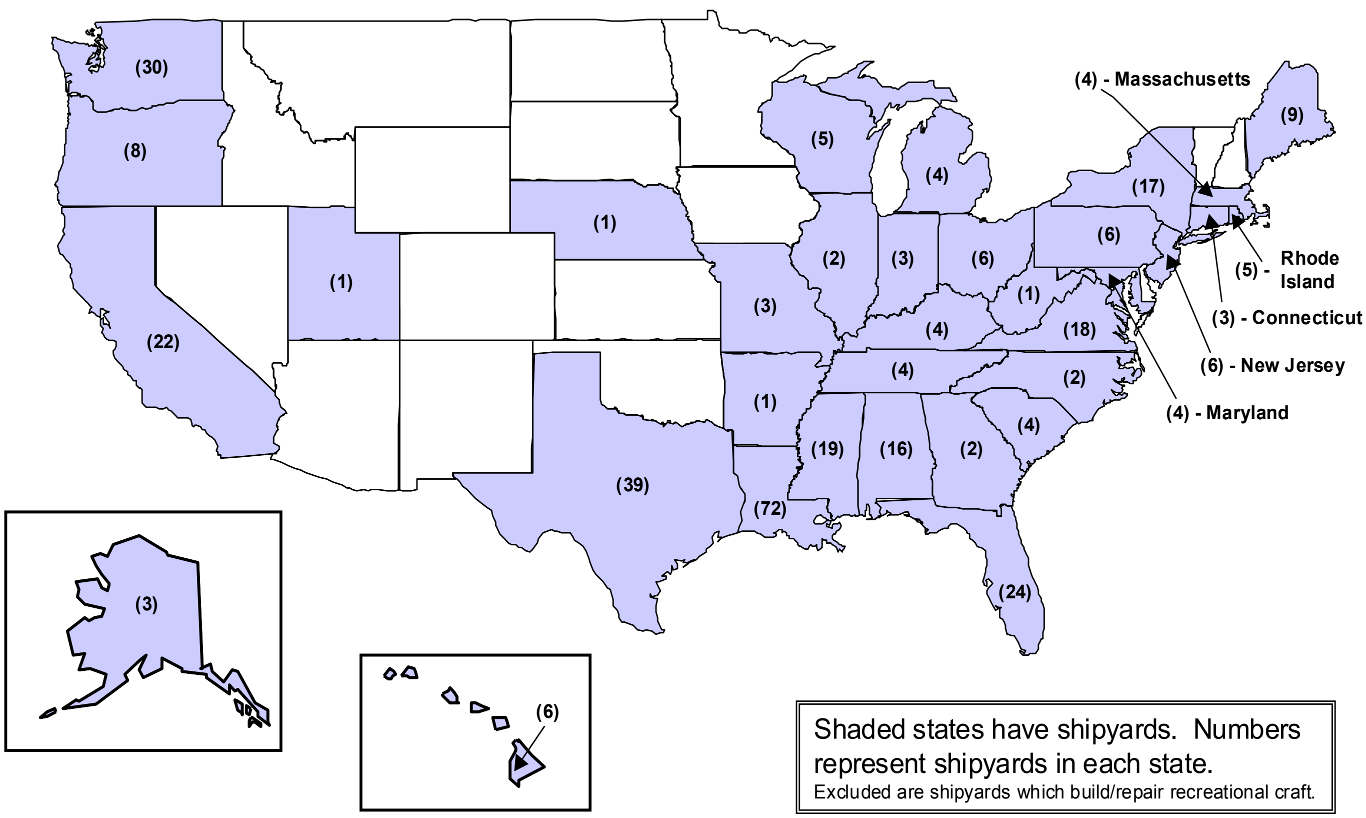
Recapitulation by Nationality	Number of Vessels	Gross Tons
Bahamas	1	33,930
Brazil	1	4,114
Japanese	1	1,348
Marshall Islands	3	19,449
Mexican	3	5,613
New Zealand	1	1,468
Panama	2	3,372
Republic of Liberia	1	4,998
St. Vincent & The Grenadines	1	1,252
Vanuatu	5	27,519
Venezuela	3	10,793
Total	**22**	**113,856**
Sale to Foreign Nationals for Scrapping	21	860,482
GRAND TOTAL	**43**	**974,338**

Appendix 5: Shipyards in the United States

SHIPYARDS IN THE UNITED STATES

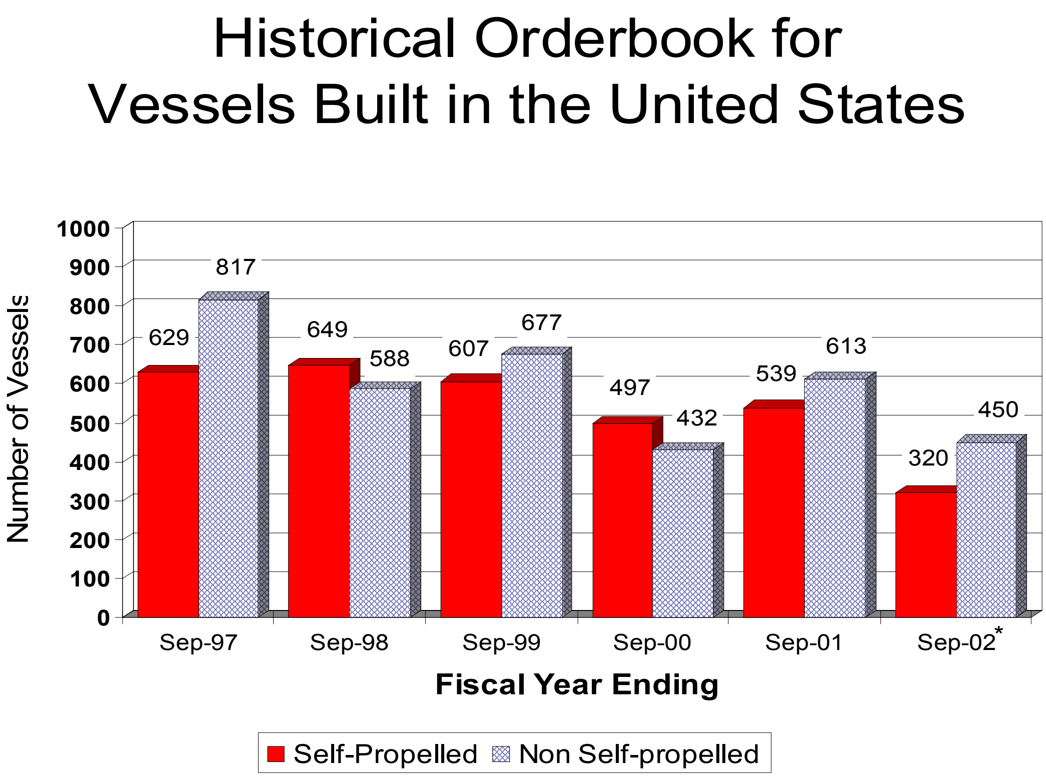
October 2002

354 shipyards in 35 states



The United States has six very large shipyards, which have most of the contracts for ships of 1,000 GT and over, plus 348 shipyards of varying sizes which perform a wide variety of work.

Appendix 6: Historical Orderbook for Vessels Built in the United States



Based on data collection from industry sources and trade publications

*Estimated

This data includes the following types of vessels: push boats, tow boats, tugs, containerships, government vessels (excluding large combatant vessels), roll-on/roll-off, tankers, T-ships, workboats, clamboats, crew boats, supply boats, cruise boats, fireboats, liftboats, patrol boats, pilot boats, service boats, utility boats, catamarans, cruise ships, drill rigs, ferries, offshore supply/ platform vessels, and research vessels.

Appendix 7: GOVERNMENT-SPONSORED CARGOES—2002
(Note: These numbers do not include domestic shipments)

PUBLIC LAW 664 CARGOES:

Program	U.S.-Flag Revenue ($1,000)	Total Metric Tons	U.S.-Flag Metric Tons	Percentage U.S.-Flag Tonnage
U. S. Agency for International Development (USAID):				
Loans and Grants				
Liner	11,564	197,196	157,612	79.9
Bulker	0	0	0	0.0
Tanker	0	1,020	0	0.0
TOTAL	**11,564**	**198,216**	**157,612**	**79.9**
P.L. 480 - Title II [2]				
Liner	95,839	968,585	704,996	72.8[3]
Bulker	28,243	681,895	395,678	58.0[4]
Tanker	6,458	128,776	87,448	67.9[5]
TOTAL	**130,540**	**1,779,256**	**1,188,122**	**66.8**
Department of Agriculture:				
P.L. 480 - Title I [2]				
Liner	6,479	87,499	69,804	79.8
Bulker	21,869	380,048	249,496	65.6[6]
Tanker	23,008	286,038	279,844	97.8
TOTAL	**51,357**	**753,585**	**599,144**	**79.5**
Food for Progress [2]				
Liner	26,136	157,033	142,587	90.8
Bulker	12,827	256,398	158,694	61.9[7]
Tanker	0	7,498	0	0.0[8]
TOTAL	**38,962**	**420,930**	**301,281**	**71.6**
Section 416(b) [2]				
Liner	76,179	698,131	542,805	77.8
Bulker	85,680	1,659,666	1,269,513	76.5
Tanker	43,908	704,061	575,708	81.8
TOTAL	**205,767**	**3,061,858**	**2,388,026**	**78.0**
TOTALS:	**426,626**	**6,015,629**	**4,476,573**	**74.4**

Appendix 7: GOVERNMENT-SPONSORED CARGOES—2002 (Continued)
(Note: These numbers do not include domestic shipments)

	U.S.-Flag Revenue ($1,000)	Total Metric Tons	U.S.-Flag Metric Tons	Percentage U.S.-Flag Tonnage
U.S. Trade and Development Agency	1	3	3	100.0
National Science Foundation	6,200	52,000	51,695	99.4
General Services Administration	2	49	2	4.0[1]
Western Area Power	36	266	48	18.0[1]
Coast Guard	18	4,339	52	1.21[10]
Department of Transportation Federal Transit Administration	4,674	12,766	6,265	49.0 [9]
Department of Energy Strategic Petroleum Reserve	0	6,014,552	0	0.0 [13]
Department of State				
Foreign Building Office	6,848	11,231	10,335	84.5
Other Agencies	5,311	16,403	14,846	90.5
Army Corps of Engineers	703	12,616	1,087	08.62[11]

Appendix 7: GOVERNMENT-SPONSORED CARGOES—2002 (Continued)
(Note: These numbers do not include domestic shipments)

PUBLIC RESOLUTION 17 CARGOES:

	Total Metric Tons	U.S.-Flag Metric Tons	Total Freight Revenue	U.S.-Flag Freight Revenue	Percentage U.S.-Flag
Eximbank	40,845	37,425	18,355,585	16,791,244	95.1

Israeli Side Letter Agreement

	Total Metric Tons	U.S.-Flag Metric Tons	Total Freight Metric Tons	Foreign-Flag U.S.-Flag ($)	Percentage U.S.-Flag
Government of Israel (GOI)	1,066,666	533,333	533,333	19,733	50.0[12]

Defense Security Cooperation Agency (DSCA):

	U.S.-Flag Revenue ($1,000)	Total Metric Tons	U.S.-Flag Metric Tons	Percent U.S.-Flag Tonnage
Foreign Military Financing, Grant Transfers and related programs				
Liner:	24,788	87,717	65,652	74.8
Tanker:	18,600	377,170	372,780	98.8
TOTAL	**43,388**	**464,887**	**438,432**	**94.3**

Appendix 7: GOVERNMENT-SPONSORED CARGOES—2002 (Continued)
(Note: These numbers do not include domestic shipments)

CARGO PREFERENCE ACT OF 1904 CARGOES:

FISCAL YEAR 2002

Department of Defense Military Contracts

	Measurement Tons Dry Cargo	Percentage U.S.-Flag Tonnage Dry Cargo	Metric Tons Petroleum	Percentage U.S.-Flag Tonnage Petroleum
Military Contract Cargoes:[14]				
U.S.-flag privately-owned vessels	3,381,917	74.4	n/a	n/a
Foreign-flag vessels	104,864	n/a	n/a	n/a
U.S. Government-owned vessels	259,063	5.7	n/a	n/a
Time Chartered U.S.-flag vessels	228,723	5.0	3,686,662	57.8
Time Chartered Foreign-flag vessels	n/a	n/a	n/a	n/a
Voyage Chartered U.S.-flag vessels	373,631	8.2	2,550,665	40.0
Voyage Chartered Foreign-flag vessels	200,000	n/a	139,192	n/a
Total Military Contract Cargoes:	**4,548,198**	**93.3**	**6,376,519**	**98.0**

	U.S.-Flag Revenue ($)	Total Metric Tons	U.S.-Flag Metric Tons	Percentage U.S.-Flag Tonnage
Commercial Contractor Cargoes[15]	3,454,206	14,748	11,022	75%
Personal Property and POV Shipments [16]	750,926,132	451,168	449,780	99%

Notes:

1 Imbalance due to non-availability of U.S.-flag service.

2 The Food Security Act of 1985 (P.L. 99-198) changed the agricultural reporting period from a calendar year to a 12-month period commencing April 1 through March 31. The required U.S.-flag share for the current reporting period, April 1, 2001 to March 31, 2002, is 75 percent.

3 Of the 57 recipient destinations, 17 fell below the 75 percent U.S.-flag representation in this category.

4 Eleven countries receiving bulk cargoes did not attain 75 percent U.S.-flag participation in this category.

5 U.S.-flag tanker service did not reach cargo preference requirements.

6 U.S.-flag bulker service did not reach the 75 percent requirement.

7 Russia, Bosnia-Herzegovina and Guyana did not meet cargo preference requirements in this category.

8 No U.S.-flag tankers were fixed. Honduras and Mozambique received bulk vegetable oil and tallow on foreign-flag tankers.

9 The program tonnage is reflected in metric tons for uniformity only. Cargo preference compliance for other program 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 received 45 percent of the revenue tons for CY 2002.

10 The Korean supplier for the Florida Bridge project (New Orleans) failed to abide by the 50 percent U.S.-flag requirement. MARAD asked that the receiver seek a credit in the amount of the difference in cost between U.S. flag and foreign flag.

11 The vast majority of these shipments are for a road building project in Micronesia. The cargo originates outside of the United States affording little or no U.S.-flag involvement.

12 Under the "side letter" agreement, the GOI, for this fiscal year, must provide U.S.-flag vessels with 533,333 tons of bulk grain. Previous agreement historically required 800,000 to be shipped on U.S.-flag vessels, regardless of funding. Due to budget shifts this volume has been reduced. FY 01 finished with a surplus of 19,193 tons which was applied to the FY 02 agreement to meet U.S.-flag compliance.

13 For equity purposes, MARAD monitors the SPR program on a long ton/mile basis. This program did not meet its compliance requirement for CY 2001-2002. A Memorandum of Understanding was issued on October 1982, allowing the program to be monitored on a cumulative basis. Since the program inception, U.S.-flag tankers received 45.75 percent of the cargoes.

14 Tonnages reported by Military Sealift Command (MSC) and Military Traffic Management Command (MTMC). Tonnages are from vessel manifests and lift reports of ocean carriers that carry DOD-sponsored cargo by liner contract or charter contract during the fiscal year. Foreign Military Sales cargoes are excluded. "U.S.-flag privately owned vessels" and "foreign flag vessels" represent cargoes transported by contract with liner carriers.

15 Tonnages and revenues for commercial cargoes derived from rated ocean bills of ladings submitted by shippers to MARAD's Office of Cargo Preference.

16 Tonnages and revenues for DOD personal property shipments are reported by MTMC from rated ocean bills of ladings submitted for payment by carriers performing personal property shipments under MTMC contract.

Appendix 8: Reports on Phased-out and Inactive Programs

The Maritime Administration (MARAD) is required to report on the following:

Acquisition of Obsolete Vessels in Exchange for Credit:

Section 507 of the Act provides for trade in authority of an old vessel for a credit against the construction cost of a new vessel. No new funding authority has been available under this section for a number of years and no trade-in vessels have been acquired during that time.

Updates on the Operating-Differential Subsidy (ODS) and Construction Differential Subsidy (CDS), including allocation of CDS and ODS to Port Ranges:

Both programs have been phased out. The final ODS contract ended in September of 2001; outlays on those contracts in FY 2002 were $5,087,961, as noted in Appendix 9. Subsidies paid under the CDS program were $0. Tables showing total accruals and outlays, as well as a breakdown by shipping lines, are Appendix 9 and Appendix 10 respectively. Appendix 11 shows total Maritime Subsidy Outlays for the years 1937-2002.

Appendix 9: ODS ACCRUALS & OUTLAYS – JANUARY 1, 1937, TO SEPTEMBER 30, 2002

	Accruals			Outlays		
Calendar Year of Operation	Subsidies	Recapture	Subsidy Accrual	Paid in FY 2002	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	111,846,920	-0-	111,846920	-0-	111,846,920	-0-
1998	27,183,866	-0-	27,183,866	-0-	27,183,866	-0-
1999	15,150,073	-0-	15,150,073	-0-	15,150,073	-0-
2000	4,412,978	-0-	4,412,978	-0-	4,412,978	-0-
2001	3,459,883	-0-	3,459,883	-0-	3,459,883	-0-
2002	32,190,260	-0-	32,190,260	5,087,961	5,087,861	32,252,808
Total Regular ODS	$10,418,106,340	$238,186,435	$10,179,919,905	5,087,961	$10,147,607,097	$32,252,808
Soviet Grain Program [1]	$147,132,626	$-0-	$147,132,626	$-0-	$147,132,626	-0-
Total ODS	**$10,565,238,966**	**$238,186,435**	**$10,327,052,531**	**$5,087,961**	**$10,294,799,723**	**$32,252,808**

[1]No longer operative.

Appendix 10: ODS ACCRUALS & OUTLAYS BY SHIPPING LINES – JANUARY 1, 1937, TO SEPTEMBER 30, 2002

	Accruals			Outlays	
Net Accrued	**LINES**	**ODS**	**Recapture**	**Net Accrual**	**ODS Accural**
Aeron Marine Shipping	$26,079,663	$0	$26,079,663	$26,079,663	$0
American Banner Lines [1]	2,626,512	0	2,626,512	2,626,512	0
American Diamond Lines [1]	185,802	28,492	157,310	157,310	0
American Export Lines, Ltd. [2]	693,821,868	10,700,587	683,121,281	683,121,281	0
American Mail Lines [3]	158,340,739	7,424,902	150,915,837	150,915,837	0
American Maritime Transport	10,813,074	0	10,813,074	10,813,074	0
American President Lines[3]	1,786,443,341	17,676,493	1,768,766,848	1,765.329,763	3,437,085
American Shipping Co.	21,220,420	0	21,220,420	21,220,420	0
American Steamship Co.	76,462	0	76,462	76,462	0
Aquarius Marine Co.	55,288,862	0	54,288,862	54,288,862	0
Aries Marine Shipping	25,291,415	0	25,291,415	25,291,415	0
Asco-Falcon II	587,268	0	587,268	587,268	0
Atlantic & Caribbean S/N [1]	63,209	45,496	17,713	17,713	0
Atlas Marine Co.	62,479,364	0	62,479,364	62,479,364	0
Baltimore Steamship [1]	416,269	0	416,269	416,269	0
Bloomfield Steamship [1]	15,588,085	2,613,688	12,974,397	12,974,397	0
Brookville Shipping, Inc.	10,777,099	0	10,777.099	6,143,827	4,633,272
Chestnut Shipping Co.	100,155,310	0	100,155,310	97,348,830	2,806,480
Delta Steamship Lines	575,053,817	8,185,313	566,868,504	566,868,504	0
Ecological Shipping Co.	4,968,943	0	4,968,943	4,968,943	0
Equity Carriers, Inc.	1,497,110	0	1,497,110	1,497,110	0
Farrell Lines Incorporated	775,439,460	1,855,375	773,584,085	771,778,089	1,805,996
First American Bulk Carriers Corp.	58,257,325	0	58,257,325	55,030,812	3,226,513
Gulf & South American Steamship	34,471,780	5,226,214	29,245,566	29,245,566	0
Lachmar	17,997,623	0	17,997,623	16,148,899	1,848,724
Lykes Bros. Steamship Co., Inc.	2,192,182,207	52,050,598	2,140,131,609	2,136,714,228	3,417,381
Margate Shipping Co.	144,603.929	0	144,603,929	144,603,929	0
Moore-McCormack Bulk Transport	137,384,014	0	137,384,014	137,384,014	0
Moore-McCormack Lines [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.	35,050,463	0	35,050,463	30,631,310	4,419,153
Ocean Chemical Transport, Inc.	37,791,506	0	37,791,506	33,747,589	4,043,917
Oceanic Steamship[5]	113,947,681	1,171,756	112,775,925	112,775,925	0
Pacific Argentina Brazil Line [1]	7,963,936	270,701	7,693,235	7,693,235	0
Pacific Far East Line [6]	283,693,959	23,479,204	260,214,755	260,214,755	0
Pacific Shipping Inc.	18,840,400	0	18,840,400	18,840,400	0
Prudential Lines[4]	641,647,708	24,223,564	617,424,144	617,424,144	0
Prudential Steamship [1]	26,352,954	1,680,796	24,672,158	24,672,158	0
Sea Shipping	25,819,800	2,429,102	23,390,698	23,390,698	0
Seabulk Transmarine I & II, Inc.	35,845,320	0	35,845,320	35,845,320	0
South Atlantic Steamship[1]	96,374	84,692	11,682	11,682	0
States Steamship	231,997,100	5,110,997	226,886,103	226,886,103	0
United States Lines[7]	750,518,013	54,958,689	695,559,324	695,559,324	0
Vulcan Carriers	29,847,656	0	29,847,656	29,847,915	0
Waterman Steamship Corp.	462,755,673	0	462,755,673	460,289,472	2,466,201
Worth Oil Transport	17,428,314	0	17,428,314	17,428,314	0
Total Regular ODS	$10,418,106,340	$238,186,435	$10,179,919,905	$10,147,607,097	32,252,808
Soviet Grain Programs [9]	$147,132,626	$0	$147,132,626	$147,132,626	$0
Total ODS	**$10,565,238,966**	**$238,186,435**	**$10,327,052,531**	**$10,,294,799,723**	**$32,252,808**

[1] No longer subsidized or combined with other subsidized lines..
[2] AEL was acquired by Farrell Lines, March 29, 1978.
[3] APL merged its operations with AML's October 10, 1973.
[4] Changed from Prudential-Grace Lines, Inc., August 1, 1974.
[5] Purchased by Lykes Bros. Steamship Co., Inc.
[6] Went into receivership August 2, 1978
[7] Ceased to be subsidized in November 1970, returned as a subsidizedcarrier 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.

Appendix 11: MARITIME SUBSIDY OUTLAYS 1937-2002

Fiscal Year	CDS	Reconstruction CDS	Total CDS	ODS	Total ODS and CDS
1936-1955	$248,320,942*	$3,286,888	$251,607,830	$341,109,987	$592,717,817
1956-1960	129,806,005	34,881,409	164,687,414	644,115,146	808,802,560
1961	100,145,654	1,215,432	101,361,086	150,142,575	251,503,661
1962	134,552,647	4,160,591	138,713,238	181,918,756	320,631,994
1963	89,235,895	4,181,314	93,417,209	220,676,685	314,093,894
1964	76,608,323	1,665,087	78,273,410	203,036,844	281,310,254
1965	86,096,872	38,138	86,135,010	213,334,409	299,469,419
1966	69,446,510	2,571,566	72,018,076	186,628,357	258,646,433
1967	80,155,452	932,114	81,087,566	175,631,860	256,719,426
1968	95,989,586	96,707	96,086,293	200,129,670	296,215,963
1969	93,952,849	57,329	94,010,178	194,702,569	288,712,747
1970	73,528,904	21,723,343	95,252,247	205,731,711	300,983,958
1971	107,637,353	27,450,968	135,088,321	268,021,097	403,109,418
1972	111,950,403	29,748,076	141,698,479	235,666,830	377,365,310
1973	168,183,937	17,384,604	185,568,541	226,710,926	412,279,467
1974	185,060,501	13,844,951	198,905,452	257,919,080	456,824,532
1975	237,895,092	1,900,571	239,795,663	243,152,340	482,948,003
1976**	233,826,424	9,886,024	243,712,448	386,433,994	630,146,442
1977	203,479,571	15,052,072	218,531,643	343,875,521	562,407,164
1978	148,690,842	7,318,705	156,009,547	303,193,575	459,203,122
1979	198,518,437	2,258,492	200,776,929	300,521,683	501,298,612
1980	262,727,122	23,527,444	265,079,866	341,368,236	606,448,102
1981	196,446,214	11,666,978	208,113,192	334,853,670	542,966,862
1982	140,774,519	43,710,698	184,485,217	400,689,713	585,174,930
1983	76,991,138	7,519,881	84,511,019	368,194,331	452,705,350
1984	13,694,523	0	13,694,523	384,259,674	397,954,197
1985	4,692,013	0	4,692,013	351,730,642	356,422,655
1986	(416,673)	0	(416,673)	287,760,640	287,343,867
1987	420,700	0	420,700	227,426,103	227,846,803
1988	1,236,379	0	1,236,679	230,188,400	231,425,079
1989	-0-	-0-	-0-	212,294,812	212,294,812
1990	-0-	-0-	-0-	230,971,797	230,971,797
1991	-0-	-0-	-0-	217,574,038	217,574,038
1992	-0-	-0-	-0-	215,650,854	215,650,854
1993	-0-	-0-	-0-	215,506,822	215,506,822
1994	-0-	-0-	-0-	212,972,929	212,972,929
1995	-0-	-0-	-0-	199,966,581	199,966,381
1996	-0-	-0-	-0-	164,687,965	164,687,965
1997	-0-	-0-	-0-	121,556,425	121,556,425
1998	-0-	-0-	-0-	36,671,731	36,671,731
1999	-0-	-0-	-0-	16,948,560	16,948,560
2000	-0-	-0-	-0-	9,998,665	9,998,665
2001	-0-	-0-	-0-	7,872,861	7,872,861
2002	-0-	-0-	-0-	2,941,329	2,941,329
Total	**$3,569,648,434**	**$264,904,682**	**$3,834,553,116**	**$10,174,740,393**	**$14,009,293,509**

* 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 12: Transfers of U.S.-Flag Vessels to Foreign Ownership and/or Registry

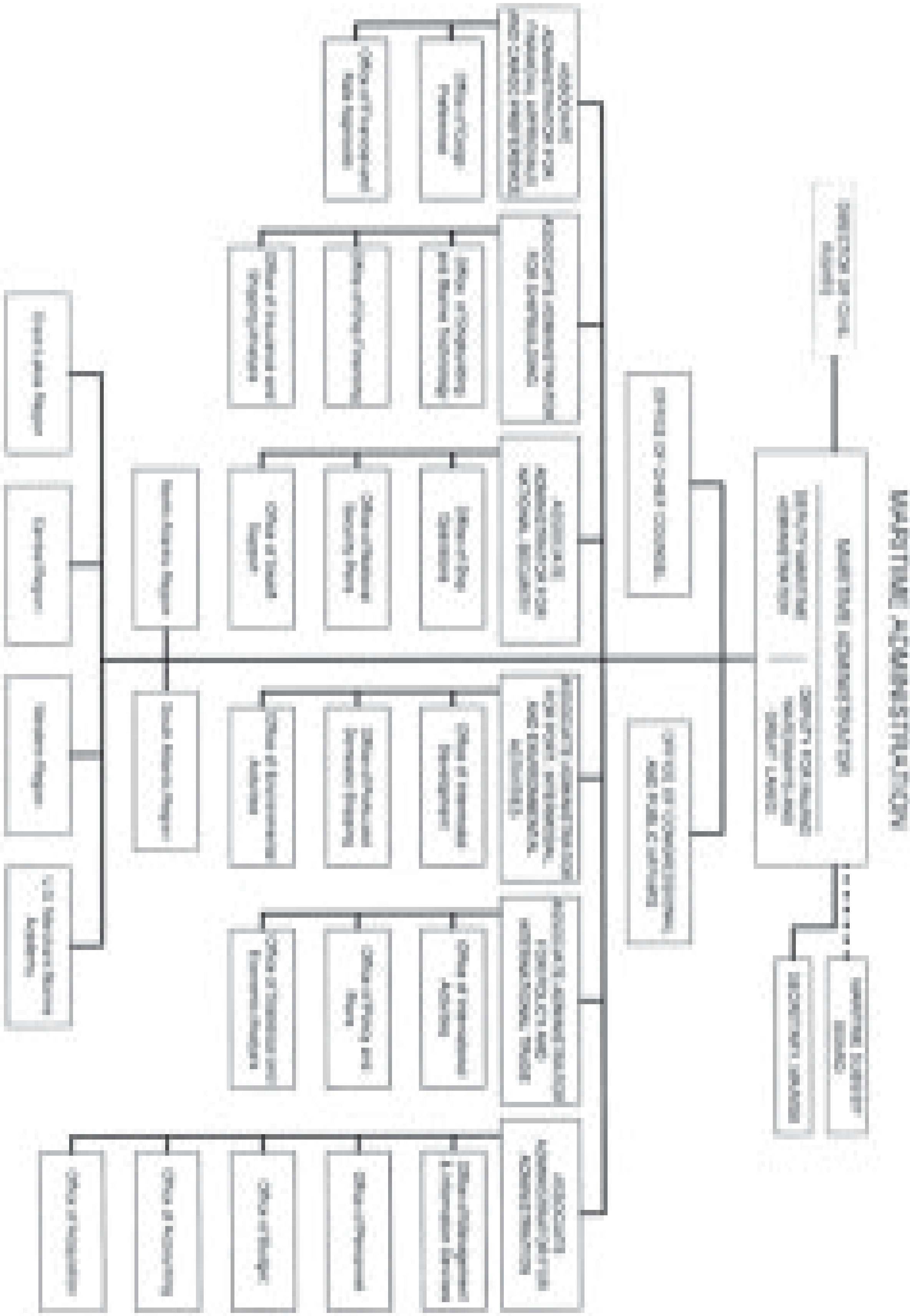
MARAD is the agency that must approve the transfer of U.S.-flag vessels to foreign ownership and/or registry. Applications are evaluated to see if there is any need to retain a vessel for purposes of national defense, maintenance of an adequate merchant marine, foreign policy considerations, or the national interest, as well as the type, size, age, and speed of the vessel, and proposed owner and/or country of registry.

> In the absence of a national emergency, MARAD grants **general** approval for the foreign transfer of vessels under 1,000 gross tons. Ships of 1,000 gross tons must have specific approval.
>
> Ships of 1,000 gross tons and over must have specific approval for the **initial** transfer from U.S. flag.
>
> Ships of 3,000 gross tons and over require specific approval not only for the initial transfer, but also for any **subsequent** transfer of ownership and/or registry during their effective economic life, which is usually 20 to 25 years. Older vessels of more than 3,000 gross tons may also require MARAD approval for subsequent transfers if DOD has a particular national security interest in them.

During FY 2002, MARAD approved the transfer of 22 ships of 1,000 gross tons and over from U.S.-flag to foreign ownership and/or registry for operation. An additional 21 privately owned vessels were approved for scrapping in foreign countries.

In the category of 3,000 gross tons and over, MARAD approved 29 vessels for subsequent transfer. At year's end, there were 162 previous U.S.-flag vessels subject to prior MARAD approval for subsequent transfers. User charges for processing the applications for foreign transfer and similar actions totaled $22,410 in this reporting period. Activities under Section 9 of the Shipping Act, 1916, as amended, are summarized in Appendix 4.

Appendix 13: Organizational Chart



Index

Continued on Next Page

Index (Continued)