



# ANNUAL REPORT 2007

**“Over 90% of the combat cargo and supplies required by the men and women of our U.S. Armed Forces during war is delivered aboard sealift ships crewed by U.S. Merchant Mariners.”**

Admiral David Brewer, Commander (2001-2006)  
Military Sealift Command



**This U.S.-flag trailership delivering arms to U.S. troops in Kuwait is living proof that Section 27 of the Merchant Marine Act, 1920 (the Jones Act) is serving its purpose.**

## CHAIRMAN'S LETTER

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Dear Friends:

Events in 2007 continued to underscore the vital importance of the Jones Act fleet to our national defense and economic security. From helping to ensure the flow of military supplies and equipment to our troops overseas, to moving the goods vital to keeping the American economy humming on a daily basis, and in the face of emergencies resulting from natural or man-made disasters, Jones Act vessels and their U.S. citizen crews remain at the forefront of meeting today's and tomorrow's transportation challenges facing the nation. The 2007 Annual Report will focus on the readiness of the fleet to meet these challenges.

The national defense contributions of the Jones Act were highlighted by some of our nation's top ranking military leaders in 2007. Gen. Norton Schwartz, Commander, U.S. Transportation Command, stressed that troop support is all about "deliver[ing] military power in the quickest, most efficient, most businesslike manner wherever and whenever the nation calls on us to serve. The vast majority of how we get things done is through sealift." Lt. Gen. Robert Dail, head of the Defense Logistics Agency, said that seeing first-hand the material U.S.-flag ships deliver to our troops reinforces his belief that America's maritime capabilities "are critical to our national defense and security. I have seen the trust and confidence that is built between our nation and our troops, knowing that wherever they are, we will deliver the goods to them and we will get them there and bring them home."

A major effort during 2007 was to update MCTF's groundbreaking study of the domestic fleet titled *Full Speed Ahead*. The study was the most complete accounting of the Jones Act fleet in years and illustrates that America's domestic fleet is bigger and better than ever. To highlight the continued growth of the fleet, MCTF took a fresh accounting of the Jones Act fleet, and what we found was even more impressive than the earlier analysis. **America's Jones Act fleet has expanded to more than 39,000 vessels of every type, shape and size.** Other highlights include:

- The fleet overall has grown by nearly 60 percent (14,600 vessels) since 1965;
- The number of large commercial vessels in the fleet has increased by 287 percent since 1965 (with 30 percent growth in just the last ten years); and
- An average of one vessel has been added to the fleet every day for the last 40 years, making the Jones Act fleet one of the largest in the world in terms of carrying capacity.

These statistics are important because America's Jones Act fleet is, in a very real sense, an unsung hero. Vessels do their jobs rather quietly. They are in and out of port quickly, often during the hours of darkness. They do not clog our highways or keep us waiting at rail crossings. For many people, vessels are invisible. America needs to know and understand the value of the Jones Act fleet, which is the primary reason the MCTF exists.

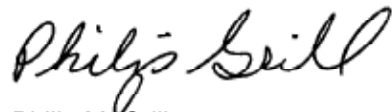
Sometimes, this lack of appreciation causes problems. For example, the initial draft of the Department of Homeland Security's *Strategy to Enhance International Supply Chain Security* suggested that waivers of the Jones Act be issued in the event of a national emergency. Once MCTF met with DHS

*Chairman's Letter continued.*

decision makers, the facts quickly illustrated the ability of the Jones Act fleet to meet the needs of the U.S. economy under those circumstances and the potential dangers of allowing foreign vessels and crews into domestic waterborne commerce. As befits an agency whose sole purpose is to protect America from terrorism, the final document contained no reference to waivers of the coastwise laws.

The pages that follow discuss the year in much more depth, so in closing, I wish to thank the scores of legislators from both parties, the Administration, and representatives from so many Federal agencies for their support and assistance. Your help has been key to keeping America's Jones Act fleet the pacesetter for domestic waterborne commerce.

Sincerely,



Philip M. Grill  
Chairman  
Maritime Cabotage Task Force



removed a suggestion to ease enforcement of the coastwise laws from a draft document.

- Urged U.S. Customs and Border Protection (CBP) to strengthen its regulations governing the ability of non-U.S.-flag cruise ships to take advantage of loopholes in those regulations to engage in otherwise prohibited cruises in Hawaii. Following a strong re-birth, the U.S.-flag cruise fleet in Hawaii has declined significantly, in large part because current regulations allow foreign-flag cruise ships to sail itineraries specifically designed to circumvent the Passenger Vessel Services Act. A mere 1-hour stop in a foreign port in the dead of night can effectively allow a foreign-flag cruise line to market trips that are in essence domestic cruises. This unfair competition has already forced two of the three U.S.-flag cruise ships serving Hawaii to leave the U.S. registry. An interpretative rule from CBP would end the abuses by requiring a real stop in a foreign port before a foreign-flag cruise ship could proceed from a West Coast port to Hawaii.
- Ensuring that the long-standing U.S. policy of prohibiting the use of U.S.-government-built or -owned vessels in commercial service remained the ground rule by opposing Military Sealift Command's (MSC) proposal to allow bareboat charters of certain large, medium speed roll-on/roll-off vessels for use in domestic waterborne commerce. MSC agreed with MCTF and the proposal was withdrawn.
- Endorsing the Federal Emergency Management Agency's draft National Response Framework that highlighted the Memorandum of Agreement between the Maritime Administration, the Department of Energy, and Customs and Border Protection that requires an assessment of U.S.-flag availability prior to issuance of any waiver. Use of these criteria would have illustrated the waivers issued after hurricanes Katrina and Rita were unwarranted.

## BUSY YEAR IN WASHINGTON

As the leading advocate for the Jones Act and other U.S. maritime cabotage laws, MCTF is both well known and well regarded in our nation's Capitol. Congress, the Administration, and those Federal agencies that interact with waterborne commerce all recognize that the MCTF is the best source for accurate information on how legislation or an initiative will affect domestic shipping. Just some of MCTF's Washington, DC activities in 2007 included:

- Working with Federal agencies to help them understand how unnecessary and damaging would be waivers of the Jones Act following a security incident or natural disaster affecting maritime transportation. For example, after extensive discussions, the Department of Homeland Security



## STATE OF THE JONES ACT FLEET REPORT SETS THE RECORD STRAIGHT

MCTF updated its statistics on the Jones Act fleet in 2007 because its benchmark study, *Full Speed Ahead*, was more than 10 years old and had been outdistanced by the continuing growth of the fleet. However, just a week before the new *State of the Jones Act Fleet* study was premiered before the Washington DC Propeller Club on May 1, an item on a news wire underscored the need for a proper accounting of that growth and widespread distribution of the results. Wrote Reuters: "The Jones Act fleet is estimated to be about 150 vessels." That pronouncement, sadly taken for fact by many readers, understated the size of the Jones Act fleet by 39,006 vessels!

Such a gross misunderstanding of the size and capabilities of the Jones Act fleet added a sense of urgency to MCTF's presentation before the Propeller Club. Jonathan Whitworth, Senior Vice President of Overseas Shipholding Group and head of the U.S.-Flag Strategic Business Unit, presented MCTF's new report, which included accurate and updated facts about the Jones Act fleet. America's Jones Act fleet is:

- Much bigger than most people think;
- Continually adds new vessels and jobs to serve trades that have existed in some cases for more than 200 years; and
- Offers new opportunities for growth in such areas as domestic "marine highway" intermodal or container on barge services, offshore support, ferries, and liquid-bulk transport, including deepwater shuttle tankers.

Whitworth then addressed the Jones Act fleet's contributions to the U.S. economy. He noted that of the 2.5 billion tons of cargo moving annually in U.S. maritime commerce, more than 1 billion tons, or 41 percent, is transported domestically by the Jones Act fleet. "If you think there's a lot of crude oil coming to the U.S. from the Persian Gulf, or containers from Asia, just look at how much cargo moves domestically. A truly stunning number of movements."



*Jonathan Whitworth presenting MCTF's State of the Jones Act Fleet study.*

The Jones Act has created an equally stunning number of jobs. The nearly 9,000 self-propelled vessels account for 135,000 jobs, not including personnel that work in company offices or in the ports to support the vessels.

The economic impact of the U.S. shipyards that build and modernize Jones Act vessels is no less impressive – 150,000 jobs; \$11 billion in output; \$9.4 billion in personal income; and \$3.4 billion in federal, state, and local taxes. It's no wonder that the U.S. Navy continues to support the U.S. build requirement of the Jones Act as important to maintaining the U.S. shipbuilding and repair and supplier base upon which the Navy depends to build and maintain warships.

With U.S. containerized trade expected to more than double by 2020 and domestic freight transportation growing even more rapidly, Whitworth also focused on the role the Jones Act fleet will have in helping to meet that demand. "There is an increasing interest in container on barge services as a means of transporting containerized cargos that would otherwise contribute to increased congestion on our highways."

In the near term, the most dramatic evolution in the Jones Act fleet has taken place in the self-propelled tanker sector. Between 1995 and 2005, that segment of the fleet shrunk by 40 percent, largely because of the nearly 50 percent drop in Alaska crude oil production and the withdrawal of single-hulled tank vessels. "Yet today, that sector leads the industry in new buildings," beamed Whitworth. "New crude tankers for the Alaska trade led the way. Now they are being followed by product tankers. For example, the up to 16 new builds to be delivered by Aker America for OSG America (Whitworth's fleet), and the nine on order with National Steel & Shipbuilding Company for U.S. Shipping Group together will add approximately 1.2 million deadweight tons of new cargo capacity to this segment of the fleet."

As illustrated by the construction of new double-hulled tankers, the Jones Act fleet recognizes its responsibility to protect the environment. Even though the law does not require all tankers to be double-hulled until 2015, already almost 75 percent of the Jones Act tank vessel fleet meets that standard and nearly 90 percent is either double-hulled, double-sided, or double-bottomed.

## JONES ACT PRODUCT CARRIER CONSTRUCTION CONTINUES TO GROW

At least 85 tank barges and product tankers are now under construction, being converted or on order in the U.S. with options or conditional orders for an additional 20. The U.S. orderbook now totals close to one million deadweight tons (dwt) in tank barges with options for an additional 47,000 dwt and over 900,000 dwt in product carriers plus options for 582,000 dwt more.

In recent years, the U.S.-flag commercial product tanker fleet, in particular, has been facing increased competition in the international trades and dealing with the withdrawal of aging single-hulled Jones Act tankers in anticipation of Oil Pollution Act of 1990 deadlines. Subsequently, by 2004 the loss of self-propelled tankers vital to U.S. national defense needs had reduced the tanker pool that the U.S. had relied upon historically to meet defense tanker requirements.

In 2007 new double-hulled product tankers built in U.S. shipyards by Jones Act tanker operators entered into service and by 2010 these new build programs will result in the commercial industry capable of providing even more product tankers for defense needs. If all options under those programs are exercised, by 2015 the national defense tanker pool will have nearly doubled.

Also in 2007, new double-hulled Articulated Tug-Barge ("ATB") tank vessels were christened and brought into the Jones Act trades. These state-of-the-art designs provide reliable, efficient and safe transportation for the products they carry, while bolstering the size of the U.S. domestic fleet. Several new ATBs were placed on order in U.S. yards, set to be delivered in the next few years.

Continued support for the U.S. build requirement of the Jones Act will be vital to the ability of U.S. Jones Act product carrier owners to continue to invest in such vessels built in U.S. shipyards. Without a level competitive playing field guaranteed by the Jones Act, the U.S.-flag product carrier fleet could be strained to meet commercial and military needs.



*Self-propelled product tankers serve the commercial industry and contribute to the national defense tanker pool. ATBs are a safe and efficient mode of product transport. Both types of product carriers help bolster the size of the U.S. domestic fleet.*

## JONES ACT FACTS

- A newly emerging segment of the Jones Act fleet is higher speed ferries such as the Hawaii Superferry. It, along with a sistership under construction in Alabama, can transport nearly 300 automobiles at speeds up to 35 knots (40mph).
- The number of vehicular ferries of all types has more than tripled over the last 10 years. This is an area where the Jones Act fleet can play an important role moving cargoes that would otherwise add to congestion and greenhouse gas emissions on our highways.

## DEMANDS OF COMMERCE SET HEADY PACE AT AMERICAN SHIPYARDS

The U.S. Energy Information Agency estimates that total U.S. petroleum consumption averaged 20.8 billion barrels a day in 2007, an increase of 0.5 percent compared to 2006. Demand is expected to increase another 1 percent in 2008, and about 30 percent of those products will move by water.

America's thirst for refined petroleum products is keeping America's shipyards working at full speed. An abandoned Navy shipyard in Philadelphia that was revived to build containerships for the West Coast/Hawaii trade now has orders for as many as 16 product carriers. A major West Coast yard has commenced the construction of what will be nine large tankers.

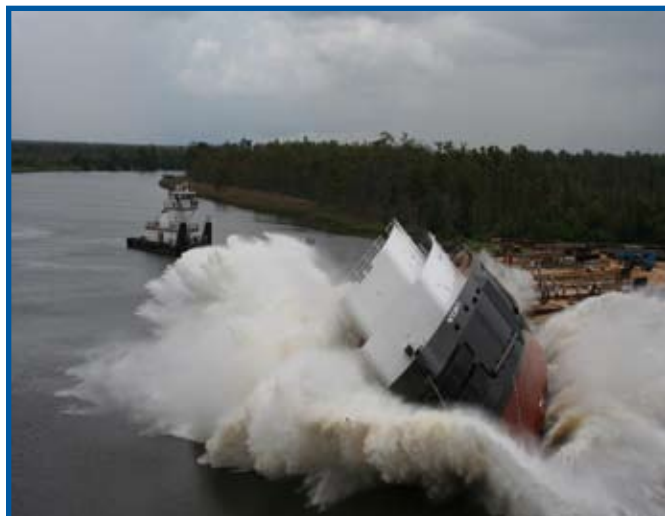
The list goes on; the following vessels were delivered in 2007:

- 70 offshore supply vessels;
- 115 tugs and towboats;
- 50 passenger vessels over 50 feet in length; and
- 185 tank barges

America's Jones Act fleet continues to grow.



*The Overseas Long Beach is one of 12 U.S.-flag product carriers on order to serve the Jones Act liquid-bulk trades. She was christened on June 16, 2007 at Aker Philadelphia Shipyard.*



*A 9,000 horsepower tug joins the Jones Act fleet. The tug will push a barge capable of carrying 330,000 barrels of refined petroleum products. (Photo courtesy: VT Halter Marine)*

## BOARD MEMBERS THANKED FOR INVALUABLE CONTRIBUTIONS

MCTF also said good-bye to two long-time Board members in 2007. Alan Butchman, who represented American Shipping Group and Marine Resources Group, retired during the summer. Alan had served on MCTF's Board since the coalition's founding in 1995.

Allen Walker, Shipbuilders Council of America, raised anchor at year's end to pursue a new career.

MCTF deeply appreciates these gentlemen's wise and generous counsel over the years and wishes them all the best in the years ahead.

## JONES ACT FACTS

• 97 percent of all cargos carried by U.S.-flag vessels, in both the international and domestic trades, is carried by Jones Act vessels.

• About 450 inland river barges join the fleet each year. 20 percent of the nation's coal and 60 percent of its grain exports travel our inland rivers.

• In 1965, self-unloading vessels represented only 25 percent of the Great Lakes Jones Act fleet. Today, only two ships are non-self-unloading.

• On average, every month 3-4 new offshore supply vessels built in U.S. shipyards begin servicing petroleum production facilities off our coasts.

## TRAILERSHIP ILLUSTRATES MILITARY'S NEED FOR JONES ACT

The Jones Act trailership WESTWARD VENTURE underscored the role of the domestic fleet in helping America win the war on terrorism when it transported the 10,000<sup>th</sup> piece of cargo to Kuwait for the 332<sup>nd</sup> Air Expeditionary Wing in early 2007. The vessel, which long served the Washington/Alaska trade, has been on commercial charter to a company that provides RO/RO and break bulk ocean carriage for the U.S. Transportation Command, Department of Defense, and other government agencies. The vessel has continued to sail between the United States and the war zone since carrying the benchmark cargo.

The Jones Act is critical to national security and a strong commercial maritime industry is vital to our national defense strategy. At a December 13, 2007 House Armed Services Committee hearing on global maritime strategy initiatives, Admiral Gary Roughead, Chief of Naval Operations said, "We will maintain a robust strategic sealift capability to rapidly concentrate and sustain forces, and to enable joint and/or combined campaigns. This capability relies on the maintenance of **a strong U.S. commercial maritime transportation industry...**"

The Jones Act:

- Contributes militarily-useful ships and experienced crews to national defense sealift needs;
- Sustains the national maritime infrastructure upon which U.S. maritime power and national and economic security rest; and
- Ensures continued U.S. economic and operating control over the marine transportation system - a key part of the U.S. transportation system and one of eight Critical Infrastructures supporting the U.S. economy.



*This Jones Act trailership moved more than 100 Mine-Resistant, Ambush-Protected vehicles (MRAPs) from Port Charleston, South Carolina, to U.S. troops in Iraq. MRAPs provide better protection for military forces than the Humvees currently in use.*



*The WESTWARD VENTURE transported the 10,000th piece of military cargo to Kuwait in early 2007.*

## PRESIDENTIAL ASPIRANTS BACK JONES ACT

Since enactment of the Jones Act in 1920, every President and Congress has supported domestic maritime cabotage laws. President Bush first endorsed the law when seeking office in 2000. On Labor Day 2006, he reaffirmed his support for the Jones Act during a visit to the Seafarers International Union's Paul Hall Center for Maritime Training & Education. President Bush said, "...it's important for Presidents to embrace the Jones Act. I have...supported the Jones Act, and will continue to do so as President."

A MCTF priority in 2007, and continuing into 2008, was working with the Presidential campaigns. In that vein, the International Brotherhood of Boilermakers circulated a questionnaire to the 2008 presidential candidates, which included a question about the Jones Act.



Sen. Hillary Rodham Clinton (D-NY) responded to the questionnaire stating, "I oppose efforts to weaken the Jones Act." She also noted that, "when we use American products in our coastal vessels, we spur more jobs for hardworking Americans."

Sen. Barack Obama (D-IL) said that, "maintaining the American merchant marine fleet is vital to our economy and national security. I would oppose any move to undermine this Act."



To date, Sen. John McCain (R-AZ) has not taken a public position on the Jones Act during his presidential campaign.

### 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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