



Maritime Cabotage Task Force

ANNUAL REPORT

2006



“It’s important for Presidents to embrace the Jones Act. I have, [for] five-and-a-half years as the President, supported the Jones Act, and will continue to do so...”

President George W. Bush, September 4, 2006,
at the Paul Hall Center for Maritime Training and Education in Piney Point, Maryland



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Cover Description

Upper Photo: Students enrolled at the Paul Hall Center for Maritime Training and Education stand at attention as President George W. Bush expresses his support for the Jones Act.

Lower Left: President Bush takes the helm in the Full Mission Bridge Simulator. Joining him is Michael Sacco, President of the Seafarers International Union.

Lower Right: President Bush tours the Engine Room Simulator. Explaining the workings is John Mason, CEO of American Service Technology, Inc.

Photos courtesy of the Seafarers International Union.

CHAIRMAN'S LETTER

Dear Friends:

Events that occurred in the waning days of summer have, for the second year in a row, determined the image on the cover of MCTF's Annual Report and the theme of its contents. In 2005, a tattered American flag symbolized the destruction of Hurricanes Katrina and Rita. The Report then highlighted just a few of the many contributions America's Jones Act fleet made to the recovery effort.

The pictures of President Bush on our 2006 cover were taken on Labor Day at the Paul Hall Center for Maritime Training and Education in Piney Point, Maryland, not far from Washington, DC. The President used the occasion to again stress his strong support for the Jones Act.

We deeply appreciate President Bush's endorsement of the Jones Act and how his Administration has supported the law in so many ways during the past six years. In fact, every occupant of the Oval Office since 1920 has stood firm with the Jones Act and supported a strong U.S.-flag Merchant Marine. This report recalls some past Presidents and their commitment to this industry.

A statement of support from the President is a source of pride for everyone involved in Jones Act shipping and this year held many achievements for the industry. America's Jones Act fleet again welcomed new vessels of every kind. Customers, in turn, welcomed the new efficiencies and opportunities these vessels brought to waterborne commerce.

Although the Jones Act governs domestic shipping, it plays a critical role in helping defend our nation from threats overseas. America's Jones Act fleet remained on guard in 2006, moving U.S. troops and supplies around the globe.

For MCTF, 2006 was a year of quiet satisfaction. After years of effort, an issue with the lease financing of vessels in the coastwise trade was resolved in a way that ensured Congress' intent to allow bona fide Jones Act operators to have access to foreign capital, but did not also allow foreign operators to import unfair tax advantages into the domestic market. Owners and operators need such assurance in order to commit hundreds of millions of dollars for new Jones Act vessels.

New and strengthened relationships with key Federal agencies were developed throughout 2006. As a result, should the nation suffer another severe hurricane season, decision-makers will better understand that the Jones Act fleet is a dependable asset to recovery efforts.

MCTF is confident that 2007 holds more good news for America's Jones Act fleet and those who rely on its services. Foreign nations may seek to become a part of America's billion-plus ton domestic maritime trade, but as long as the Jones Act remains the foundation of U.S. domestic maritime policy, this industry will remain American-owned, American-built, and American-crewed.

Sincerely,



Philip M. Grill
Chairman
Maritime Cabotage Task Force

THE MCTF IN WASHINGTON

Since the MCTF was formed over 10 years ago, it has been actively engaged in Washington, DC to help protect and defend the Jones Act and U.S. cabotage laws. The following is a sampling of some of the MCTF's activities in 2006.



- In the SAFE Port Act, the MCTF managed to exclude a provision allowing the use of foreign-flag vessels in coastwise trades supporting energy exploration off the coast of Alaska, which would have undermined the nation's cabotage laws. The MCTF worked with Congressional staff to remove the offending language and to develop compromise language that protected U.S. coastwise trades. President Bush signed the SAFE Port Act into law on October 13, 2006.
- During summer 2006, members of the MCTF met with senior officials at the Department of Energy and the Department of Transportation, including the Maritime Administration, to discuss the Jones Act in the context of the 2006 hurricane season. As a result of those meetings, the MCTF was able to establish better coordination procedures with the agencies in the event of a Jones Act waiver request after a natural disaster.
- In May 2006, the MCTF submitted comments to the Coast Guard's proposed rulemaking regarding lease financing for vessels engaged in the coastwise trade. The MCTF noted in its comments that proper administration of the lease financing provision is critical to the continued integrity of the Section 2 operator requirement. The MCTF also made some proposed revisions to the rulemaking. The Coast Guard issued a favorable final rule on October 18, 2006.
- On June 28, 2006, the MCTF helped ensure that Nabors Industries, a Bermuda-based marine service company operating offshore supply vessels in the Gulf of Mexico, could not continue operating in the coastwise trades as a foreign company. The FY07 Coast Guard Authorization bill (H.R. 5681) contained language that would have allowed Nabors a permanent exemption from the U.S.-owned requirement of the Jones Act.

Prior to committee markup of the bill, the MCTF worked with members of the House Transportation & Infrastructure Committee to help pass Rep. Gene Taylor's (D-MS) amendment, which removed the exemption language. H.R. 5681 passed the House by voice vote on September 28, 2006. The Senate never considered the bill; consequently, it died at the conclusion of the 109th Congress.



- In August 2006, the MCTF submitted a post-hearing statement to the International Trade Commission in response to its investigation, "Economic Effects of Significant U.S. Import Restraints." The MCTF challenged the Commission's proposition that the Jones Act is an import restraint under common principles of international trade practice.
- The MCTF actively monitored the U.S.-Korea and U.S.-Panama Free Trade Agreement talks to ensure that U.S. cabotage laws are not jeopardized while negotiating the agreements.

AMERICA'S SHIPYARDS WERE BUSY IN 2006

Hundreds of Jones Act self-propelled vessels and tug-barge units made their maiden voyages in 2006. Their shapes, sizes and roles were as varied as the economy they were built to serve.

For the third year in a row, the West Coast/Hawaii trade welcomed another state-of-the-art containership. This ship has a somewhat unique role, as it will also call on China.

The first of ten, large double-hulled tankers was also launched. These vessels will move various liquid-bulk products along both Coasts, as well as the Gulf of Mexico and Alaska.

Other vessels to join the fleet in 2006 included towboats, tank barges, platform supply vessels, fast ferries, state-of-the-art articulated tug-barge units, and coastal passenger ships.

Ships and barges are long-term assets. The need to repair and modernize existing hulls meant an empty dry-dock or berth at an American shipyard was a rare sight. In fact, one yard's order book is filled with new builds and scheduled maintenance and cannot consider new work until 2009 at the earliest.

The busy pace at American shipyards has another benefit for the nation. The production efficiencies and labor skills that result from these activities are also applied to the construction and maintenance of naval vessels, which produces significant savings for the American taxpayer.



Another new barge joins America's Inland Waterways fleet.



An American flag adorns the superstructure of the double-hulled tanker OVERSEAS HOUSTON for her launching. She is the first of 10 such tankers being built in quick succession for the Jones Act trades.

MILITARY AGAIN CALLS ON JONES ACT FLEET TO KEEP AMERICA SAFE

One of the Jones Act's tenets is that the United States shall have a merchant marine sufficient to "serve as a naval or military auxiliary in time of war or national emergency." The author of the Jones Act could not envision the tools of modern warfare, yet ships are still relied upon to ferry troops and equipment to various places around the world.

Exemplary of the current effort is the trailership WESTWARD VENTURE. The vessel spent virtually all of 2006 moving military cargo – a million square feet in total – from East and Gulf Coast ports to Kuwait. A fleet mate, the EL FARRO, hauled another 250,000 square feet of material to the war zone.

Closer to the home front, a number of Jones Act ships were busy moving military cargo from Alaska and Hawaii to the mainland and back. Stryker military vehicles were safely transported through the icy waters of Alaska in Jones Act trailerships. Once the vessel docked in Tacoma, the Strykers moved over land to Fort Polk, Louisiana, the final training ground for troops deployed to Iraq.



Jones Act trailerships moved more than 1.2 million square feet of military cargo to the war zone in 2006.

An infantry division stationed at Schofield Barracks in Pearl Harbor, Hawaii, journeyed to Fort Irwin, California in Jones Act vessels. An aviation squadron based in Pearl Harbor also crossed the Pacific in coastwise qualified containerships. On return runs, these vessels brought more than 300 Strykers stationed in Washington State back to Hawaii.

Perhaps the greatest military contribution is the service of the men and women who crew Jones Act vessels. Without the U.S.-flag fleet, America could never meet the manning requirements of a national emergency or war without the tens of thousands of merchant mariners who work the Jones Act trades.



A Jones Act containership takes on military cargo at a West Coast port.

CONGRESSMEN SHARE ADMINISTRATION'S SUPPORT FOR JONES ACT

When the AFL-CIO Maritime Trades Department convened its Executive Board meeting in March 2006, the Jones Act was high on the agenda of the Members of Congress who were invited to address the conference.

As a Congressman from the island state of Hawaii, Rep. Neil Abercrombie (D-HI) understands the importance of reliable and safe shipping to and from the mainland.

"Maritime has to be the number one security interest of this nation," he declared. "Not just port security, but shipbuilding and a merchant marine owned and operated under the Jones Act must become a fundamental premise of American policy."

Congressman James Clyburn (D-SC), the new House Majority Whip in the 110th Congress, was of like mind. "Thank goodness the Jones Act is still in place to protect domestic shipping interests... otherwise our economic and national security would be in direct threat. I will always stand to protect the Jones Act."

Rep. Xavier Becerra (D-CA) also vowed to fend off any attack on the Jones Act, saying, "Those of us that believe it's the people that make our country and our industry strong pledge to you that the Jones Act will be preserved..."



Rep. Neil Abercrombie (D-HI) addressed the AFL-CIO's Maritime Trades Department's Executive Board meeting and declared, "Not just port security, but shipbuilding and a merchant marine owned and operated under the Jones Act must become a fundamental premise of American policy."



Rep. Xavier Becerra (D-CA): "Those of us that believe it's the people that make our country and our industry strong pledge to you that the Jones Act will be preserved."



House Majority Whip James Clyburn (D-SC) "will always stand to protect the Jones Act."

UPROAR FOLLOWS ATTEMPT TO SKIRT AROUND JONES ACT

When Nabors Industries gave up its status as a U.S. company in 2001 and moved its headquarters to Bermuda primarily to avoid paying U.S. taxes, it surrendered its status as a U.S. corporation. Because foreign shipping companies are not permitted to operate vessels in the Jones Act trades, Nabors utilized the lease financing provisions in place at the time to circumvent the Jones Act and continue operating its 33 U.S.-flag ships in the Jones Act trades. In 2004, when the loophole was closed, Nabors negotiated with Congress to obtain a temporary grandfather in order to allow the company time to restructure its operation to become compliant with current law.

Despite the three year reprieve Nabors was granted, the company sought a permanent extension for their limited grandfather for foreign lease-financed offshore supply vessels in the House version of the Fiscal Year 2007 Coast Guard Authorization bill. The MCTF protested the bill language, which was picked up by the media, who quickly took Nabors to task.

A Houston Chronicle article headlined, “That’s American?” said, “Global competition and loopholes in the U.S. tax code have cast doubt on what it means to be an American company. Some companies that are based in the United States and staffed and led primarily by Americans pretend that they are based in Bermuda, the Cayman Islands or some other tax haven.”

The article labeled Nabors “a prime example” and said that “Nabors and other tax refugees claim they can’t compete successfully if they have to contribute their full share to the national defense and other U.S. government operations. Yet, at the same time, Nabors wishes its fleet of supply vessels to be considered American so they can operate between U.S. ports and offshore.”

The story went on to praise Congress for “acting to clarify Nabors’ ambiguous corporate nationality and discourage its indefensible overreaching for unfair advantage.” The paper further declared that “proper enforcement of the Jones Act has an importance that goes well beyond the fortunes of a single company.”

The New York Times and several other newspapers voiced similar opinions. As a result of MCTF’s protest and the media firestorm, the offending language that would have granted a permanent grandfather was removed from the bill.



Maritime Cabotage Task Force Board

*Standing, from left to right:
Frank Pecquex, Tom Allegretti,
Jim Rausch, Jim Henry,
Eric Smith, Charles Crangle,
Allen Walker*

*Seated, from left to right:
Alan Butchman, Phil Grill,
Michael Roberts,
Bob Zuckerman, Jim Weakley*

“An American-flag Merchant Marine adequate for the needs of trade, travel, and defense promotes the economy and security of our Nation.”

Harry S. Truman, 1950

“Ships that fly the flag of the United States serve our people in trade, commerce, and defense.”

Dwight D. Eisenhower, 1960

“The American Merchant Marine is a major factor in maintaining the economy of the Nation through serving the peacetime commerce of the United States and is essential to the defense of this and other nations of the free world and to the cause of freedom on every continent.”

John F. Kennedy, 1961

“Throughout our history, American ships have contributed to the development of our modern economy, as well as to the strength and unity of the country.”

Lyndon B. Johnson, 1966

“A strong American merchant marine is essential to our Nation’s economic prosperity and military security.”

Richard M. Nixon, 1971

“After winning independence, the Founding Fathers considered shipping and trade so crucial to the survival of the new Nation that five of the initial acts passed by the first Congress were designed to foster American trade and maritime development.”

Gerald R. Ford, 1976

“The American Merchant Marine...builds our economy; in times of national emergency, it provides logistic support to our armed forces.”

Jimmy Carter, 1978

“ I can assure you that a Reagan Administration will not support legislation that would jeopardize this long-standing policy...embodied in the Jones Act...or the jobs dependent on it.”

Ronald Reagan, 1980

“In addition to the merchant mariners who served on commercial ships during Operations Desert Shield and Desert Storm, more than 3,000 civilian sailors manned the Ready Reserve Force vessels that are maintained by the Department of Transportation for such contingencies.”

George H. W. Bush, 1991

“My Administration...continues to support the Jones Act as essential to the maintenance of the nation’s commercial and defense maritime interests.”

William J. Clinton, 1997

MARITIME CABOTAGE



The Maritime Cabotage Task Force is the most broad-based coalition the U.S. maritime industry has ever assembled. Its 400-plus members span the United States and represent vessel owners and operators, shipboard and landside labor groups, shipbuilders and repair yards, marine equipment manufacturers and vendors, trade associations, dredging and marine construction contractors, pro-defense groups and companies in other modes of transportation. These diverse but allied interests share a common goal: to promote the long-standing U.S. cabotage laws that require domestic waterborne commerce be conducted in vessels that are U.S.-owned, U.S.-built, and U.S.-crewed. Upon this foundation the United States has built an unsubsidized domestic fleet that is the world leader in efficiency and innovation.

MCTF is dedicated to educating America on the economic, national security, environmental and safety benefits of the Jones Act and other U.S. cabotage laws so that domestic waterborne commerce remains a pillar of our national existence.

Maritime Cabotage Task Force

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