

STATE OF THE JONES ACT FLEET

Remarks By

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Good Afternoon,

My name is Jonathan Whitworth, Senior Vice President of Overseas Shipholding Group and Head of OSG America. Put simply, I am responsible for OSG's U.S.-flag vessel operations, headquartered in Tampa, Florida.

I would like to thank the Propeller Club Port of Washington, DC for this opportunity to appear before you on behalf of OSG and the Maritime Cabotage Task Force to give a "State of the Fleet" presentation on the US Jones Act fleet.

Because today's Jones Act fleet is so diverse and so many good things are happening in it, let me apologize up front if because of time or space limitations, I do not have a picture of one of your company's vessels in my presentation. Unfortunately, we would be here all afternoon if we included all the pictures.

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If you ever wondered why it is important to report on the State of the Jones Act fleet, consider this. Just last week, Reuters circulated a news item on the U.S. domestic fleet which read as follows:

"The U.S. shipping fleet is protected by the Jones Act, which requires U.S. ownership, construction, and crewing for all waterborne coastal commerce. The Jones Act fleet is estimated to be about 150 vessels."

They were right in the first part, but grossly wrong in the second!

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If you only take three things away from this presentation, they are that today's Jones Act fleet –

- Is much BIGGER than you think;
- Has new ships, and jobs, and not only offers the continuation of shipping trades which have existed in the United States in some cases for over 200 years; but also
- Offers new opportunities for growth in such areas as domestic short sea intermodal or container on barge services, offshore support, ferries, and, my favorite, liquid bulk transport, including deepwater shuttle tankers.

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As everyone here is well aware, there are three legs to the Jones Act stool – U.S. construction, U.S. ownership, and U.S. documentation, which includes U.S. crewing. Today's presentation will primarily focus on the vessel side of the fleet, but let us never forget that without the shipyards that built those vessels and the thousands of U.S. seafarers that crew them, there would be no Jones Act fleet.

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Based on a new study on the Jones Act fleet being released today by the Maritime Cabotage Task Force, I'd like to share with you some of the key facts about the Jones Act fleet and how it continues to increase its ability to provide safe, reliable, environmentally friendly, and cost effective waterborne transportation for the U.S. economy.

Today, there are over 39,000 vessels in the fleet, which equates to 59% growth in overall numbers since 1965.

The numbers of large commercial vessels, which often serve as the basis for discussions about whether the Jones Act fleet can meet the needs of American shippers, have increased even more spectacularly, growing by 30% in the last 10 years alone.

By some measures, when all inland and coastal vessels are included, the Jones Act fleet by itself ranks among the world's largest fleets in terms of numbers of vessels and capacity.

Let me address each of these areas in turn.

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Based on U.S. Army Corps of Engineers data as of December 31, 2004, there are 39,156 vessels in today's Jones Act fleet. This is only 39,006 more vessels than was stated in the Reuters article mentioned earlier! Of the 39,000, 8,779 are self-propelled vessels, and 30,377 are barges.

Many analyses of merchant fleets focus solely on large, self-propelled oceangoing vessels while ignoring everything else. I feel this does a grave injustice to those of us in the Jones Act fleet, and to the public in general. If a vessel provides transportation services for goods or passengers, or performs services in support of such transportation, such as marine construction or offshore support, and requires a licensed U.S. merchant mariner to operate, I strongly believe that it must be considered part of the fleet.

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Including barges in our computations always gives rise to challenges that they are "too small" to be counted. A few comparisons easily demonstrate the fallacy of that argument. For example, a modern 1,000 ft. bulk from the Great Lakes such as Interlake Steamship's PAUL TREGURTHA has a cargo carrying capacity of approximately 68,000 tons. But a 31 barge tow on the Mississippi River of approximately the same length would have roughly the same combined carrying capacity, or roughly 56,000 tons. Each has particular advantages according to the trade in which it operates, and both are vital parts of the fleet as a whole.

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Similar comparisons can be made in other categories of vessels such as roll-on/roll-off ships. For example, Pasha Hawaii Transport's new vehicle carrier JEAN ANNE operates in the West Coast to Hawaii trade and is nominally rated at 3,000 automobiles. But by the same token, Crowley operates large oceangoing trailer barges in services between the U.S. East Coast and San Juan, Puerto Rico, each of which carries in excess of 400 53-foot trailers.

In either example, the barges in question are transporting cargoes in domestic commerce just are the self-propelled vessels and there is no rationale as to why the self-propelled vessels should be counted, but the barges ignored.

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Returning to the growth I mentioned earlier. 59% growth over 40 years means a net increase of 14,651 vessels. Thus, on average, the fleet has experienced a net increase of over 350 vessels annually, or a net increase of one new vessel added to the fleet almost every day for 40 years! Folks, this is not a business that is dying, or “on it’s last leg”, this is a thriving, growing & dynamic industry.

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When only large commercial cargo vessels are considered, the growth is even more spectacular. This category is important because critics of the Jones Act historically have focused solely on the number of self-propelled vessels greater than 1,000 gross tons when characterizing the fleet, which substantially under-states the capability of the Jones Act fleet to transport goods.

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Just to give you a sense of what these numbers mean in terms of cargo carrying capacity, at 68 million tons, the Jones Act fleet would rank among the largest of the world’s merchant fleets. Other than China, none of the other flag states in the top 10 based on deadweight tonnage shown possesses a domestic fleet of any note. If all of China’s vessels, including barges, were counted its fleet would rank second in total cargo capacity.

For comparison purposes, without including the Jones Act fleet as a whole, the U.S.-flag fleet totals only 9 million deadweight tons.

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So, just how important is the Jones Act Fleet to the US economy?

Over 2.5 billion tons of cargo moves annually in U.S. maritime commerce. Over a billion tons of that commerce, or 41%, is transported domestically by the Jones Act fleet. If you think there’s a lot of crude oil coming to the US from the Persian Gulf, or containers

from Asia, just look how much cargo moves domestically. A truly stunning number of movements.

This also underscores the importance of these domestic cargoes to the U.S. maritime industry. 97% of all cargoes carried by U.S.-flag vessels, counting both that moving in international trade as well as in the domestic trades, is carried by Jones Act vessels operating in the domestic trade.

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It goes without saying that we would not have the greatest fleet in the world if we did not have the greatest crews in the world. The growth and productivity of the Jones Act fleet is the result of increased investment by U.S. shipowners and the cooperative attitude towards productivity improvement that exists between American vessel operators, State and Federal maritime academies and U.S. mariners.

By some estimates, jobs in our industry have increased by 20% in the last five years.

Out of curiosity I did a back of the envelopment analysis of jobs afloat based on the numbers of self-propelled vessels discussed earlier and came up with 135,000 jobs on board Jones Act ships alone. This does not take into account those that work in the office or in the ports to support the vessels.

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Nor can we ignore U.S. shipyards. When we think about shipyards, we often think largely in terms of the numbers of vessels they produce. As important, however, is their economic impact on the U.S. economy. For example, consider these figures from an economic impact study published by the Shipbuilders Council of America in 2002. In the year 2001, U.S. commercial shipyards contributed—

- \$11.0 billion to U.S. output;
- 147,230 jobs to U.S. economy;
- \$9.4 billion to U.S. personal income; and
- \$3.4 billion in Federal, State, and local tax revenues.

As another example of the growth in shipbuilding over the past ten years, the Aker Philadelphia shipyard has gone from an abandoned U.S. Navy shipyard to delivering five vessels with a combined value of \$600M, and a backlog of up to another 15 vessels worth in excess of \$1.5B. In addition, they went from zero jobs in 1997 to a workforce of over 1300 employees today.

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Over the next couple minutes I'm going to give a thumb nail update on each of the following industry sectors. Then I'll spend a little more time on where we are in the liquid bulk side.

- Container
- Roll-on/Roll-off
- Dry Bulk
- Offshore Support
- Passenger, Cruise & Ferry

As I go through these sectors keep in mind the new vessels and opportunities to be found in each, and the jobs those opportunities can represent.

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Collectively, the dry cargo sector has experienced a net increase in the number of vessels and their cargo carrying capacity over the last 10 years. Such growth includes the four new Matson containerships built at Aker Philadelphia. Incidentally, we should all congratulate Matson not only on these new ships, but also on its 125th Birthday!

At the same time, with U.S. containerized trade expected to more than double by 2020, there is increasing interest in container on barge services as a means of transporting containerized cargoes that would otherwise contribute to increased congestion on our highways. As a side note, anyone who's driven on the I-95 corridor between Washington DC and NYC soon realizes that we have a serious congestion problem when trying to move products from point A to point B. This container on barge trade includes both coastwise

services, such as that operated by Columbia Coastal and services on inland rivers and waterways.

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Recent years have seen similar growth in the roll-on/roll-off sector, including the new trailer ships that Tote employs in its Alaska trade. While not numerous, roll-on/roll-off Jones Act vessels such as the Tote ships play important roles in supporting the U.S. military.

A newly emerging side of this sector is in higher speed ferries such as the Hawaii Superferry scheduled to go into service in Hawaii this Summer. Built at Austal in Mobile, Alabama, the ALAKAI and its sister ship can transport up to 282 automobiles or 28 trucks and 65 autos at service speeds up to 35 knots.

Similarly, the number of vehicular ferries of all types in the Jones Act has more than tripled over the last 10 years. Again this is an area where the Jones Act fleet can play an important role in moving cargoes that would otherwise add to congestion and greenhouse gas emissions on our highways.

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Intermodal services may be exciting, but the fact is that bulk cargoes (liquid and dry) account for 90% of the tonnage carried by the Jones Act fleet.

On the dry cargo side, the principal bulk trades are on the Great Lakes, where iron ore is king, and inland waterways, where barges carry 20% of the nations coal and 60% of all US grain exports.

While the number of dry cargo barges has remained relatively constant in recent years, currently about 450 new barges join the fleet each year (a little more than one a day). As a result, the cargo carrying capacity of the fleet has grown by about 8% in the last 10 years.

New vessel construction has been less frequent on the Great Lakes, because fresh water allows for longer hull lives. Thus, the Great Lakes fleet frequently chooses to modernize existing hulls by lengthening and re-powering them and converting the vessels to self-unloaders. (Self-unloading vessels are exactly what their name implies. The vessel is so

equipped that it can discharge cargo without any assistance from shore side personnel or equipment). In 1965, self-unloading vessels represented only 25 percent of the Great Lakes Jones Act fleet. Today, only two active U.S.-flag Lakers still requires shore side equipment and personnel to be unloaded.

On the barge side, I'd like to highlight American Commercial Lines. It is the second largest transporter of dry cargoes by barge in the US with 16% of the market. In 2005, ACL came out of bankruptcy with a \$100 million in market capitalization, which now exceeds \$2 billion.

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Today, over 1,700 vessels operate in our offshore industry supporting petroleum production facilities of our coasts. On average, 3-4 new vessels built in U.S. shipyards enter these trades every month! Approximately 150 offshore vessels of all types are currently on order, with a total order book in US shipyards of over \$3 billion.

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When discussing jobs afloat in the Jones Act fleet, nothing contributes to that growth as much as passenger vessels of all types, from dinner boats to large oceangoing cruise ships. Because of the wide variety of services provided to passengers on these vessels, they are job intensive. For example, a single large cruise ship, similar NCL's PRIDE OF AMERICA in the Hawaii trade, can represent over 1,200 maritime jobs, counting both active and relief crews.

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Between 1995 and 2005, the self-propelled tanker sector of the Jones Act fleet lost over 40% of its vessels and cargo capacity. Contributing factors were: (i) the decline in Alaska crude oil production (by approximately 46%); (ii) the shrinkage of the product tanker fleet; and (iii) the movement to barges for refined product movement, particularly in the coastwise trade.

Today, that sector leads the industry in new buildings. 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, and the 9 on order

with NASSCO for U.S. Shipping Group together will add approximately 1.2 million deadweight tons in new cargo capacity to this segment of the fleet.

This is a good time to say a few quick words about OSG America: Last year OSG operated 10 US Flag vessels, but now operates over 20 vessels (including tankers, car carriers, dry bulk and articulated tug/barges). We also have another 13 tankers and 6 ATB's on order, with a total new build construction commitment of over \$2 billion. That's \$2 billion in capital which OSG could have invested in our international fleet, but we made a firm commitment to the US and decided to invest our money here in America. In addition, we currently employ over 600 seagoing employees, which will more than double in less than five years.

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As with the dry barge segment, the addition of larger new tank barges and articulated tug/barges to the fleet over the decade resulted in a significant net gain in combined lift capacity (+8.9%).

Commercially, this gain in capacity in part offset the loss of self-propelled tanker capacity noted before. Interestingly, as we add more ATB's to our fleet, the average speed of OSG's tug/barge fleet has increased from 11 to 13½ knots, only 1 knot less than competing new-build tankers with the exact same carrying capacity.

Importantly from the environmental perspective, 73% of the Jones Act tank barge fleet is double-hulled, and fully 88% is either double hull or double sided or double bottomed. Under Oil Pollution Act of 1990, by 2015 the entire tank barge fleet will be double-hulled.

As for inland liquid bulk barges, Kirby rules the rivers and inland waterways of the US. In the past 10 years, Kirby's barge fleet has almost doubled, numbering 903 today. In the same period, they're combined vessel and office staff doubled, which now numbers almost 2500 employees. Also during the same 10 year period, Kirby's annual revenue has tripled and earnings have quadrupled.

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This has been an enjoyable, and quite frankly an easy presentation to make because the story of the Jones Act fleet today and looking forward is such a great one.

But we can never allow ourselves to become complacent. Having a good story is only part of the battle. The other part is ensuring that we tell that story to others.

For over 10 years now, the Maritime Cabotage Task Force has been in the forefront of efforts to preserve the Jones Act and educate our national leaders, Members of Congress, the media, and the public on the importance of the Jones Act to our economic and national security.

But every one of us shares the responsibility of being an advocate for our industry.

Thank you for allowing me the privilege of addressing you today.