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SHORT SEA SHIPPING OPPORTUNITIES IN THE UNITED STATES

(110–11)

HEARING

BEFORE THE

SUBCOMMITTEE ON
COAST GUARD AND MARITIME TRANSPORTATION

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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U.S. House of Representatives
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Washington, DC 20515

John L. Mica
Ranking Republican Member

James W. Coon II, Republican Chief of Staff

February 9, 2007

MEMORANDUM

TO: Members, Subcommittee on Coast Guard and Maritime Transportation

FROM: Staff, Subcommittee on Coast Guard and Maritime Transportation

RE: **SUMMARY OF SUBJECT MATTER**: Oversight hearing on Short Sea Shipping opportunities in the United States

PURPOSE OF HEARING

On February 15, 2007 at 10:00 a.m. the Subcommittee will meet in room 2167 Rayburn to conduct an oversight hearing on short sea shipping in the United States, the potential for growth of this transportation segment, and what impediments may exist to the further development of short sea shipping in the United States.

BACKGROUND

Short sea shipping (SSS) is generally defined as "waterborne transportation of commercial freight between domestic ports (from one port in the United States to another port in the United States) through the use of inland and coastal waterways." It includes the movement of freight and of passengers (for instance ferries); however, when the term "short sea shipping" is discussed as a mode of transportation, it is typically meant to refer to the movement of freight.

An opportunity may exist to develop a new SSS policy that will promote the continued development of this method of transportation. However, short sea shipping is still in a nascent stage and any new policy initiative will need to wrestle with a host of issues, ranging from the role the federal government should play in developing a mode of transportation devoted largely to freight, to how best to overcome the constraints that limit this mode (legal, logistical, operational, and financial) and win acceptance of the mode among shippers. Nonetheless, the development of a short sea shipping initiative could offer an opportunity to develop a new policy initiative in the field of transportation.

The major extant of water freight systems in the U.S. operate on the Mississippi River, the Great Lakes, and the St. Lawrence Seaway, and typically transport bulk cargoes (like grain, coal, petroleum, and lumber) that do not have to be delivered in a time-sensitive manner. The GAO found that in 2000, these operations moved only about 6% of U.S. freight tonnage.

However, the target market for short sea shipping operations is usually more time sensitive cargoes such as containerized goods and trucks. Some SSS proponents are targeting the development of a feeder system (hub-and-spoke) for container traffic. For example, small coastal barges or freighters could move containers to major hub ports that could load these containers on large containerships that cannot be handled at the smaller ports.

Other SSS proponents are targeting long-haul truck movements and believe that these trucks (and their drivers) could be loaded on a high-speed ferry for quick movement along a coast. For example they believe that a driver could drive a truck from a point of origin in Connecticut onto the ship in New York, the driver could obtain their needed rest period and sleep on the SSS ferry, and then he could drive the truck off the ferry and to its final destination in northern Florida. In a 24-hour period, the driver and truck could cover more miles on a combined highway-SSS movement than a pure highway movement where the cargo would not be moving during the drivers required rest periods.

Potential Benefits of SSS

Some of the potential benefits of SSS could include:

- **Improved Freight Mobility:** As has been frequently discussed, the volume of freight transported in the U.S. is expected to increase significantly in the coming years. Increasing congestion is experienced on both our roadways (where trucks handle more than 70% of freight by weight) and our rail networks; proponents of SSS believe that it could offer a new option for meeting increased demand for freight movement.

- **Reduced Congestion:** Concomitant with the potential ability of SSS to expand freight movement options, proponents believe it could actually be developed to reduce freight traffic on the roadways – and thus alleviate some causes of congestion.

- **Reduced Emissions:** Similarly, some proponents believe that transferring freight to ships could help reduce transportation-related emissions by reducing truck traffic.

Factors that Could Limit the Development of SSS

The factors that could potentially limit the development of SSS include:

- **Need to Alter Port Facilities:** Currently, ports – especially major ports – are built to service large, ocean-going vessels. They are equipped with large cranes to serve large ships. An expansion of SSS may require the construction of infrastructure that can service SSS vessels – many of which may utilize Roll-on/Roll-off technology

(meaning that the cargo can be driven or pushed on and off the vessel) rather than crane technology. Some suggest that SSS cargo could be directed to smaller, less congested ports – though others argue that such ports are often out of the way of city centers and additional transportation costs may be associated with moving the cargo from these ports to city centers.

- **Harbor Maintenance Tax:** The Harbor Maintenance Tax (HMT) is a levy that is placed on the value of cargo that is imported to a port within the United States or that is transported between two U. S. Ports. The levy is assessed at a rate of 0.125% of the value of the cargo. The tax is assessed only once on cargo that is transported between one U.S. port to another (either at the point of departure or arrival – but not both); however, cargo that is carried from a foreign port may be taxed twice – once upon arrival at the initial U. S. port and again if transported to another U.S. port aboard a different vessel. Cargo that is transported along the inland waterways is subject to the Inland Waterways Fuel Tax instead of the HMT. The Great Lakes are not considered part of the inland waterways system. Many proponents off SSS make three basic arguments for an exemption of SSS cargo from the HMT:

    1. They argue that cargo transported through SSS should be exempted from the HMT because it creates a competitive disadvantage vis a vis other modes (e.g., freight transported by trucks does not pay a specific comparable tax), including the possibility of double assessment of the HMT.

    2. There can be multiple HMT charges for a single through-movement. For example, if a container is transported from Europe to New York, is taken off the ship, and reloaded on a SSS ship for transport to Baltimore, it would pay the HMT twice – once for each leg of the movement.
    3. Since the HMT is assessed and collected from the shipper, not the carrier, the HMT discourages SSS shipment of consolidated loads. For example, if a FEDEX truck were to move 500 packages from New York to Jacksonville, FL, on a SSS vessel, each of the 500 package owners would be responsible for paying the Harbor Maintenance Tax – which would be very difficult to do and the owners of these 500 packages wouldn't have to pay any additional fees if FEDEX moved their packages over the highway to Jacksonville.

- **Shipper Reluctance:** Additionally, there is a general reluctance among freight shippers to try new, relatively unproven modes. Many shippers prefer to rely on trucks or trains because they are known modes and they may be reluctant to utilize SSS even if it is marginally cheaper or offer some other competitive advantage.

- **Ship Financing:** Short sea shipping is often a form of coastwise trade which requires the use of U.S.-flag, U.S.-built, and U.S.-crewed vessels under the Jones Act. It is difficult to secure financing for ship construction for new ventures without first having freight contracts to prove that the ship owner can pay off the vessel's mortgages. Freight and logistics companies are often unwilling to enter into those contracts for an unproven service and at a cost that cannot be specified 2-3 years before the ship is delivered from a shipyard. In addition, the typical length for a

mortgage for a ship is 7-12 years. This makes the mortgage payments higher than they would be over a mortgage payment period of 30 years and affects the ability to secure financing for a new operation. To help overcome ship financing barriers, some SSS proponents have advocated allowing the Capital Construction Fund (CCF) Program to be used for SSS. CCF is a tax deferred program that allows ship owners to defer Federal income taxes on their deposits as long as the withdrawals are used to build ships in a U.S. shipyard (similar to an IRA for ship owners). Others have recommended funding of the Maritime Administrations Title XI loan guarantee program under which the Federal Government will guarantee the mortgage of the ship owner for up to 30 years.

Promotion of SSS in the United States:

- **DOT Has Made SSS A High Priority:** The Department of Transportation – through the Maritime Administration (MARAD) – has made promoting SSS a high priority and has made SSS one of its six high-priority freight initiatives through the National Freight Action Agenda. They have sponsored a number of conferences gathering information on U.S. and European SSS experiences.

- **SCOOP:** In 2003, a group of public and private organizations joined to create the short sea shipping cooperative program, called SCOOP. The goal of SCOOP is to work to promote the growth of SSS, including the development of federal policies needed to support SSS. SCOOP currently advertises nearly 50 members, including MARAD, a number of port authorities, several shipping lines, and the Merchant Marine Academy.

Promotion of SSS in Europe:

There has been an effort in Europe to promote SSS. It is important to keep in mind that the European context is very different from the American context in that cities in Europe are generally more closely located and often have easy access to water – and fuel taxes and other costs make overland trucking relatively expensive, promoting the search for alternative transportation methods.

- **Marco Polo Program:** Europe created the Marco Polo program to provide funding for start-up and operating costs for SSS operations. A total of 75 million euros was made available per year between 2003 and 2006 for the Marco Polo program, which is intended to cover up to 30% of the financing needs of eligible projects. The European Union has proposed to raise the budget for the Marco Polo program to 740 million euros for 2007-2013.

- **Trans European Transport Network (TEN-T):** The TEN-T program funds the development of the infrastructure and facilities needed to promote SSS. Proposals must be developed by two member nations of the EU and must be focused on reducing congestion or expanding links between two nations.

U.S. House of Representatives
Committee on Transportation and Infrastructure

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Chairman

David Heymsfeld, Chief of Staff
Ward W. McCarragher, Chief Counsel

Washington, DC 20515

AGENDA

John L. Mica
Ranking Republican Member

James W. Coon II, Republican Chief of Staff

SUBCOMMITTE ON COAST GUARD AND MARITIME TRANSPORTATION HEARING

****

Thursday, February 15, 2007
2167 RAYBURN HOUSE OFFICE BUILDING
10:00 a.m.

Oversight Hearing of Coast Guard Short Sea Shipping System

Panel I

Sean Connaughton
Administrator
Maritime Administration

Collister Johnson, Jr.
Administrator
St. Lawrence Seaway Development Corporation

Panel II

Gregg M. Ward
Vice President
Detroit-Windsor Truck Ferry

Mark Yonge
President
Maritime Transport & Logistics Advisors

James R. Barker
Chairman
The Interlake Steamship Co

Mr. Stephen Flott
Chairman
Seabridge, Inc

Anastassis Margaronis
President
Santa Maria Shipping

SHORT SEA SHIPPING SYSTEM

Thursday, February 15, 2007

HOUSE OF REPRESENTATIVES,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 p.m., in room 2167, Rayburn House Office Building, the Honorable Elijah E. Cummings [Chairman of the Subcommittee] presiding.

Mr. CUMMINGS. Good morning and thank you all for being with us.

Mr. LaTourette I am sure is on his way, and so we will hear his opening statement when he gets here.

When I assumed the Chairmanship of the Subcommittee on the Coast Guard and Maritime Transportation, I promised that our Subcommittee would balance oversight of the Coast Guard with our responsibility to strengthen our maritime industry. Today we begin to make good on that promise by conducting this hearing on short sea shipping, in an ongoing effort to realize the full potential of waterborne transportation to become a reliable and widely accepted transportation mode, particularly for the movement of freight.

At the present time, the most highly developed water freight transportation systems in the United States operate on the Mississippi River, the Great Lakes and the St. Lawrence Seaway and often carry agricultural products and other raw materials. However, the Maritime Administration has found that these routes are carrying only about 13 percent of total freight tonnage in the United States. By comparison, nearly 70 percent of the freight tonnage transported in the United States is moved by trucks traveling across our Nation's roadways, emitting pollution and adding to traffic congestion, particularly in metropolitan areas.

At the present time, our Nation's transportation policy tends to be individualized for each mode, whether for highways, transit, aviation or railroads, and almost all the other transportation modes receive more attention than does maritime transportation. Maritime transportation, one of the oldest forms of transportation in the world, has become something of a stepchild and one whose welfare is rarely discussed. In fact, the Congressional Research Service reports that expenditures on two of the major programs for supporting U.S. shipping, the Cargo Preference Program and the Maritime Security Program, combined with MARAD's own operating budget and its expenditures on United States Merchant Marine

Academy, and the State maritime academies are likely to total about $446 million in fiscal year 2007.

This is a drop in the ocean compared to the nearly $39 billion in Federal highway aid the United States Government is expected to provide to our States. While highway travel is obviously our most common form of travel, even it is underfunded. I believe that we urgently need to develop national transportation strategies that are multi-modal in scope and that focus on the unique challenges concerning the movement of freight.

The potential of short sea shipping to be a productive mode in our transportation network has not been realized. In large measure, this is because adequate studies have not yet been conducted to assess the nature of short sea shipping's potential, understand the obstacles that may keep us from realizing that potential and identify strategies to overcome these obstacles. Only once these questions are answered can we begin to develop a Federal policy regarding short sea shipping that responds to these issues that sets a vision for what short sea shipping can become and that supports the realization of that division.

I know the development of such a policy is a top concern of those in the United States maritime industry, including both the Maritime Administration and the St. Lawrence Seaway Development Corporation, port authorities, shipping lines and even shippers. However, it should also be a top concern of every driver who has ever been stuck in traffic behind a semi-truck at rush hour. It is my hope that today's hearing will be the first step of a concerted and coordinated effort to more closely incorporate maritime transportation and short sea shipping in particular into our national transportation system.

Now it gives me great pleasure to recognize our Ranking Member, Mr. LaTourette.

Mr. LATOURETTE. Thank you, Mr. Chairman. Thank you for holding this important hearing today. Short sea shipping could potentially transfer thousands of cargo containers off of our interstates and onto U.S.-flag vessels. An increase in the amount of freight traffic that is moved by coastwise trade would benefit the U.S. fleet, our merchant mariners, our ports and our Nation's shipbuilders.

However, short sea shipping will not be widely accepted until coastal transportation services become more dependable, timely and cost effective. The Department of Transportation has identified short sea shipping as a high priority and the Department's plans to enhance freight mobility in the United States. In 2005, the Government Accountability Office studied the concept of short sea shipping and made several recommendations on actions that should be taken before any national short sea shipping plan is developed. I am looking forward to hearing from our first panel, the Federal witness panel, about how they have addressed those recommendations and whether Government assistance is necessary to enhance short sea shipping options nationwide.

I am also looking forward to hearing from our second panel on ways that the private sector can promote acceptance and expansion of short sea shipping options. Ultimately, the success of any coastal

transportation proposal will rest on the commercial viability of the project.

Lastly, I am particularly interested in hearing about the options of using short sea shipping to transport bulk goods and cargoes between ports in the Great Lakes. Each of the major ports along the Great Lakes and the St. Lawrence Seaway already have the capability and capacity to absorb increased vessel traffic. I hope to hear from our witnesses about how the cargo handling capacity of our Great Lakes ports could be tapped as part of a national program.

Again, I thank you, Mr. Chairman, and yield back my time.

Mr. CUMMINGS. Thank you very much, Mr. LaTourette.

Mr. Larsen.

Mr. LARSEN. Thank you, Mr. Chairman, and I appreciate your holding this hearing today on short sea shipping. In the last week and a half, I have spoken with a number of ports, shippers and labor as well in Washington State about short sea shipping. A major theme from all my conversations has been, is short sea shipping cost effective?

At least for the Pacific Northwest right now, the answer appears to be, beyond what is taking place currently, it does not seem to be cost effective. But I certainly agree with MARAD's short sea shipping vision. But I want to find out and hopefully explore how we can match that vision with the reality on the water.

I look forward to hearing the testimony of today's witnesses, and hope they can address these issues of cost effectiveness, these issues that I have been hearing from State shippers, ports and labor in Washington State.

With that, I yield back and thanks again for the hearing today, Mr. Chairman.

Mr. CUMMINGS. Thank you very much, Mr. Larsen.

We will now hear from Mr. Sean Connaughton, Administrator of the Maritime Administration, and Mr. Collister Johnson, Administrator of the St. Lawrence Seaway Development Corporation. Good morning, gentlemen, and thank you very much for being with us.

TESTIMONY OF THE HONORABLE SEAN T. CONNAUGHTON, ADMINISTRATOR, MARITIME ADMINISTRATION, U.S. DEPARTMENT OF TRANSPORTATION; THE HONORABLE COLLISTER JOHNSON, JR., ADMINISTRATOR, ST. LAWRENCE SEAWAY DEVELOPMENT CORPORATION

Mr. CONNAUGHTON. Good morning, Mr. Chairman, Mr. LaTourette and Mr. Larsen. Thank you very much for having me here today, and Mr. Johnson.

As you mentioned, sir, I am Sean Connaughton, I am the Administrator of the Maritime Administration. I do have a prepared testimony, Mr. Chairman, and would like to submit that for the record and just briefly summarize that for you.

Mr. CUMMINGS. Without objection, so ordered.

Mr. CONNAUGHTON. Thank you, sir.

As you mentioned during your statement, actually the waterways of the United States were our original interstates. In fact, in the days before railroads and the actual interstates themselves, the waterways were the primary way to move around the United States, to move cargo and move people. As we developed the rail-

roads, as we developed the interstate highway system, waterways became less and less in use, even though they still are a vital part of our transportation network. We still see large amounts of cargo moving on our inland waterways as well as the Great Lakes and in different parts of the United States, along the coast as well.

But we are facing different problems and challenges in our transportation system today, particularly obviously on the shoreside system. The first is obviously most of our major metropolitan areas are facing increasing congestion. What is interesting is that most of these metropolitan areas are also along the coast and also are large ports. We are seeing a great growth in trade. In fact, we are projecting that trade moving though these ports is going to increase by almost 100 percent in the next 15 years, so we are going to see even more stress on our system.

We are facing enormous environmental issues, particularly clean air issues, in almost all these metropolitan areas. And also concern and growing concern about movement of hazardous substances and cargoes. And finally, as you mentioned, we are seeing that the cost of infrastructure, shoreside infrastructure, is getting more and more expensive to build new highways, build new railroads and actually maintain those.

Because of all these, the Department of Transportation, the Maritime Administration, the lead, has been focusing on how do we go back to the future, how do we go and start to look at our waterways as an asset. Because really right now they are under-utilized in their ability to move cargo, move people in a very efficient manner.

We have been conducting and supporting studies, both in the Department of Transportation as well as participating in studies, the GAO study, the I–95 cooperative studies that have been done, both privately and publicly. We have also been holding various conferences as well to try to get stakeholder input, so we can understand some of the challenges that are being faced by shippers, carriers, the ports, and the various localities and what is slowing or what is providing a hurdle to actually utilizing our waterways more.

We have helped form an industry-led cooperative to encourage the use of short-sea shipping, and we have also met with and are working now with our NAFTA partners, both Mexico and Canada, to help address some of the issues on moving trade along our coasts and on the Great Lakes as well, and how do encourage some of this cross-border trade.

Finally, we have been focusing very much and trying to get more information about many of the current operators out there, and what they are doing. Because there are quite a few operators who are out there, who are financially sound, who are actually making money in some of these short sea shipping operations. So we are trying to understand what is making them successful and how do we end up building on that experience.

Through all this, as Mr. LaTourette, I believe mentioned, one of the problems that we have seen and one of the biggest hurdles we have to get over is how do we make these operations reliable, how do we make them cost-effective and how do we address the issue on time, making sure that the cargo moves in a timely fashion and

a reliable fashion. The biggest thing that we have seen is that we need to have shipper buy-in into these types of operations for them to expand. The shippers are the ones who right now are very reluctant to move their cargoes onboard these various operations.

And by the way, we are starting to call this not just the short sea shipping, we are starting to really focus and call it marine highways, and America's marine highways, because we believe that is a little bit more descriptive of what we are trying to achieve, that is, trying to take cargo off our roadways and put them on the waterway. But also we think it is a little bit more inclusive of what is the biggest success story currently in short sea shipping, and that is our inland waterways, as well as what is happening in the Great Lakes.

But for greater use of the marine highways, again, it is getting shipper buy-in, it is trying to focus on making sure we have facilities that are available. Because right now, port space in our major ports is scarce, and it is very difficult to find capacity in our ports to actually support these operations. We have been told by various shippers and carriers that various financial impediments, such as the harbor maintenance tax in which cargo owners have to potentially pay two or three times every time the cargo is moved onboard in different operations, that ends up being an impediment. There are various operational practices that we have to overcome, that is, how do we get the major carries to start to look at a spoke and hub type of operation in moving cargo into a big port and then dispersing it out to the smaller ports. It is making sure we have the vessels available, because right now there is actually a shortage of the types of vessels that we need to make sure that these operations are efficient and effective.

And also, this issue about just sharing information. Because even as we have gotten into it, it has become very evident to us that a lot of people just don't know what is going on out there. That is why we are actually setting up a clearinghouse, a web site, in fact, we are starting to roll that web site today, right after this hearing. In fact, some of the first items on that web site will be identifying the current carriers, identifying the various shippers who are moving cargoes, but also the testimony from this hearing, so that people know what is out there, and hopefully we can connect the shippers and carriers that are out there today.

I am just going to say where we are going to be going from here is that we are going to be looking at four different areas. First is focusing more on the shippers, trying to get the shippers to buy in. In fact, next week in St. Petersburg, Florida, we are going to be having a conference on this subject that we are really trying to get as many shippers as possible to get them there, to hopefully get them to buy into moving their cargoes more on the waterways versus on the land. The second is trying to identify the existing operators more and focus on them, because they are obviously successful today. And how do we then build on that success to ensure that whatever operations, whatever support, whatever backing that we may give to them, that they actually have a foundation to move forward from.

The next is trying to identify all these structural barriers, the things like the harbor maintenance tax, and some of these other

items that we again are hearing from our stakeholders that are concerns of them. We are working within the Administration to identify those impediments so we can come forward with some proposals to you and to Congress to hopefully be able to work on.

Finally, we are trying to focus on a few model and pilot programs and projects that we hopefully can build on again that we can show people that if we use the marine highways, we can actually take trucks off the road, and people can then start to see real benefits from this sort of program.

So we think this is a great hearing that you focus on this, Mr. Chairman. We think this has some great opportunities for the Nation as America faces greater and greater congestion problems on its roadways. Really one of the only options right now that we have, we look out there and we have unused capacity in our waterways. We think that this is something that is the start of a great dialogue between us and yourselves and something that we think has a great future.

Thank you very much, Mr. Chairman.

Mr. CUMMINGS. Thank you very much.

Administrator Johnson.

Mr. JOHNSON. Thank you very much, Mr. Chairman, Mr. LaTourette, Mr. Larsen, for having us here. I want to endorse the comments of my friend, Sean Connaughton, who has talked about the opportunity for maritime transportation throughout the Country. I would like to focus on the opportunities that we have in the Great Lakes and the Seaway, particularly, because I think it is a unique situation. It truly can be taken advantage of in the short term.

Historically, the Seaway has been a pathway for bulk commodities. But since the Seaway serves the industrial and agricultural heartland of North America, and because it only operates at 60 percent of capacity, which is a statement that I think few other modes can make, we really do think that this could be an opportunity for reducing congestion and strengthening the national economy.

The attributes of the Great Lakes, I think, are somewhat unique. It has ports with the space and with the desire for this type of service. It has established U.S. and Canadian companies and well financed entrepreneurs who are making sizeable investments in proposed new short sea shipping service.

An additional reason for our interest, obviously, as I mentioned before, is the Department's focus on mitigation of congestion. We think the Seaway and the Great Lakes could be a major contributor to this cause.

As a result of the enormous volume of Canada-U.S. trade, which is the largest in the world, there is really enormous congestion on the land border crossing points, as I am sure people in that region know. If you have ever seen the Ambassador Bridge in Detroit at rush hour, it will truly make your head hurt.

For this reason, one would really expect to find numerous marine ferry services between the U.S. and Canada carrying trailers and containers and all kinds of other cargo. Sadly, that is not the case. In fact, in the entire Great Lakes region is only one active short sea shipping truck ferry service, the Detroit-Windsor Truck Ferry, a niche carrier carrying hazmat and oversize project cargo. We are

very grateful that Mr. Greg Ward, who is going to be on the second panel today, is here, because he and his father had to drive 16 hours from Detroit to get here for this hearing because of weather conditions.

The reason why there is no more short sea shipping in the Great Lakes is really quite simple. It is not rocket science. It has to do with public policy. And the harbor maintenance tax is really a prime example of why we have public policies that almost force cargo onto the roads and away from water. The HMT is vitally important to supporting the commercial navigation infrastructure of this Country and my agency is funded by it, so we support it. But nevertheless, in the Great Lakes, certainly as well as other places, HMT does not apply to cargo imported into this Country over land. As a result, U.S. shippers moving goods into this Country who have a choice will invariably move cargo in truck over land rather than ship over water, even if doing so means having to incorporate hours of delay at the border and with their logistics schedule.

I would like to mention the bipartisan legislative proposal introduced earlier this week by Representative Tubbs Jones and Representative English, H.R. 981, which directly address this issue. The Great Lakes Short Sea Shipping Enhancement Act would provide a limited exemption to the HMT for non-bulk commercial cargo moving by water in the Great Lakes. It would remove the disincentive to use the marine highway, thus encouraging the development of these new shipping services in the region.

The intriguing aspect of H.R. 981 is that since there is no appreciable short sea shipping on the Great Lakes involving non-bulk commodities, the HMT produces virtually no revenue for the U.S. Treasury from this source. Consequently, it appears that if HMT was removed away from the Great Lakes and short sea shipping as proposed in H.R. 981, there would be no appreciable loss of revenue to the U.S. Government.

So we have a rare animal here which is bipartisan and appears to be revenue neutral. And we are hopeful that you will consider that favorably.

Another public policy issue that adversely affects the development of short sea shipping on the Great Lakes is the 24 hour rule that is imposed by the Customs and Border Patrol. In the case of a truck trailer, a shipper must provide CBP with advance notice of only one hour prior to arriving at the border. For shipments moving by rail, the notice requirement is two hours. As previously noted, for a similar shipment moving into the U.S. via water where there is no driver on board, the CBP requires at least 24 hours advance notice.

So while advance notice is absolutely needed to protect our Country, we need to work with Customs on programs that can be more friendly to the water mode, while at the same time protecting our Country.

So again, Mr. Chairman, thank you for having this hearing. We are pleased to be here to offer our views and would be happy to answer any questions you have.

Mr. CUMMINGS. Thank you very much.

First of all, let me say this. We are trying to figure out how to find solutions to problems. I think I have said that to both of you

in private. And what we are looking for is practical solutions. We don't want to be having hearings just to be having hearing and meeting to have meetings and 30 years later or 10 years later another group of people is sitting up here going through the same motions. As I have often said, life is short, there is no dress rehearsal and this is the life. So we are trying to figure out, how do we address this problem.

When you look at, Mr. Connaughton, when I read your testimony and you laid out the savings on our roads, when you talked about the fact that you take a tractor trailer and one tractor trailer, the impact on our roads just the surface was significant, then you talked about rush hours and all kinds of pollution, I said to myself, this seems to make a lot of sense. I am wondering, I know we have the harbor maintenance tax problem. I want you all to talk about that for just a moment.

Page 8 of your testimony, Mr. Connaughton, you talked about the SCOOP study. Are you familiar? Tell me a little bit about that, because you say there that the harbor maintenance tax, this study, the SCOOP study found that domestic container HMT movements only yielded the Treasury $1.7 million to $1.9 million per year. And that study was dated October 2005.

I am just wondering, help me with this, if it is yielding that kind of money, it seems like a little bit of money. And if the cost, if this is a major impediment to having short sea shipping, I don't understand the issue. What is the problem? Do you follow the question?

Mr. CONNAUGHTON. Yes, I do, Mr. Chairman, and I appreciate the question. It is obviously not a large amount of money, and it is something that we now have numbers to verify what people have been telling us. When we look at where we are in the process right now, this has been going on for I am going to say three or so, three or four years that this Administration has been looking at the whole issue on utilizing the waterways more. It went from being some anecdotal information to now actually having studies, including a GAO study, these other studies, including studies done by our own Office of the Secretary in Transportation.

So we now have numbers, and we now have a list of potential impediments to the expansion of the use of the waterways that we can now put together in a proposal and bring it to you all. I think that is where we are right now. We are working internally to put together a package that will go through the clearance process within the Administration. But it will include many of the items that we are talking about here.

But it has taken us some time to essentially get these studies done. I think one of the things that we have to do internally as well as externally is explain to people how important this is. Because it has been difficult to get people to start to focus on the use of the waterways more. But right now, when you do look at the congestion problems that we are facing, particularly on the eastern seaboard and on the western seaboards, this is one of the few options we have to greatly expand capacity at a not very large cost.

Mr. CUMMINGS. Yes, I got that. But let me tell you where I am going, because I want you to go specifically to my question. If you tell me that shippers are reluctant to do short sea shipping because of a harbor maintenance tax and you tell me that the harbor main-

tenance tax, up here we deal with billions. And you tell me that the harbor maintenance tax is yielding $1.7 to $1.9 million, I am trying to figure out what am I missing? It is on page 8 of your testimony, first paragraph, last three sentences.

Mr. CONNAUGHTON. Yes.

Mr. CUMMINGS. Mr. Johnson, if you want to chime in, you are certainly welcome.

Mr. JOHNSON. I am waiting to do so, I would be happy to.

Mr. CUMMINGS. I could see you, I thought you were trying to jump out of your seat.

Mr. CONNAUGHTON. I can tell you, Mr. Chairman, we understand, we are now, now that we have some numbers, we are starting to vett a proposal to come forward on this issue, but also to address some of the other hurdles and impediments that we see that are potentially out there. Because this really is one of several issues that do, once you take care of this one issue, there are still other issues that have to be addressed to encourage greater utilization of the waterways.

Mr. CUMMINGS. Mr. Johnson?

Mr. JOHNSON. Yes, Mr. Chairman.

I think in terms of the Great Lakes, I understand Sean's position with respect to the whole Country, but with respect to the Great Lakes, it is actually simpler, I believe. If a limited waiver of the harbor maintenance tax for the Great Lakes is passed, there will be results in months, not in years. We have stakeholders who are putting together their business plans and are ready to go to implement short sea shipping.

But when you get to the issue of the HMT tax, it destroys the economics. If $1.9 million or $1.7 million or whatever is a little amount of money, in the Great Lakes it is zero, or virtually zero, because there is no short sea shipping . So there would be no loss of revenue to the Treasury.

Mr. CUMMINGS. So you are saying the barrier is so high, in other words, you said there is no short sea shipping?

Mr. JOHNSON. Virtually none.

Mr. CUMMINGS. OK.

Mr. JOHNSON. Virtually none. And the reason is because in my view, because the HMT destroys the economics for the Great Lakes carriers. But if that barrier is removed, and if indeed it is the case there is no loss of revenue to the U.S. Treasury, it seems to me that that has a lot going for it in terms of amending our public policies to improve short sea shipping, at least in the Great Lakes.

Mr. CUMMINGS. I am just going to ask you another question, because I want other Committee Members to have an opportunity, let me ask you this. What would you like to see, what would you all like to see us do to try to resolve the problem? I know you mentioned the Tubbs Jones bill, got that one. What other things would you like to see us do? Mr. Connaughton, I was glad to hear you comment about the web site that is going up, right after this hearing?

Mr. CONNAUGHTON. Yes, Mr. Chairman.

Mr. CUMMINGS. So I should be able to go back to my office as soon as I leave here and————

Mr. CONNAUGHTON. They told me 10:00 o'clock, so I will send them an e-mail to make sure.

[Laughter.]

Mr. CUMMINGS. Can we take credit for that? We in Congress, we like to take credit for things.

Mr. CONNAUGHTON. Mr. Chairman, you are my oversight Chairman, if you want to take credit for it, take as much credit as you would like, sir. But we did time it for this hearing, sir.

[Laughter.]

Mr. CUMMINGS. We appreciate that. Tell us a little bit about the web site and then to my other question.

Mr. CONNAUGHTON. Yes, Mr. Chairman. What the web site will have on it is actually, it is going to be outlining the work that has been done to this point, it will also have the short sea or marine highway operations hat we have identified in pretty much every port of the United States, and what are the operators and what type of capability they have. We are going to start highlighting specific operators on a monthly basis, as well as shippers and try to commend shipper who commit to utilizing these types of operations. And then also, we are going to make this a general clearinghouse so we can end up in the long term making this not just for the United States but also to expand it to both what is happening in Mexico and Canada as well.

Mr. CUMMINGS. And now to my other question, gentlemen, the whole issue of what can we do? What is one of the most practical things that we can do as Member of Congress to help make this happen?

Mr. CONNAUGHTON. Mr. Chairman, again, this issue is one where there are several facets to it. We are putting together a proposal for you all to consider.

Mr. CUMMINGS. When can we expect to have that proposal?

Mr. CONNAUGHTON. We are in the final stages of putting it together within the Maritime Administration and we will then be forwarding it to the Department of Transportation and get clearance through OMB as well. So it is as long as that process can take. It could be very quick, it could be very lengthy, sir.

It is our hope, we are right now essentially done with it and we are going to start sending it through our clearance process.

Mr. CUMMINGS. I think I speak for our entire Committee, we would like for that process to move along. We want it to be a thorough process, of course, but we would like to get that as soon as possible. As soon as you can give us a date certain, because I want to be able to hold you to a commitment.

Mr. CONNAUGHTON. Yes, sir.

Mr. CUMMINGS. Because we who have been around here for a little while get commitments and then the next thing you know, we are not here any more. So we want to hold you to that. Get that to us as soon as you can.

Mr. CONNAUGHTON. We will, Mr. Chairman.

Mr. CUMMINGS. Mr. Johnson, to my question, what can we do?

Mr. JOHNSON. Mr. Chairman, I think it is in my testimony. Of course, neither the Department nor the Administration have taken a position yet on H.R. 981. But for our part, on the Seaway, we are going to be advocating inside DOT and inside the Administration

that they should look upon this favorably. Hopefully we will succeed.

With respect to Customs and Border Patrol, I think it would be helpful as we enter into discussions with them as to how to solve this problem, how to solve their security issue, how to solve the industry issue of advance notice, if the Committee would support the notion that there ought to be consideration of the short sea shipping implications of the 24 hour rule. That would be helpful to us.

Mr. CUMMINGS. Mr. LaTourette?

Mr. LATOURETTE. Thank you, Mr. Chairman.

First, Mr. Chairman, I would ask unanimous consent that a letter to me dated yesterday from the Shipbuilders Council of America be included in the record.

Mr. CUMMINGS. Without objection, so ordered.

Mr. LATOURETTE. Thank you very much.

Gentlemen, thank you for coming. Mr. Johnson, I particularly appreciated the point you made about the harbor maintenance tax, because when I was getting ready for this hearing yesterday, with Mr. Rayfield, and we were talking about the harbor maintenance tax, I said, well, how can someone squawk about losing revenue when we don't have any shipping that is paying the revenue currently.

Mr. JOHNSON. When you don't have it to begin with, right.

Mr. LATOURETTE. That's right. And I think that we were just talking during the Chairman's questioning, and I think to the Chairman's question about what can we do, it would be my predisposition, and I will chat with the Chairman a little bit later, to perhaps draft a H.R. 981-like bill. As you know, that only went to Ways and Means, a tax-writing Committee. Perhaps we can draft a piece of legislation that gets a subsequent referral to the Transportation Committee, since it is what we do here.

And as well, I know that you know there is a ferry title in the Federal Transportation bill, SAFETEA-LU. That has primarily focused on North Carolina, New York and Alaska. It would be our hope that, and I think the reason my colleague, Stephanie Tubbs Jones, perhaps introduced this piece of legislation, one of the stakeholders that is getting ready to go is the Port of Cleveland. They are aggressively moving forward.

That is what I want to chat with both of you about. Because I get the 24 hour rule is an impediment, I get that the harbor maintenance tax is an impediment. But clearly, there must be some other impediments. I understand that harbor maintenance tax makes it commercially unfeasible.

Mr. Connaughton, when you and I talked a couple of weeks ago, is there a difficulty with our bilateral relations with the Canadians that makes this, for instance is there a Canadian Jones Act? Is there something that would prevent us from launching tomorrow, if we took your suggestions, passed H.R. 981, got the waiver on the harbor maintenance tax, solved the 24 hour rule, had a lot of educational sessions and the shippers bought in, are there other impediments to this working across the Great Lakes?

Mr. CONNAUGHTON. Mr. LaTourette, we are currently in discussions with the Canadians over an issue that we were not aware of until there was an attempt by the Canadians to impose their own

Jones Act, their own coastal act, to an American ferry operator. The Canadians had amended their law, from what I understand, to require that ferries be essentially Canadian vessels, those going between the United States and Canada. We were not aware of this until this one operator had the Canadian authorities actually come to them and actually try to impose his requirements.

We have been having meetings at the Department of Transportation, Department of State, the Maritime Administration, with the Canadians. They are quite clear to that as to what their law says. They have indicated a willingness to amend that law, but that has not happened at this point.

So we do see some problems with trying to move forward on some of these operations if at the end of the day it is being mandated that they be Canadian vessels.

Mr. LATOURETTE. I think it is more than a little bit of a problem. As a Member of the Congress, and I think I would be joined by both sides, I don't think we would stand for that, that if we are going to have trans-Lake shipping, we are going to have to accept Canadian vessels and they don't have to accept vessels made in the United States. That is kind of a non-starter to me, and that is a big obstacle.

Can you just give me a rough idea of where you are? Do you expect this to be resolved or not resolved by summer, by next year? What do you think is going to happen?

Mr. CONNAUGHTON. We have had meetings with the Canadians within the last month about this issue. The Department of Transportation and Maritime Administration have been very strong in stating to the Canadians that this law is unacceptable and that we view it as a violation of some of our other treaties and that it violates international law. So we are pursuing this with the Canadians very aggressively. They have indicated a willingness to revisit this with their Parliament. However, at this point, that has not happened. But we just met with them within the last month, sir.

Mr. LATOURETTE. Is there any role that the IGC can play in this? Or do you think NAFTA covers this?

Mr. CONNAUGHTON. Sir, I am not quite sure. I was made aware of this as this issue started percolating along in the most recent meetings that have occurred. I will have to come back and give you more information.

Mr. LATOURETTE. If you could, when you do have more information, with the Chairman's position, if you could sort of update us, let us know where that issue is. That seems to be a big one.

Mr. CUMMINGS. I agree.

Mr. LATOURETTE. Mr. Connaughton, you talked about pilot projects. Can you tell me where the pilot projects are and what they involve?

Mr. CONNAUGHTON. Right now, actually, sir, going back to TEA-LU, which you referred to, Congress actually did authorize a couple of pilot projects. One of them in particular is the movement of containers from the Port of New York up to Bridgeport, and actually has authorized the spending of money toward those projects. We have also been approached by some other operators where there have been shippers who have come forward and indicated they

would be willing to move their cargoes onboard some of these marine highway operations on a regular basis. So we are trying to see how we can facilitate those. We have met with a couple of these operators and the shippers and what we would like to do is essentially put them together as a package to move forward and bring to you.

Mr. LATOURETTE. One of the other difficulties, I think Mr. Johnson is right, that we have excess capacity in some of the Great Lakes ports, but one of the difficulties is the development of the infrastructure. It is OK once you get the boat moving and everything else, but getting it to the port and loading it and then taking it over. For instance, there is a town in my district that wants to do trans-lake shipping to Port Burwell over in Canada. I just read a newspaper article that the Port Burwell people don't want the trucks on their streets and they don't have the infrastructure to receive it.

So how do you envision the infrastructure part of this working? Would you envision ramping up the ferry title in TEA-LU? Or additional Federal partnership with private entities?

Mr. CONNAUGHTON. It would have to be greater partnerships with private entities. We are seeing a greater utilization of where those ferries exist today, we are seeing just an enormous use and bottlenecks. A very good example that ties into both your points and your question, in Bridgeport, Connecticut, which I went up and visited up there. One of the reasons was because of the provisions in TEA-LU on a proposed operation. There they essentially had been authorized, although not appropriated, funds to build a ro/ro facility. What the truckers want to do is be able to put the container and trailer on a vessel or barge, get to the other side, essentially avoid all that bottleneck and then drive it off right onto 95. The problem is, there is no ro/ro facility there in Bridgeport, and that is what they need.

Being up there and visiting them there, there is this Bridgeport to Port Jefferson Long Island Ferry across to Long Island Ferry. What was interesting was that they indicated they are seeing an enormous increase in truck traffic on those ferries. In fact, so much so that I think they have actually added additional ferry vessels. It is essentially truckers trying to avoid taking 95, going across and coming back on the Long Island Expressway.

So what we would like to do is focus on some of these operations, identify where they may be successful and more importantly, how do we build on both what Congress has already done and also where there is a successful operation, how do we help them expand their operations.

Mr. LATOURETTE. Thank you very much. Thank you, Mr. Chairman.

Mr. CUMMINGS. Thank you very much.

We are very pleased to be joined this morning by the Chairman of the Full Committee, Chairman Oberstar. Welcome, Mr. Chairman. I yield time to you.

Mr. OBERSTAR. Thank you, Mr. Chairman, and thank you for convening this hearing. Thanks also to Mr. LaTourette.

I have wanted since the outset of this session of Congress to get our Committee engaged energetically in the issue of short sea ship-

ping. It is one that been of interest for a long time, but not of interest to the Committee. And we are going to make it a focus of this Committee's actions.

The President just recently launched a congestion mitigation initiative. We need to have maritime engaged vigorously as a part of that initiative. There were a number of other shortcomings in that congestion initiative, one was that it didn't even reference the existing congestion mitigation and air quality improvement provisions of current law for the Federal highway program. It didn't enlist the intelligent transportation systems of current law. There are tools available to help with congestion. Short sea shipping is one of those important tools. Today it takes a container longer or as long to cross seven miles in Chicago as it does to go 1,800 miles from the west coast to Chicago. It costs $300 per container to go 1,800 miles in roughly 40 hours, and it takes $300 and 40 hours to go seven miles through Chicago. Then that container has to go another 1,200 miles to the east coast.

If we mount a vigorous short sea shipping initiative, those containers that are now coming in at International Falls, Minnesota from the west coast, some 500,000 containers last year, making International Falls a "seaport" on the U.S. Canadian border, we could instead of continuing to contribute to the congestion in Chicago move them through the Port of Duluth or the Port of Two Harbors and short circuit that congestion in Chicago that is so desperately choking our transcontinental shipping system.

There is going to be more of that congestion as Cosco moves to a 10,000 container vessel fleet. They already have several 9,000 container ships, 7,000 container ships. Maersk launched a 12,000 container vessel that can only probably put in on one port on the east coast. The St. Lawrence Seaway, as the Administrator mentioned just moments ago, is vastly under-utilized and we will soon be considering legislation in the Committee to establish a bi-national seaway authority. Canada and the United States ought to merge their separate authorities, reduce the costs, instead of two charges, one Canadian and one U.S., we can have one charge, one team. We only need one buoy distribution, we need only one aids to navigation system. We don't need two of them. We can harness the resources and the capacity of the St. Lawrence Seaway to be a major contributor and also a financing mechanism as we established for Dulles and National Airports to upgrade the operations of the St. Lawrence Seaway. So that the gentleman's State of Ohio will see increased vessel activity on Lake Erie, and I know Mr. LaTourette is very keen on that, will probably more ships and use more steel.

So the hearing today is sort of a down payment on an extended inquiry into the obstacles to an efficient short sea shipping initiative. Mr. Connaughton, I understand the government of Canada requires some U.S.-flag ferries to get an exemption from the Canadian version of our Coastwise Trade Act, they call it the Coasting Trade Act. Even if they are on an international voyage, that is between U.S. and Canada, what is the basis for that, and what are its impediments for cross border traffic?

Mr. CONNAUGHTON. Thank you, Mr. Chairman.

We were made aware of the situation from a small ferry operator, it was actually on a lake, I believe, it was in Montana, when the Canadian authorities attempted to enforce this law on this operator. We have made representations and we have had several meetings with the Canadians, both here in Washington as well as in Ottawa, protesting this and vigorously defending obviously the right of the United States to have American vessels engage in ferry operations with Canada.

We have within the last month had a meeting with the Canadians about this. They had indicated a willingness to bring this back to their Parliament to amend the law, to address this. But as far as I am aware, this has not occurred yet. So we are continuing to pressure them to amend this law, because we believe this is a barrier, obviously, to the purpose and the thrust of this hearing, but also it violates obviously agreements and understandings that we have had with the Canadians. So we will continue to vigorously represent our interests to the Canadian government on this issue, sir.

Mr. OBERSTAR. I will be happy to be engaged in that process with the Canadian embassy here and with my colleagues in the Canadian Parliament, the Commons and the Senate. In fact, I just last week had a visit with a Canadian delegation here in the U.S. I wasn't aware at that point, in preparation for today's hearing, of this particular issue. But in preparation for the hearing, we saw this as a concern. So we will join with you vigorously in pursuing.

Mr. CONNAUGHTON. Mr. Chairman, we would be very happy to come up here and brief you about what the status is of the law whenever it is convenient for Members of the Committee.

Mr. OBERSTAR. We will do that.

Mr. Johnson, the harbor maintenance tax on moving from Canada is an impediment. In what ways does that affect the Seaway?

Mr. JOHNSON. Well, the way it affects the Seaway, Mr. Chairman, and by the way, thank you for your comments about the Great Lakes and the Seaway. As the panelist who is most responsible for talking to that issue, your words are music to our ears.

The Seaway could be a way of easing congestion across border if we are able to increase our container traffic. As you know, the Seaway is primarily a bulk pathway now. But it could be a way to move containers inland. We are working now with several entrepreneurs who have a business plan put together to do that. But they are only planning now on moving containers from Halifax and Montreal to Canadian ports, not to U.S. ports. And the reason why is because of the HMT.

So in my testimony I have talked about the H.R. 981 that has been introduced and how that limited waiver would positive impact the flow of traffic and cargo on the Great Lakes.

Mr. OBERSTAR. Mr. Connaughton, the effect on the harbor maintenance tax would be minimal, wouldn't it?

Mr. CONNAUGHTON. Mr. Chairman, I actually have some of the estimates, the overall numbers on the harbor maintenance tax. But currently, just on domestic moves, as was referenced by Chairman Cummings, that on containers right now, domestically the HMT is about $1.7 million to $1.9 million a year that is collected. Overall, there are about $60 million a year on all commodities moving do-

mestically in the United States. That is all cargoes for the HMT. And that is a subset of the overall annual collections which was about $880 million a year from all HMT.

Mr. OBERSTAR. All that harbor tax money that is being collected is being deposited in the trust fund and that is being used to improve our harbors and our navigation channels, and it just sitting there making the deficit look smaller.

Mr. Chairman, I will have other questions.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Mr. Gilchrest.

Mr. GILCHREST. Thank you, Mr. Chairman.

I am not sure if you have welcomed the former administrator of the Maritime Administration, but Helen Delich Bentley is in the room. Welcome, Helen, back to Washington.

Mr. OBERSTAR. Will the gentleman yield? May I join in that welcome?

Mr. GILCHREST. Certainly.

Mr. OBERSTAR. [Greeting in Serbian.]

Mr. GILCHREST. I thank the Chairman for yielding. I think the study and the evaluation that is coming up from many of our interests is in the area of where can short sea shipping be competitive, what are the costs, who should share in that cost, where are the viable options around the Country, where can this type of shipping complement existing modes of transportation. I am hoping that when your evaluation comes through you can have some specific recommendations in the Country and then maybe we can expand the pilot project.

I say that because I represent most of the Maryland section of the Chesapeake Bay. And in the Chesapeake Bay, of course, we have two significant rather large harbors, ports, one is down in the Norfolk region and one is the Port of Baltimore. But in our region, we also have to take into consideration Philadelphia and the Port of Wilmington. So the modes of transportation most of them, are 95 and Route 13. But connecting all these ports are things like the C&D Canal, the Wicomico River, there is a good deal of barging that goes up that river to the town of Salisbury. Going up the Nanticoke River, you go over to Seaford, Delaware. You could get from Crisfield, Maryland to St. Mary's County on the western shore in a short ferry ride and you would virtually eliminate a full day's drive for a trucker.

So as we are talking about the St. Lawrence Seaway and the Great Lakes and other places, it might sound parochial, but in this region we are looking at Philadelphia and Baltimore and Annapolis and Washington and Richmond and Norfolk and all those places. So to see what is viable and can be interconnected, don't leave us out of that evaluation.

Mr. CONNAUGHTON. Mr. Gilchrest, I just would point out that actually one of the current operators out there right now that is successful is a company called Columbia Coastal Transport, which actually has essentially as its hub Baltimore. They move cargo containers, particularly from Baltimore to New York and from Baltimore to Norfolk and back and forth.

Mr. GILCHREST. And you know that the Port of Baltimore, largely with the help of—I am not going to say the middle name, Mr. Ober-

star, because I will probably mispronounce it again—but my dear friend Helen, we have a great ro/ro facility in the port of Baltimore.

So if we can get some understanding about eliminating the tax, some type of tax incentive, a joint operation, that was mentioned in some of the brief concerning the Marco Polo program in Europe, and are we looking at that to see how somehow that could be replicated here in the United States. We have NAFTA with North America, that free trade agreement. Can that be replicated in some sense with the idea of this short sea shipping?

I just wanted to make another comment if I have enough time. I would look forward to continuing our communication with both of you and actually the second panel. As we go through all this, there is a measure, and I don't want to say this is an obstacle. But when we are looking at Mississippi for short sea shipping, they are likely to close the Mississippi Gulf Outlet, for several reasons, to protect the city of New Orleans, to better replicate what the needs of nature's infrastructure are as rebuilding the wetlands down there naturally, with the silt coming down from the Mississippi and not just moving in infrastructure because it is going to be an economic growth important part of the community.

But as we go through all this and we are looking at short sea shipping, taking pollution out of the air, taking trucks off the highway, the facilities I think would be wise to look to make those facilities, that infrastructure, compatible with nature's design in that region, so we don't replace one form of pollution with another. Thank you, Mr. Chairman.

Mr. CUMMINGS. Thank you very much, Mr. Gilchrest.

Mr. Larsen.

Mr. LARSEN. Thank you, Mr. Chairman. I want to thank the panel for being with us this morning. I want to apologize on behalf of the people I represent in Washington State, because as Mr. LaTourette mentioned the ferry title of SAFETEA-LU and he mentioned Alaska and New York, New Jersey and North Carolina, I am not doing my job to explain to other Members of this Committee that Washington State has the largest ferry system in the Country. So that is my fault and I apologize for that. I will do a better job of being a good commercial for the Washington State ferry system.

On any one day, if you are sitting not too far from my home in Everett, Washington, which you look out into Possession Sound, you can see the kind of traffic that we are using Possession Sound for. If you go to the other side of Whidbey Island on Puget Sound, if you sat on Ebey's Landing you could watch container ships, bulk carriers, log rafts, barges, commercial fishermen, recreational fishermen. We are using our marine highway, as you called it, quite extensively. So as I was talking with some of the folks who represent a variety of interests, ports, shippers, labor, so on, in Washington State and mentioned the concept of short sea shipping, they had sort of heard of it, but they didn't put that name on it. It was just, we are doing what we are doing because we have the water and we use the water.

But I was wondering from a Washington State perspective, Pacific Northwest perspective overall, there are some limitations that they discussed about how to expand that. An example that the Port

of Everett used, they had considered moving paper rolls from Vancouver Island and barging those down to the Port of Everett, they were looking at it as a potential business. And the numbers didn't work out, for a variety of reasons, including there was no potential for backhaul.

But if you look at truckers, truckers are moving things forward, backward, everywhere. There is a way to spread out the costs, at least if you look at the I–5 corridor in the Pacific Northwest, and you compare that to what you can do to expand business on the marine highway.

I am wondering if you have looked at, as we talk about east coast and Mississippi and the St. Lawrence, have you compared the Pacific Northwest potential versus the focus of at least some of the literature in the Gulf Coast, Eastern Seaboard, St. Lawrence? Have you compared and contrasted, and what conclusions have you come up with?

Mr. CONNAUGHTON. Mr. Larsen, actually some of the studies have actually evaluated the viability of some of these operations on the west coast as well. There are the same sorts of hurdles that are being faced out there. One of the biggest problems is again about reliability service. It is about getting the shippers to buy in. It is trying to make sure that there is the opportunity for a balanced commercial operation.

But what is interesting is that we are for the first time starting to see much more interest by shippers as well as trucking companies to utilize, to look at these services. Because many of the trucking companies are facing greater problems in their operations and trying to be able to move their cargoes on behalf of cargo owners through some of the major cities. They are also looking at the problems, they can't find drivers. So there is more interest.

One of the issues out there is that you are looking at much longer distances, which means that there is a lot more, there are some opportunities there. But on the east coast, there are lots of small businesses, you have some major ports, you can move it very quickly out of there to a smaller port somewhere along the way, where it can then avoid those bottlenecks in the major congested areas.

Your area, though, is actually one of the great success stories. That ferry system that operates, that Washington State operates, is an enormous number of trucks that are taken off the road. And then the fact that you see such an incredible number of movements up to Alaska that again, a lot of it is ro/ro traffic that is actually, I mean, there are some land site connections to Alaska. But for the most part, that operation up there is such that it is kind of a model for the rest of the Country.

But we have not forgotten the west coast. We actually have attempted to identify, these are some bulk commodity movers that are moving cargoes. We have actually had also, we know there are some operations down in southern California that are using the waterways to move cargoes between southern California and Mexico, to avoid some of the bottlenecks at the border because it is cheaper.

Mr. LARSEN. If I may, Mr. Chairman, I just want to put my oar in the water on this issue of the U.S.-Canada ferry issue as well,

not only the Washington State ferry system. We have one run between Anacortes and Sidney, B.C., on the south end of Vancouver Island. But there is a private operator, Black Ball Transport, that runs from Port Angeles on to Vancouver Island as well that would, I am sure, be very interested in the end result of any conversation between the U.S. and Canada on this ferry issue.

Mr. CONNAUGHTON. Yes, sir.

Mr. CUMMINGS. Mr. Bishop.

Mr. BISHOP. Thank you, Mr. Chairman. Thank you very much for holding this hearing.

I represent New York One, which is the eastern half of Long Island, about the last 70 miles of Long Island. So my district is bordered by water on three sides, and both the Port Jefferson Ferry and the Cross Sound Ferry are in my district. I was very interested to hear, Mr. Connaughton, your comments about the success thus far. I guess my question would be, could you elaborate more on that specific issue and perhaps make note of what impediments, other than the harbor maintenance tax, exist for this truly short sea shipping? The distance between Connecticut and Long Island is, I think at its widest point, only 20 miles. Yet that represents an avenue for us that would significantly help with congestion on the Long Island Expressway, which is not so affectionately referred to as the world's longest parking lot.

So I am just curious as to what additional comments you could make in that area.

Mr. CONNAUGHTON. Thank you, Mr. Bishop. It was actually an eye-opener for me when I went to Bridgeport and I was provided this information about that ferry. Because I am a good Long Island native, and I hate to say this, but if you wanted to go on a cheap date and take a date out on a cruise, you would drive out to Port Jefferson and buy a ticket and go over and go out on Long Island Sound. When I was there, those are my memories of Port Jefferson————

Mr. BISHOP. That is a cheap date.

[Laughter.]

Mr. CONNAUGHTON. Yes, sir. I was a cadet at the Merchant Marine Academy, so you have to look for cheap dates. But I was very surprised when I was there to see the number of trucks coming off. They indicated that they had seen, I think they number they used to me was almost a 60 percent increase in the number of trucks that are actually on that ferry. So we are gathering some information about that ferry, as well as the Orient Point ferry and the New London ferry as well, to understand what is happening up there. Because as you mentioned, obviously there was a lot of congestion, generally a lot of congestion, but even more congestion with the reconstruction of the Long Island Expressway. I am very interested to see what is happening now that they finally have finished with that construction, has that seen a drop-off in the amount of trucks using those ferries.

But I think it is a great example of something that the marketplace actually worked, where truckers saw this as an opportunity to get off the island in a much quicker—obviously they are going to end up paying more. But when you look at reliability and the fact that they can get off the island, off and on the island. I think

it is again another great example. One of the things we have been trying to do in the Maritime Administration, as we have gotten into this, is have a much broader look at what opportunities exist out there. Because before I think to a certain extent we were looking at, OK, whole new operations. Maybe there is at least a foundation that we can show some successes in, look at some of these existing operations, see what we can potentially do to help them expand.

In fact, one of the things, when I was out there in Bridgeport, was they were indicating that they were expanding the ferry operation. What do we need to do with that, because the ferry facilities are still the same size.

Mr. BISHOP. You earlier mentioned a report that you were working on. Will there be in that report suggestions for how ferry operations of this type can be expanded?

Mr. CONNAUGHTON. That is where we would like to go.

Mr. BISHOP. Let me move to a related but different subject, and that is, there are 40 some liquid natural facilities being proposed in coastal areas throughout the United States, one of which is in the middle of Long Island Sound. I am just curious, all of these facilities will require a security buffer zone, will require floating security zones as the tankers arrive to in effect feed the LNG facility. Has your department made any assessment of the impact that those facilities might have on short sea shipping as an impediment to the development of shipping?

Mr. CONNAUGHTON. No, sir, we have not. We are involved actually in not the broad water facility that you are mentioning, but we are actually the licensing authority for almost all offshore deepwater LNG facilities. Just because of where that facility is, we are not involved. But when we do look at the facilities that are responsible for in licensing, we do make sure that the siting of the locations of those facilities are such that they do not impede or impact navigation.

Mr. BISHOP. Thank you very much. Thank you, Mr. Chairman.

Mr. CUMMINGS. Thank you very much.

Just two questions. Administrator Connaughton, MARAD administers the Title XI loan guarantee program, is that right?

Mr. CONNAUGHTON. Yes, sir.

Mr. CUMMINGS. And they will provide guarantee on ships, mortgages for like 30 years, is that right?

Mr. CONNAUGHTON. Twenty-five years, I believe.

Mr. CUMMINGS. Twenty-five years?

Mr. CONNAUGHTON. I believe it is, sir, 25. It might be 30.

Mr. CUMMINGS. Do you believe the loan program can be helpful in providing security financing for short sea shipping ventures? What do you believe the default rate would be, the risk would be?

Mr. CONNAUGHTON. Obviously, sir, we evaluate these applications for Title XI on a case by case basis. We actually do an economic analysis to see if the proposed operation is viable. The Administration did not support, has not supported additional funding for Title XI. But when applications come in and if Congress provides the funding for it, we make sure that those funds that are allocated or appropriated by Congress are, that the money is well

spent, and that the operations are viable and that we will not hopefully have a default.

I want to go back to, one of the opportunities again is if we do focus more on some of these operations that are in existence today and see how we can expand it, at least then you have a foundation to avoid potential defaults or problems than you do with brand new operations.

Mr. CUMMINGS. So I take it that the recommendations, I am not asking you to, I know you all still are having things checked over with your various agencies. But the recommendations that you will be giving to us I take it do not have a recommendation for more money, based on what you just said, for Title XI? Is that a fair statement?

And did you all consider that? We are here trying to solve a problem, and I am just wondering, you seem to think that if the proper appropriate applications came before you, it is something that certainly would be considered. I am just wondering, then you said, that one of the problems would be the funding. And I am just wondering if you all considered that when you all were putting together your recommendations?

Mr. CONNAUGHTON. Mr. Chairman, the package we are putting together will, at least at the start, attempt to address what we think—it will be a fairly comprehensive package. As it goes through the process, obviously there is a strong possibility that as we get into a dialogue with other parts of the Government, changes may be made. But essentially we are going to look at this as a clean sheet, as we make our proposals internally, sir.

Mr. CUMMINGS. OK, so now going back to my question, so you all did consider it, and right now, it is not, to your knowledge, it won't be a part of what you are presenting to us?

Mr. CONNAUGHTON. I don't know what the package will look like at the end of the process, sir. But essentially we are putting together a package that looks at each element of the marine highways.

Mr. CUMMINGS. Is that package still open? In other words, if you————

Mr. CONNAUGHTON. Yes, sir, we have not started the clearance process. It is essentially, actually it is sitting on my desk, along with some other legislative proposals that we would like to bring forward this year. But we are going to break out this issue, the general issues involved with this and send that forward initially to get it going in the process.

Mr. CUMMINGS. I was extremely impressed with how you got that web site going at the beginning of this hearing. That was just wonderful. If there are things sitting on your desk, maybe we need to schedule another hearing and get some of that stuff moving.

[Laughter.]

Mr. CUMMINGS. It just seems to me something that is practical, that might be a good thing.

Did anyone else have any questions?

Thank you very much. We really appreciate your being here.

Did you have something, Mr. Johnson?

Mr. JOHNSON. I just wanted to say with respect to the Great Lakes, you were talking about funding, the interesting thing that

I find is that the entrepreneurs we are dealing with are self-financed. They are not coming to the Government for money, which I think is refreshing.

Mr. CUMMINGS. Very.

Mr. JOHNSON. So it is the public policy issues that we need resolved, and commerce will start to flow. Thank you.

Mr. CUMMINGS. Thank you very much. Thank you all.

Our next group of witnesses, would you come forward, please?

Our next panel consists of Mr. Gregg Ward, Vice President of Detroit-Windsor Truck Ferry; Mr. Mark Yonge, President of the Maritime Transport and Logistics Advisors; Mr. James Barker, Chairman of the Interlake Steamship Company; Mr. Stephen Flott, Chairman of Seabridge, Inc.; and Mr. Anastassis Margaronis, President of the Santa Maria Shipping Company. I want to note that Mr. Margaronis will be discussing his effort to construct ships for the short sea trade in the Port of Baltimore, and I welcome him.

I also want to take a moment to add my welcome to former Congresswoman and guru of all shipping imports, Helen Delich Bentley. Thank you very much for being with us.

Mr. Ward.

TESTIMONY OF GREGG M. WARD, VICE PRESIDENT, DETROIT-WINDSOR TRUCK FERRY; MARK YONGE, MANAGING MEMBER, MARITIME TRANSPORT AND LOGISTICS ADVISORS, LLC; JAMES R. BARKER, CHAIRMAN, INTERLAKE STEAMSHIP COMPANY, NEW ENGLAND FAST FERRY COMPANY; STEPHEN P. FLOTT, CHAIRMAN, SEABRIDGE, INC.; ANASTASSIS MARGARONIS, PRESIDENT, SANTA MARIA SHIPPING, LLC

Mr. WARD. Thank you very much, Mr. Chairman.

When you think of short sea shipping, I hope you will think of it as an extension of the highway. Mr. Johnson mentioned that we had a long drive here. I tried to come in on Tuesday to Washington, but all the flights were canceled out of Detroit. They were going to be canceled on Wednesday for weather, so I decided to jump in the pickup truck and with my Father as my co-pilot, and with my father back there, we started the business together.

Mr. CUMMINGS. Where is your father?

Mr. WARD. In the corner.

Mr. CUMMINGS.Why don't you stand up? You did all that driving? [Laughter.]

Mr. WARD. He's too tired.

Mr. CUMMINGS. We want to thank you for being with us. We appreciate all the efforts that you went through, and we want you to realize that we consider all this testimony very important. We really do appreciate the fact that you took up the time and went through all of that to get here today. Thank all of you for being here.

Mr. WARD. Thank you very much. It was very insightful to come down the interstate, because it was mostly a whiteout, we drove through most of the night. There were times where the interstate was closed and we had to take arterial roads and then get back on the interstate. When I think of short sea shipping, I see it as an important opportunity to add redundancy and resiliency to our

transportation system. In fact, I think it should be a national security priority.

I am focusing mainly on the Great Lakes, and I will use Detroit-Windsor as a point of reference. We have three bridges or three bridge areas between the U.S. and Canada. In Detroit, we have the Ambassador Bridge, built in 1929, that takes over $300 million worth of cargo a day across it. If that infrastructure failed, there are no alternatives. If you look at the Department of Homeland Security priorities: prevention, protection, response and the last one is recovery, we need a means of recovery at the border.

I think the importance of short sea shipping is to provide alternatives to make a more redundant, resilient transportation system. I think it is critical that we look at doing that.

Today we mentioned the harbor maintenance tax. It is a very critical issue and I would even say that if the harbor maintenance tax isn't settled, there will be no short sea shipping. A case in point, we have been doing this for over 16 years. We started Earth Day 1990. We had the mission of congestion mitigation. There are rules on hazardous materials at the bridges and tunnel in Detroit. Your legal alternative is 165 miles away. Our small service, which is no more than a parking lot, a means of conveyance, we use a tug barge to another parking lot, we have eliminated tens of millions of miles off the highway system.

We think that this is very important to think of, because not only from the environmental perspective, but from the what do you do in an emergency. After 9/11, the automotive companies used our service to keep plants open. In fact, GM said that they were able to keep the Hamtramck assembly plant open in a letter to Customs because of the Detroit-Windsor Truck Ferry. That is 3,400 people. This little service was able to help.

We need a more resilient transportation system, and we have this great waterway that exists, and we have the U.S.-Canada trade, our largest trading partner, we have the density of traffic, the density of commerce already moving. So we have the ability to have that market. I don't think it is a question of coming to the Government for money. It is changing the regulatory framework so that we have a system that will run efficiently and effectively.

With the harbor maintenance tax, if a truck is coming to Detroit and it comes to the bridge, and there is a great amount of congestion, which happens frequently, they cannot move over to the water route. Because if they did, that truck driver would have to call his dispatch and his dispatch would have to call every single customer with freight in that truck and get their permission to be subject to the harbor maintenance tax. It is $125 per every $100,000 in cargo.

It is not going to happen, and it doesn't happen. If you look at our business, the primary freight we bring back from Canada to the United States is empty hazmat tankers, because it has no cargo value, therefore no HMT.

So I think is necessary, when we look at building a transportation system, when we look at short sea shipping, it really is a security issue. It is the opportunity to make our system more redundant. When we were coming down the interstate, we saw the Eisenhower symbol for the building of the interstate system, I hope some day that we can look back at this Committee as taking a

leadership role in advancing our transportation system and utilizing these existing resources, the waterways, to build a more redundant and reliable transportation system.

The challenge is the HMT. There are some other challenges with Canada as far as customs cost recovery. Any new maritime service has to pay for customs. Bridges and tunnel gets customs for free forever. That makes it very non-competitive. Our company, and we are a very small company, had to take the Canadian government to court. We litigated it, and now we don't pay this fee. But at one time, this fee we pay Canada for customs was representing $10 of every truck that crossed. That is going to hurt anybody coming after us, because it was an out of court settlement. and there is no precedence.

We also have an issue of ice-breaking fees in the river. We have to cross a one mile river. We pay $3,100 to the Canadian government for ice-breaking fees, and we are not eligible for ice-breaking services. And the majority of the ice-breaking in the Detroit River is done by the U.S. Coast Guard. So the Canadians are charging us $3,100 for services provided by the U.S. Government and paid for by U.S. taxpayers.

One last issue is on the hazardous material which we transport. It is supposed to restricted from the local bridge and tunnel. When you come into the tunnels in Baltimore, you will see big signs that show the hazmat restrictions. There are no such restrictions signs in the Detroit area. Here you have the Ambassador Bridge, the most critical piece of infrastructure for the U.S.-Canada trade, and we don't have a consistent, reliable hazardous material enforcement policy. So when you look at short sea shipping, I hope you will look at the security end of it and the ability to add redundancy and resiliency to our transportation system

Thank you.

Mr. CUMMINGS. Thank you very much.

Mr. Yonge.

Mr. YONGE. Good morning, Chairman Cummings and distinguished Members of the Subcommittee.

In my written testimony I have attempted to provide you with a brief overview of the development of short sea shipping from a commercial operator's point of view. I have provided a number of recommendations that I trust you will find helpful.

As a past owner and operator of U.S.-flag vessels, I have a deep passion for the preservation and enhancement of our U.S. merchant marine and our U.S. sea lift capability. Therefore, I wish to thank you for this opportunity to offer my assistance to what I feel is a great opportunity for the U.S. maritime industry to provide needed additional transportation capacity for our Nation's economic future and security.

Based on the global proviso that transportation capacity and economic sustainability go hand in hand, and accepting the reality check that the surface transportation capacity in the United States has not kept pace with transportation demand, a freight capacity crunch of unprecedented dimensions is predicted through 2035. Just building more roads or expanding rail capacity to meet projected demand are simply not viable options. Even if they were possible, adding trucking company driver shortages, new hours of serv-

ice regulations and other trucking perfect storm challenges compounds the problem. Short sea shipping, which is to say, the U.S. maritime industry, has the potential to provide our Nation with almost immediate cost-effective additional surface transportation capacity that will assist in securing our Nation's economic sustainability.

While much attention has been paid in recent years to the increasing flood of imports to this Country and to the additional burden it has placed on our transportation system, significant growth is also occurring in domestic freight in greater volumes. It is the transport of goods and domestic service where short sea shipping can make a major contribution to the Nation's transportation system.

There are a number of existing operating companies and started companies that have developed plans or are capable of providing short sea shipping services here in the United States. However, there are barriers that need to be addressed, sooner better than later.

The domestic harbor maintenance tax, the HMT, places a tax on the movement of goods by water. Freight that could utilize marine alternatives is discouraged from doing so by the HMT, and relies instead on trucks and rail even when faced with congestion. The HMT is presently a major disincentive for shippers and logistics providers to consider short sea shipping as an intermodal marine alternative.

Quick action by Congress can produce immediate results. As an example, Chuck Raymond, Chairman of Horizon Lines, a major U.S.-flag vessel operator, has given me permission to advise you that if the domestic harbor tax is removed, his company will seriously pursue dedicating up to four 21-knot 600 plus FEU container ships to the coastwise trade by mid–2007. Chuck estimates about 2,200 trucks per week would be taken off the roads in highly congested areas. That is 114,400 trucks per year.

Availability of existing U.S.-flag Jones Act vessels is limited. Additional vessels are needed, including new technology, high speed vessels that can meet supply chain needs and expectations. Financing new vessels and/or new U.S.-flag vessel technology is nearly impossible today without Government credit assistance, such as the MARAD Title XI program.

Another possible aid might be the restricted use of the capital construction funds, CCF. There may well be other alternatives, such as those that are being discussed today. But the U.S. has a proven Title XI and CCF program in place now that could be enacted relatively quickly, while other alternatives may take years to enact or put into place.

The MARAD Title XI loan guarantee program has been responsible for much of our Country's U.S.-flag fleet development. Without it, two new short sea shipping services could not have been commenced in Hawaii and the Great Lakes. Expanding the use of CCF could also be a means to foster the building of new coastal short sea shipping vessels. I think that the expansion of CCF may be accomplished in a targeted way to answer concerns by some in the maritime community who are fearful of too many vessels being

built and thus creating over-capacity in the market. At least it is worth looking at.

Horizon Lines, Matson and Tote are all successful participants in Title XI and CCF. Congress would do well to continue to strengthen their support for vessel financing.

There are other suggestions that I have included in my written testimony that offer additional options that have been under discussion in recent years. Consider the billions of dollars that are spent on highway infrastructure and hundreds of millions in public funds that are spent on rail, but very little funding is available for building ships for a marine highway, or what we refer to as an intermodal marine transportation system.

In my written testimony, I provided a statement that 12 miles of new four-lane highway construction equates to about $100 million. That amount in a Title XI loan guaranty program would generate loan willingness from this financial sector of about $1 billion, or an example, 10 $100 million U.S.-flag Jones Act short sea vessels. Providing assistance to stimulate the initiation of new short sea services or new intermodal marine alternatives will not only add surface transportation capacity but increase our Nation's sea lift capability. Reinforce the vitality and growth of our merchant marine and add fuel to our marine transportation economic engines.

I close with the suggestion that time is of the essence to secure our economic sustainability. Consider carefully that even if the critical barrier is resolved today, the HMT, and the difficulty of obtaining long-term vessel financing, it will be two to three years before new ships can be built and launched and put into service. That is another two to three years of population growth and economic growth, creating additional transportation demand. Add the trucking companies' dilemmas and we may well find our Nation caught in the perfect storm warning that a trucking company executive stated to us.

Thank you again for your invitation and I look forward to any questions you may have.

Mr. CUMMINGS. Thank you very much.

Mr. Barker.

Mr. BARKER. Thank you, Mr. Chairman. Good morning, Members of the Committee.

I am Jim Barker, Vice Chairman of Mormac Marine Group, which includes three companies operating ships in the U.S. domestic trades: Interlake Steamships Company on the Great Lakes; Moran Towing in the coastwise, and Harbor Towing Trades and New England's Fast Ferry Company in the coastwise passenger service.

I am pleased to appear before this Subcommittee today to speak on the development of short sea shipping in the United States. In particular, I would like to address what seems to be an enigma. If short sea shipping really offers so many benefits for addressing the congestion that increasingly clogs our rail and highway systems, why don't we have it already?

The short answer is, of course, we already do. The companies I represent here today are primarily engaged in short sea shipping in one form or another, in some cases for many decades. Thus a

second, more vexing question is that if short sea shipping does exist successfully on a commercial basis in some trades or services, such as bulk or passenger ferries, why isn't it developing more rapidly in other areas directly related to reducing highway and rail congestion, such as intermodal freight?

Before answering those questions, let me provide some background on our already existing short sea operation. Interlake Steamship is among the three largest vessel operating companies on the Lakes. Our ten vessels include four 1,000 foot long self-unloading bulk carriers. We are proud that Interlake was among the first companies introducing these revolutionary vehicles in the Lakes trade.

Today we are one of only three operators of that class ship in the Great Lakes. In addition, we operate four smaller 700 to 800 foot self-unloading bulk vessels, one non-self-unloading bulk vessel and one self-unloading integrated tug barge. Moran Towing Corporation owns and operates a fleet of 84 tugs providing coastwise towing and harbor services in 13 U.S. east and Gulf ports with an additional 11 tugs under construction or on order. In addition, Moran operates an extensive fleet of 8 ocean-going dry bulk barges, 11 inland harbor barges and 7 petroleum product barges, all of which are double hulled, and has 3 additional double hulled articulated tug barges under construction. In addition to these coastwise services, Moran has also supplied towing services for other short sea services.

The newest member of our family, New England Fast Ferry, operates two high speed passenger ferries operating three to ten voyages daily between New Bedford, Massachusetts and Martha's Vineyard, depending on the season. During the summer season, six voyages daily between Providence and Newport, Rhode Island, with another vessel.

As its web site states, by traveling with us from New York, Connecticut, Boston or Providence, you save over an hour each way and feel fresh sea air, rather than staring at brake lights on the Cape and I–95. Together, these companies provide a broad perspective into the Jones Act industry and short sea shipping in the United States as it exists today, and how it can develop further in the future.

As this small plug for New England Fast Ferry suggests, short sea shipping is already contributing to reducing congestion on U.S. highways, or at least helping to ease the impact of continued growth. Nowhere, however, is this more clear than the Great Lakes region.

Shipping on the Great Lakes began in 1679, when the first ships to sail the upper Lakes, the Griffon, was launched. By the mid–19th century, the bulk shipping industry had begun on the Great Lakes, with the transport of iron ore, wheat and coal. While the late 19th century may have been the golden age of Great Lakes shipping, when the lines of ships moving up and down the Lakes were similar to the bumper to bumper traffic of today's urban roadways, the cargoes carried by today's fleet far exceed those of earlier times.

How this translates into congestion mitigation on our roads and highways can be easily extrapolated from the cargo-carrying capa-

bility of just one of our 1,000 foot vessels. In a single voyage, each such vessel transports the equivalent cargo of 700 car unit trains, or 2,800 25 ton trucks. Thus, in the course of a 300 day 50 voyage season, the Interlake fleet of 4 1,000 footers and 6 smaller vessels conservatively carries the cargo equivalent of almost 3,000 100 car unit trains and over 1 million 25 ton trucks. This means less congestion on the already congested road and rail networks in the region, less impact on aging rail and highway infrastructures, less impact on the environment and less impact on the millions of U.S. and Canadian citizens living in the region.

To help address the challenge of developing intermodal freight services, we looked at three examples of potential short sea intermodal roll-on/roll-off freight services employing truck ferries: a cross-lake service between Michigan and Wisconsin; an inner harbor network serving the New York metropolitan area that is taking trucks from Perth Amboy to Brooklyn; and a coastwise service from Perth Amboy, or New Jersey, to a point or points in southern New England.

The prototype vessel we used in this analysis is a 320 foot roll-on/roll-off single deck truck ferry built on catamaran hulls. We would have a service speed of 19 knots, although the ships could do 27 knots. These ships would be constructed of steel, although they also could be constructed of aluminum. But you would certainly need the steel on Lake Michigan to break ice.

It is now commonly accepted that the principal user customers of short sea intermodal freight service will be trucking companies. But what does it take to get trucks off the roads and onto our ships? Let me say that we have looked at this from the trucking companies' viewpoint, we have looked at it from our viewpoint as a shipping company, and we have looked at the public policy implications. And it is really a difficult problem. You have heard about the harbor maintenance tax, and I won't go into that.

Let's just look at the commercial operation of how you would do this. We have looked at it on a cost basis: can we beat the cost of a truck, say a truck comes out of Minneapolis and is going to Detroit. Instead of going around to Chicago, can we take him across Lake Michigan, which is a shorter route in mileage, which is good news, and beat the cost. And the answer is, we can. We can under certain circumstances.

When you look at all the short sea operations we are in now, when we take a load of iron ore to Indiana harbor from Duluth, we are full. We carry 57,000 tons. Now, you tell me I can be full going across Lake Michigan and I can beat the cost of a trucking company. You tell me that I am half full and I can't.

So one of the key ingredients here is working with the trucking companies to get close to a full load. That is hard to do. People have talked about Title XI, and Title XI is a useful tool. To use Title XI as we have on the Great Lakes, we have long-term contracts with iron or steel companies. That guaranteed that the debt will be paid.

You have no such guarantee with a trucking company, especially when you are working with five or six trucking companies, and you certainly don't have a guarantee for 10 years, say, to do the underlying financing. And therein lies a huge problem.

Mr. CUMMINGS. I will have to ask you to wrap up, Mr. Barker. I have let you go three minutes over so far.

Mr. BARKER. I am sorry about that.

So the answer is, we can meet those costs, but it is a very difficult infrastructure problem of working with the trucking companies to get the long-term commitment. Because they are just not set up to do that, and to solve the problems that will happen as you put the system together. It is the commercial problem that we are trying to solve.

Mr. CUMMINGS. Thank you very much.

Mr. Flott.

Mr. FLOTT. Thank you, Mr. Chairman, Members of the Committee, Mr. LaTourette. Thank you for inviting me to testify.

In the background notes to the hearing and in prior testimony you have heard a lot about the challenges and the reasons why we are here. What I want to do today is show you what we intend to do at SeaBridge, which is making money making short sea services work. Now, because pictures are worth a thousand words, I brought some slides, and I will go through them very quickly.

This slide presents essentially an unsustainable future. I think we have all recognized that today. But what is the cause? Where does the source of this come from? The major driver of our infrastructure problem is domestic highway freight. It dwarfs all other movements in this Country.

Congestion is not caused, though, by trucks alone. There are an awful lot of cars on I–5, I–10 and I–95 where coastal waters are available. Indeed, there are many more, and a lot of people traveling in those cars going up and down those routes.

In my view, in SeaBridge's view, this is a business opportunity. That is how we have approached it.

Our competition is the highway, the very highway itself. The challenge just referred to by Mr. Barker is to attract the traffic to that highway. How?

Like any business, you have to prepare a compelling value proposition for your customers. You have to save them time, money, make using our marine highway more convenient. Help it become more cost-effective.

For truckers, that is taking all the reasons that they use rail intermodal today in the right markets, adding speed and flexibility at a price that compares with using the highway. For motorists, it is offering a more convenient, comfortable transit in less time, and at about the same cost as driving. That is the compelling price-service offering we are going to make.

We have taken a well-proven European model, indeed a global model, the use of ro-pax vessels. Last year in the European Union, 450 million people, 100 million cars and 22 million trucks used ferries as part of their transportation. We have spent six years and $4 million of our own money developing tools to make that work.

What are the tools? Well, marine highways, at the end of the day, are ports and ships. Both are critical, but ships are key. Size, speed, sea-keeping, the term for how comfortable the ship is as it rides at sea, and fuel efficiency are essential to create the frequency, reliability and comfort that users require. The key words in motor transportation are frequency, reliability, and speed.

Simply put, we have developed an extraordinary ship that can produce the right speed for a variety of routes that maximizes our utilization of the vessel and makes the service offering work. We will bring the service to the United States. It is a matter of time. People keep talking about getting shipper buy-in. Shippers today don't ask often how their goods get from where they are picked up to where they are delivered. They use 3PPLs, they use truckers, others to manage that flow.

When we build highways, people come. If we produce a better way of getting goods from point A to point B, the truckers will buy into it as they have rail intermodal.

You have heard a number of obstacles. The biggest obstacle I see is financing, and it drives everything. There is the highway trust fund, Rail Rehabilitation and Improvement Fund, our air traffic fund. That is probably not the right name. There is nothing comparable, though, for water. We don't have a comparable RRIF for water.

It is a good model. But I would urge the Government to consider the use of leverage, just like we do with the Title XI program. Private capital uses leverage to increase the value of its capital and to earn greater returns. It seems to me the Government might take a page out of that book as well in looking at things like Title XI's ability to draw private capital to public uses.

It seems to me, Mr. Chairman and Members of the Committee, that short sea shipping is a matter of private initiative backed by public support.

Thank you very much for your time. My prepared testimony is in the record.

Mr. CUMMINGS. Thank you very much.

Mr. Margaronis.

Mr. MARGARONIS. Thank you, Mr. Chairman.

My name is Anastassis Margaronis and I am the President of Santa Maria Ship Owning and Trading. As you pointed out, we recently signed a letter of intent to operate the shipbuilding facilities at Sparrows Point. I should point out, Mr. Chairman, that that would not have been possible without the assistance of former Congresswoman Bentley, who was very instrumental in getting us across the street, so to speak.

There are a couple of points that I would like to make. First of all, you will all be pleasantly surprised to find out that there are some short sea shipping routes that already are competitive and profitable. Those are the feeder ship routes between major ports to satellite ports. They would include, starting in the Pacific Northwest, Seattle-Tacoma to the Port of Olympia, where there are major distribution centers around Lacey and the Olympia area out there; Oakland to Stockton; L.A.-Long Beach to satellite ports at San Diego and Port Wynimie. On the east coast, Norfolk to Baltimore-Philadelphia; Norfolk down toward Jacksonville. Those would also include New York.

We did a study that include the shipbuilding costs based on our projections for what we would be able to build a ship at Sparrows Point and concluded that we would be able to operate, or somebody would be able to operate a vessel service between a major port and a satellite port at a 75 mile distance and reduce the cost it takes

to truck that container by 10 to 15 percent, assuming a diesel cost of $2.50 a gallon. That includes paying for the new cost of construction of the ship. The way that that would be guaranteed initially would be either through the ports or through major shippers like a Wal-Mart or a Target.

Number two, we need new shipbuilding in the United States. You asked what it is that the Committee could do. The most important thing is to re-fund the Title XI program, put a billion dollars in there and provide us to build $20 billion worth of ships and then all of this can become a reality. Without that program, it is going to be very, very incremental and it is not going to be very successful. We need the economies of scale.

The program can do a lot of things. It can create the financing of owners and ship owners to come in to order the ships. It can be used to help shipyard upgrade their facilities. And I would suggest it should be extended to ports to upgrade their terminal operations, because especially the satellite ports would need upgrades in order to make this happen. A Title XI program is ideally suited for this. If you put in the money, we can make it happen. Without that, many of the shipbuilders around the United States don't have the economies of scale to make this a competitive go. They need some assistance.

Having said that, we would not need a taxpayer subsidy in any of the routes that I mentioned. They could all be done privately with guarantees either from a shipper or from a port. We are competitive already.

If I could say one thing, we have heard a lot about the Jones Act and the problems of American shipbuilding. We can be competitive if we have the right tools. Right now we need those tools.

A couple of other things, terminal operations. We do need to look at terminal operations at smaller and satellite ports. We have had some discussion about the Great Lakes. That would be an ideal setting for moving container traffic. As Mrs. Bentley pointed out to me, she said, some of the Members may be too young to remember, but there was a time when we used to have coastal shipping in the United States, before it was run out of business by some of our bigger modal carriers, who shall remain nameless.

In any case, the potential is already here. We can do it. We need the tools. We need some financial direction. The ports themselves in some of the cases are big enough to do the job. They could guarantee the long-term charters that we need. We heard something about the problem of the long-term agreements. In the feeder ship area, we can already do that. The long haul will be a little bit more problematic, as some of the speakers have mentioned. The ro/ro is an excellent idea for the long haul. Again, we could be building those ships. And that again really needs some support from something like Title XI.

We have had a lot tougher challenges to meet in our past. We have built a national highway system, we have built a national railway system, we have gone to the moon and back. It is time we returned to our maritime roots. It is time we went back to sea.

Thank you very much.

Mr. CUMMINGS. Thank you very much. Thank you all very much.

We are going to ask a few questions and see if we can wrap this up by no later than about 5 after 12:00, 10 after max. So I just have a few questions.

Mr. Flott and Mr. Yonge, you both cite development of a high speed 30 to 40 knot vessel for short sea shipping. Are there any high speed vessels that move trucks over these types of routes anywhere in the world?

Mr. FLOTT. Yes, Your Honor—my lawyering background.

Mr. CUMMINGS. I understand. I used to practice myself.

[Laughter.]

Mr. FLOTT. There are, but it is not a question of the amount of speed, it is the right speed. Often it is the ability to make a schedule reliable, it is the reliability of the schedule. So often the speed of the vessel is really used as a way of making sure that in bad weather or in other circumstances the vessel is able effectively to make its schedule.

One of the first things I was told when I started talking to trucking companies about our service and our concept of creating this marine highway as a highway was, well, how are you going to make up time. For them, it is OK to leave late, but you had better arrive on time. So the fact is there are, in many parts of the world, high speed vessels carrying tracks. High speed is of course a relative term. In some parts of the world high speed may be in the upper 20's. In other parts of the world, it may be in the high 30's or 40's.

Mr. CUMMINGS. Mr. Barker, you looked like you wanted to say something. I know I didn't address that to you.

Mr. BARKER. No, I really didn't, except that one of the problems, you see, as you go high speed, you start sucking up fuel in a huge way. The reason we, for example, had this set on about 20 knots is in that one little ferry that would carry, take 45,000 trucks off the road, you would also save 750,000 gallons of gasoline. And that for each ferry would be it. As you start ramping up that speed, you start sucking up a lot of fuel and increase your costs.

Mr. FLOTT. And indeed, that is one of the things about the vessel, that is exactly right. In ships, you have this dramatic curve, this is a physics exercise, essentially you are shoving a solid mass through water. So as you go faster through water, you essentially drive up the amount of energy necessary to push that vessel through the water. That is one of the things we have spent our time solving, because you can't just burn up more fuel. The idea was to find a way of moving freight faster but with more fuel efficiently.

Now, the pentamaran hull, the vessel we have designed, essentially is designed to do that. And its performance, as fuel efficiency for dead weight ton at speed, is considerable.

Mr. CUMMINGS. Yes, sir. Mr. Yonge.

Mr. YONGE. Chairman Cummings, our group has been fortunate that we have worked for a number of different clients. We are a consulting group. So we have done financial modeling for a number of vessels based on a number of different hull designs. Recently, medium speed diesels have come into play. What we have found, what has been mentioned over here, speeds are achievable at very

economical to what they would have been by using the type of engines we were thinking about five years ago.

And it is all about what is needed. You might need a 30 knot vessel on one run between Jacksonville and New York and you might need an 18 knot vessel that would work just fine between a shorter haul. It is all a matter of shipper's requirements, but mostly what the truck, what intermodal systems are today and we are trying to match those kinds of speeds and transit times. Many times ships can beat it and improve it.

Mr. CUMMINGS. You all think, and I guess, Mr. Ward, you might be interested in this question. Do you all think that we have to have the States and metropolitan planning organizations involved in this process, and to what degree do you think they need to be involved? I see Mr. Flott, you are shaking your head.

Mr. FLOTT. I will let Mr. Ward answer the question first, because you directed it to him.

Mr. CUMMINGS. Did you want to respond to that?

Mr. WARD. No.

Mr. CUMMINGS. OK, Mr. Flott.

Mr. FLOTT. One of the issues of course, any time that you shift traffic from an existing throughput area, I–95 to say, another one, you are going to increase traffic at certain places. So if you, for example, went from New London to Charleston as a long haul ferry service, you are going to move more traffic into New London by necessity. That traffic is passing along New London today anyway.

You are not increasing the amount of traffic. But you are diverting it. And that in the case of the Long Island ferry will raise some concerns among locals when all of a sudden they are not used to seeing 53 foot trailers pulled by conventional tractors pulling through their main streets and going onto the ferry, which has generally been a car ferry. I think you should anticipate some pushback from that change in the traffic flow.

Now, that is why, it seems to me, you need to involve the MPOs in these larger types of planning processes. But you are not going to get short sea shipping going at any extent if you don't increase traffic in the seaports. They go together.

Mr. CUMMINGS. Mr. Barker?

Mr. BARKER. There has to be, the crisis isn't here yet. You can still get a truck through New York. The time is coming when you are going to have to build another bridge, which is a billion dollars, they're talking about, the TappanZee. So at some point, you are going to have something where the joint authorities, whether it is the port authority or the cities, say the trucks have to go over the ferry across New York, because it is the only way we can relieve the bridge traffic.

So there will come a time when that happens. That time is not here now. Because you can still get the truck through New York. It is difficult, but it can be done. So that pressure hasn't built to a point, but it will build that way.

Mr. CUMMINGS. Mr. Margaronis, this is my final question. You talked about Title XI. I am wondering, what are the obstacles with regard to financing that you found and what, I mean, how do you go about trying to get around them?

Mr. MARGARONIS. The obstacle right now is that the program is oriented toward people who are already in the program. There is a debt to equity ratio which makes it difficult for new entrants to come in. The program needs to be oriented more toward working capital, which would be a much better filter for the kind of loan loss problems that they are worried about. Mrs. Bentley asked me to point out that the failures in the program in recent periods have not been because they were commercially viable but because they were sponsored by Members of Congress. She said to say that, I am just telling you.

[Laughter.]

Mr. MARGARONIS. And she said that in the absence of that, the program has an excellent record.

Mr. CUMMINGS. Well, thank you very much, Congresslady.

Mr. MARGARONIS. What I would like to say is, we cannot have short sea shipping without the Title XI program. We need serious money. We have to have a billion dollars in there, we have to be talking about $20 billion of shipbuilding. Then the economies of scale for the shipbuilders will kick in. It will make it more attractive for the shippers to come into something that provides an avenue where there is a guarantee in place. The ports could be a partner in terms of doing the guarantees to provide some of the support that some of the gentlemen have mentioned has been lacking. It would allow shipyards to get financing for upgrades, which they will need to do if you are going to start talking about the types of ships that we are talking about.

Finally, what I think is critical, and it was germane to your previous question, we need to have the ports coming in here as partners, especially the smaller and shallow draft ports that actually are the areas of the most growth and where the traffic mitigation issues are most clear. If we have money for terminal upgrades and helping them to deal with their traffic programs through the Title XI program, so they don't have to go get it, we will make everybody's job a lot easier.

Mr. CUMMINGS. Mr. LaTourette.

Mr. LATOURETTE. Thank you, Mr. Chairman. I just have a couple of follow-up questions. I assume all of you were in the room when we had the Federal panel talking about the harbor maintenance tax and the 24 hour rule and things of that nature. Mr. Ward, first to you, is it your observation or feeling that if we pass this H.R. 981 and the harbor maintenance tax is waived on Great Lakes short shipping that you would be able to compete commercially with the people going over the bridge?

Mr. WARD. We would be able to compete better. There are some other issues, like the APHIS fees, the animal plant services, they have new fees coming in that they are going to charge $5.25 per truck crossing the border. If you cross on the bridge, you pay $5.25. If you cross on the barge, the truck pays $5.25 and the vessel pays $490, this is for a flat-deck barge to go across the river. I think things like that make it difficult to be competitive and I think you have to resolve the Canadian issues that I mentioned earlier to make it cost competitive.

But I think we can compete if you look at the cost of truck delay being $100 plus per hour. That cost of that truck sitting in line to

get across a bridge is very high. We are able to compete with that if we have the regulatory framework which would allow those trucks to use us.

Mr. LATOURETTE. My understanding is that your company has sort of a niche market with hazmat containers?

Mr. WARD. Yes, sir.

Mr. LATOURETTE. How far do you sail?

Mr. WARD. One mile.

Mr. LATOURETTE. One mile?

Mr. WARD. We are the short in short sea shipping.

[Laughter.]

Mr. LATOURETTE. Mr. Barker, let me get to you, because I had understood you to say that while the harbor maintenance tax is important, there are other economies of scale that may not make this Great Lakes proposal commercially competitive. Aside from just needing to have full ships, is there anything else that gets in the way?

Mr. BARKER. Well, it is just this transition is going to be very difficult in the sense that you are dealing with a whole bunch of trucking companies, all of whom are not used to either signing a long-term contract, I mean, we can finance the ferry across Lake Michigan if somebody just will sign up and say they are going to use it.

But it is the whole system. I mean, as was said in testimony that a shipper calls a trucker and he gets it there as fast as he can, no fuss, no muss. You are talking about a whole systematic change. It has lots of advantages. It can relieve a lot of truck driving, which is an advantage to them. But it is a whole re-education of the system. We have a shipping system, the trucks have a trucking system. And getting them to mesh is one big job and should not be underestimated.

Mr. LATOURETTE. Mr. Yonge, I will get to you in just a second. Where I live in Cleveland, it is a no brainer to sail 38 miles across Lake Erie as opposed to going up through Detroit or going around through New York. So to Mr. Ward's plan about not being stuck in traffic, I don't know the cost savings is to having that trucker be on the road for 16 or 18 hours, particularly given your—I bet you drove through Ohio on your way here, and that was an unpleasant experience.

But it just seems to me that that makes sense. I guess it all comes down to what is the cost. I think truckers are just like everybody else, they want to know what it costs.

Mr. Yonge?

Mr. YONGE. I just wanted to add a little comment, we really have come a long way in short sea shipping. When we started over four years ago, started the initiative, and you have heard intermodal, intermodal. Really, short sea, once our group started talking to truckers, we call them logistics providers, third party logistics providers, the trucking companies and so on. The minute you start referring to intermodal, everybody wakes up and says, oh, that is great. Because originally they thought of us competitors. And that was a big resistance.

We have done a number of financial modelings. It just matters on where the run is and how you approach it. When you say com-

pete, can we provide a competitive rate to the logistics providers, not so much compete with the truckers but be their partners. That is a very important part of it.

Mr. LATOURETTE. Not so long ago, the truckers and the train guys were always at each other's throats. We don't have that any more. I had the retiring president of the Union Pacific in my office last year and he said, you know, I have been in the business for almost 50 years and I never thought I would be sitting here telling somebody we are sold out, but we are sold out. And now you have a great collaboration between the truckers and the trains.

Mr. Flott?

Mr. FLOTT. I think Mr. Barker and Mark had made the point. Ultimately creating a highway is really meshing the needs of truckers for what they need with the needs of a marine operator for what he needs or she needs. That is what we have really been working on. It is a Rubik's cube. It is a matter of looking at the ship, it is looking at what the truckers want, it is kind of going back and forth between each side of this equation.

But at the end of the day, if we can offer a compelling reason to use the service at a price that competes favorably with the highway, we will get the business. We build highways without having any sort of promise from users to use it. But the fact of the matter is, when we build it, they do come, and they come in droves. Because by the time we usually deliver those highways, they are already almost at capacity.

Well, the advantage of the marine mode is we can get those assets in play at cost that compares favorably with our land-side infrastructure.

Mr. LATOURETTE. Sure. I think the one difference, though, if I have a truck, I leave when I feel like leaving. If I have to wait for your ship to sail to take care of that————

The last question of Mr. Barker and Mr. Ward, maybe on the Great Lakes, is there, as we look to the future and installing some of these routes, if they can solve the Canadian Jones Act problem and other things, is there a distinction or a mode that has a better chance of success in the roll on/roll off technology or actually loading the containers? Either one of those better for what we are talking about in the Great Lakes?

Mr. BARKER. Yes, I think it is very clear. Roll on/roll off really works. It keeps your costs down. Once you have to pick a container up, move it over, put it back on a chassis, you are talking, as Chairman Oberstar said, $400 or $500 or $600 or $700. If you can drive it off with your own driver, there is almost no cost. That is a significant cost. Your landing costs have to be kept to a minimum or you will never be competitive.

Mr. LATOURETTE. And maybe Chairman Oberstar, we can talk about hours of service while the truck driver is enjoying the salt breeze rather than driving his truck, as well.

Thank you, Mr. Chairman. Oh, I am sorry.

Mr. WARD. On that idea of the cost, just to give an example, prior to the Iraq war there was a very large manufacturer in Detroit that came to us and bought a majority of our capacity. They bought it as a contingency in case the border became very backed up, that they could use the ferry service to get their critical freight across.

So they have already paid for it. And there were severe backups, four or five hours. Those trucks waited in line, idling instead of diverting to the truck ferry, which had zero cost, because of those impediments.

So I know the harbor maintenance tax is one on a list, but I think it is so high on that list and so important, this company paid for the crossing and instead waited in line four to five hours at $100 an hour because of the HMT.

Mr. LATOURETTE. OK, thank you.

Mr. FLOTT. And Mr. Chairman, to answer your question about the HMT, it is really the administrative difficulty of dealing with the tax, because the tax isn't paid by the trucker, it is paid by the shipper. So now all of a sudden, the shipper has to deal with a whole set of paperwork that he doesn't have to deal with if he simply uses a truck.

Mr. CUMMINGS. Right.

Mr. FLOTT. So you put an administrative impediment into the use, it is not the tax. It is the administration of dealing with the tax.

Mr. CUMMINGS. I am glad you cleared that up. That is very significant.

Mr. Margaronis, you seem like you are about to jump out of your seat. Go ahead. Briefly.

Mr. MARGARONIS. Yes, sir. We do not agree that the ro/ro is necessarily the way to go. The reason for that is simply that a container ship is more compact, we could build it for about half the price. Also if you use modern terminal operations, you will be able to get similar, or actually you will get faster production.

The other thing is that a lot of trucking companies don't want to use their drivers for long periods of time. So what they want to do is they want to drive in and drive out. You can do that with a container ship.

Putting that ro/ro on takes time, it takes manning. We just haven't looked at that because we have the same container capability that we do in Europe and in Asia. If you saw the differences, I think you would find that there are some compelling reasons.

Mr. CUMMINGS. Mr. Larsen.

Mr. LARSEN. Thank you, Mr. Chairman. I will try to be brief in what I want to ask and give some time to folks.

Mr. Barker, you talked about the crisis, that is, we are not at a crisis point. And in looking at the map that was supplied by one of you that showed Tote and Matson coming off the west coast, that screams out necessity. That is, we are not going to truck what Alaska needs from Washington State through Canada into Alaska. The infrastructure is not there to handle that. It has to go by water. Hawaii, from the west coast, for the larger bulk and obviously container, it is going to go by water. So it is a matter of necessity, which is why it tends to work, short sea shipping tends to work.

In terms of crisis on I–5, putting $43 million investment with the thanks of some of the Federal dollars right now at the Pacific highway crossing to separate passenger vehicle traffic from commercial truck traffic to get more utilization out of the Pacific highway crossing as well as the Blaine crossing. So we are not yet at a cri-

sis, we are not waiting four to five hours to cross there, even though we tell folks, between Buffalo-Niagara and Detroit-Windsor, I forget which is number one and number two in terms of crossings. But Blaine will always be number three. It will never be two and it will never be four. The Blaine crossings will always be number three. But it is important for I–5, but we are not at a crisis point.

So I was real interested, Mr. Flott, in your graphs. You make the economic case. It really is, it seems to me, short sea shipping is an economic case. There is not much beyond that. After talking to all the folks I have talked to in the last two weeks and hearing from you all, it is an economic case. That is all well and good, but I want to talk about the economic case that Mr. Margaronis talked about. What service are you talking about from Olympia, Port of Olympia to Seattle and Tacoma?

Mr. MARGARONIS. We had actually had some discussions a couple of years ago. What we would do in that case is, we would probably use an inland waterway ship which would not be a sea-going ship. That would make it cheaper. What you would do is, you would do same principle for all of the ports. Your vessel would tie up behind the ocean carrier, you would drop the boxes directly onto the short sea ship and you go straight down to Olympia. And you can do that very, very efficiently. You don't have the extra handling costs. And by the time they get those boxes out of either of those two ports, you would already be down there.

So we would have speed, we would have competitive costs. Your fuel consumption is 50 percent on a per unit basis of what it is for the trucks. And you would save one ship, doing one turn a day, you could take 300 trucks off the road. So if you built a couple of them, you could take 1,000 trucks off the road for a fraction of what you are spending on doing that road widening.

Mr. LARSEN. Mr. Flott, do you have a comment on that?

Mr. FLOTT. I just wanted to make two comments. Number one, I don't think there is an either/or situation here. I think we need feeder container ships, I think we need ro/ro ships. It is horses for courses in particular cases. So I didn't want to make my comment about ro/ro vessels in the lake, that only use ro/ro, don't use lift-on/lift-off. We need both. The fact is the challenge is to get not hundreds of loads of trucks off the road, but hundreds of thousands of trucks off the road.

There is not going to be one tool. In some markets, where speed is not as critical perhaps, and where the traffic will bear the handling at port terminals and we can make them more efficient. We have a difficulty here in the United States, because the 40 foot international container is not our domestic standard. We use a 53–102. That is what our domestic trucking industry uses. It is what our domestic intermodal system uses. And we bring in 40 foot equivalent units and we have a lot of trans-loading, trans-shipping. And those units now, the steamship companies don't want them going inland, because they are hard to get back. They don't get used in domestic service.

So these are the challenges of building domestic containerized cargo movements versus a highway trailer type movement that is more conducive to a roll-on/roll-off type configuration. They are two different trades.

Mr. LARSEN. Thank you.

Mr. CUMMINGS. Mr. Oberstar.

Mr. OBERSTAR. This hearing is shaping up as the textbook definition of and guidepost for the future of interdependent transportation, or intermodal transportation. This is the best presentation, Mr. Chairman and Mr. LaTourette, that I have heard in a decade on the subject of intermodal and interdependent transportation. We are talking about short sea shipping, a relatively recent concept embraced by the Department of Transportation under Secretary Mineta's leadership.

But the combined testimony of this panel is really the textbook on interdependency and intermodal goods movement. It is the best and most thoroughly documented presentation I have read, and I have read an enormous amount of material. I want to thank each of the witnesses at the table, especially my good friend, Mr. Barker, who has been onto this issue for quite some time and has been an inspiration, frankly, for it.

And to that point, on page 5 of Mr. Barker's testimony in response I think to Mr. Flott's, or completing Mr. Flott's thought, he points out that in each voyage of a 1,000 foot vessel in the Interlake fleet, you carry the equivalent of 7,100 car unit trains or 2,800 25 ton trucks. That is taking a lot of traffic off the highways and off the railways and a lot of abuse.

Now, in our Committee, we have the collective responsibility for all these modes of transportation. And as I have watched over the last two decades, in fact, in 1987, I, as Chair of the Investigations and Oversight Subcommittee, held hearings on the future of transportation in the post-interstate Europe. We had witnesses then who forecast the coming collision of movement of goods and people on the Nation's highways and the extraordinary growth of transportation in excess of population growth. If you look at the 20 year period, population has grown about 4 percent a year. But transportation has grown on an average of 14 percent, well over three times population growth.

Futurists usually fall way beyond actual performance of their projected model. In transportation, futurists fall well short of actual demand. That is our challenge, is to think beyond the model, beyond current practice and not be limited by it.

In today's economy, there are a 1,400,000 rail cars moving by just our five major railroads. They need to replace 50,000 of those a year and add another 50,000. There are only three rail car manufacturers in the United States, they can't keep up with the demands. They need to replace locomotives, build new ones. Because they haven't invested over the last decade and a half, now they are making substantial profits, $4.5 billion net profit for the five major railroads last year. Now they have the money to invest in capital equipment and rail bed. But they are way short, way short of where they need to be.

There are 7 million trucks, inter-city commercial truck vehicles. They cannot carry all the demand placed on them by our economy. They are asking the railroads to carry their trailers. The railroads are asking the trucking sector to carry more of the container traffic, because they can't handle it all. That is not a formula for, it is gridlock.

Maritime now can make its contribution. On the inland waterways, however, a round trip voyage by a barge tow from Clinton, Iowa to the world's most important grain export facility, New Orleans, is 820 hours round trip. Why? Because those 1,200 foot barge tows have to be broken up at each lock, except for Alton, Illinois, into two smaller tows sent through separately, lashed together onto the next one. If we expanded the locks on the Mississippi River to 1,200 feet, the five principal locks and the two on the Ohio and Illinois River system, then we can take up to 60 hours off that transit time. That means that our grain will move at lower cost into the international markets.

If you look at Brazil, which is vigorously developing soybean sector in their agriculture, the point of export in Brazil, Sao Paulo, is 1,200 miles further out into the Atlantic Ocean than New Orleans. More than 800 miles further out into the Atlantic Ocean than any east coast port of the United States. That means they have a four day sailing advantage or so over exports from New Orleans. Grain moves on as little as an eighth of a cent per bush in international markets.

So if together we move to, as Mr. Barker said in his testimony, remove the obstacles that Government has placed in our way, we have failed to invest in our infrastructure, we have failed to upgrade our inland water system, we have failed, the Corps of Engineers over the last ten years has failed to dredge the interconnecting channels on the Great Lakes and the harbors on the Great Lakes, because we had high water and they didn't need to do the dredging and now we have low water. And our ships, our vessels are going out 6,400 tons lighter than they would if the channels were dredged to the appropriate depth. That means higher cost to produce steel in Mr. LaTourette's State. It means higher cost for goods shipped in the heartland of the United States.

Why is all of this important? Because in the Great Lakes States we have 35 million people, we produce 40 percent of the Nation's agriculture, one-third of the Nation's industrial goods and 40 percent of the Nation's export commodities, but we move less than 1 percent of the containers. We can do better than that on the Great Lakes if we take the ideas that each of you has set forth and harness them into an initiative.

Mr. Cummings is going to take the initiative on the harbor maintenance tax. We will develop the necessary legislative language, we will determine what the offsets are in this pay as you go,budget process that we Democrats have imposed on us and the Congress. It may be a great budget idea, I liked the old days when we just added to the deficit.

[Laughter.]

Mr. OBERSTAR. All right, we will pat ourselves on the back and be responsible, find the offset and then we will move that legislation. And we need to do it. We need to address the matter of, again, Mr. Barker cited the shoreside infrastructure. That is one thing I would like each of the witnesses to comment on, is what do we need, what do ports need in shoreside infrastructure to accommodate short sea shipping. Mr. Barker, since you raised it, I will ask you first.

Mr. BARKER. The big issue we see, and it is not huge in terms of the operations that we are thinking of, is basically the bulkhead dock so you can accommodate roll-on/roll-off ships when they're not around in every port. It is not big money but it is important money.

Mr. OBERSTAR. And that is the role of the public sector.

Mr. BARKER. Yes.

Mr. OBERSTAR. There is a partnership here of the public sector and the private sector. The public sector does its job of being efficient and providing the infrastructure, the private sector will thrive. Do others have comments on that?

Mr. MARGARONIS. We are going to need new container crane capability at the satellite ports. And we are going to need to look at some new designs for those terminals, because the existing terminal operations are 50 years old. And we are not using our space intelligently. One of the issues that we have not talked about much is the high impact of emissions at some of the major ports and the need to mitigate those with something that is more streamlined.

Those ports are going to need new cranes. They are going to need better designs to move the boxes in and out, whether they are on a ro/ro basis or on a container basis. Those designs are available, but the ports don't have the money for that. They are going to need help from somebody to get that.

Mr. FLOTT. The ports we are looking at, Mr. Chairman, I would agree with Mr. Barker, it is a roll-on/roll-off, you need a parking lot by the sea, essentially. In our case, the scheduling is very important, because you are looking at a synchronized and quite highly timed operation to meet a schedule. So we would be working with ports to create private facilities, so that you actually have a private terminal and you can do the turnaround in those private terminals. But they are not big capital investments, generally.

Mr. OBERSTAR. Mr. Yonge?

Mr. YONGE. Mr. Chairman, in the studies that we have done, there are some secondary ports that are just waiting there for some capacity and some use. But keep in mind if you will that in some of the points a number of us have made here is that domestic cargo is really where the volumes are that is going to be a challenge to our transportation capability. All we need is a truck terminal. We don't need customs, we don't need immigration, we don't need anything complicated. We just need, if you can imagine what a truck terminal is or a rail intermodal depot is, rather simple operations. That is all that is needed. It is not a lot of cost and there are places along the U.S. east coast, Gulf, west cost, that can be used.

Mr. OBERSTAR. Mr. Ward?

Mr. WARD. Chairman Oberstar, we use a brownfields site, and it is nothing more than a parking lot and we have customs on both sides. I think that is a model that can be followed. Another benefit is the security within the Great Lakes, because a new service would most likely become a border crossing, is you can have a higher level of security on short sea shipping that you cannot have at the fixed crossing. So I think that is an additional benefit.

Mr. OBERSTAR. I have looked at several of the major intermodal containers moving from portside to rail and truck and truck to rail, and they are just beehives of activity. They can't handle all of the pressure. The new size container vessels that I described a moment

ago are going to unload more containers on our shores. We need to find, of course, in our high-tech economy, we have to find something to put into those empty boxes to ship back to the Pacific Rim. We are not doing a very good job of that, except for scrap iron and shredded paper.

[Laughter.]

Mr. OBERSTAR. But that is a matter for the private sector to figure out. We will do our part, and with your contribution, we will address these issues and list the energy of short sea shipping.

I noticed, Mr. Margaronis, your recommendation of an infusion of capital into the Title XI guaranty program.

Mr. MARGARONIS. Yes, sir.

Mr. OBERSTAR. Elaborate on what you think might be a capitalization need.

Mr. MARGARONIS. I think for what we are talking about, we should be talking about a billion dollars. I think we should be looking at a $20 billion shipbuilding program. The benefits that, we are talking about building, whether you go with a container ship or you go with a ro/ro ship, we are talking about ramping up to a production capacity we currently do not have.

And we are not going to be able to do that without the financing mechanism. I think the good thing about the Title XI program is you are not going to need a taxpayer subsidy to operate these services. Most of them can be done privately and commercially. But the loan guarantee is a critical link here. And the banks and the financial institutions are going to be much more oriented toward getting involved if Title XI is back on track.

Mr. OBERSTAR. Mr. Flott?

Mr. FLOTT. Could I also suggest, I agree with Mr. Margaronis in one respect, but I also think the RRIF program, which under SAFETEA-LU was dramatically increased, is another model that should be looked at in combination with Title XI. I think we have already examples of financing systems, both Title XI and RRIF, that have proved their value. And the issue would be to see how perhaps an updating or a combination in creating an RRIF or Title XI type program for waterside might be in order.

I would also want to point out one other thing, and I think, Mr. Chairman, you are right to point it out, and that is that we have this enormous system of inland waterways which had been starved of investment for many, many years. But the cargo that is choking our highways has never really moved in that system. It moves today from distribution centers to retail establishments and between assembly points and further assembly points. That is the highway traffic. That is really the dominant driver of our congestion, and we need to really look at these two issues in combination in parallel rather than as either-ors.

Mr. OBERSTAR. Yes, you are quite right about that, I agree. Today's economy needs the creativity and the energy and the contribution of all of the modes of transportation.

Now, the Administration has done everything they could to choke the RRIF loan program. We increased it from $3.5 billion to $35 billion in a bipartisan initiative in SAFETEA-LU. The Administration's fiscal 2008 budget submitted just a week ago zeroes out the RRIF loan. Well, we are not going to stand for that. I have already

made a pitch to the Budget Committee and the Appropriations Committee to restore the funds. The Title XI guaranty over the years I served on the Merchant Marine and Fisheries Committee, before it was dissolved and absorbed into, largely absorbed into the Public Works and Transportation—well, within Public Works and Transportation, now T&I, we have made over $11 billion in loan guarantees over the years and about $8 billion or $10 billion in construction differential subsidies and operating differential subsidies, and those largely went to the saltwater port operations.

Mr. Barker, I think on the Great Lakes there may be two or three of the 1,000 foot ore carriers that benefitted from Title XI guarantees?

Mr. BARKER. Yes, there were at least three.

Mr. OBERSTAR. So we have not had our fair share on the Great Lakes of the Title XI guaranty. And we can do that authorization in this Committee and in this Subcommittee. And we will do that. We will move that ahead. We have to take leadership and responsibility and ownership of these issues, and this Committee is going to do that.

Mr. MARGARONIS. That would be enormously helpful, Congressman. Enormously helpful.

Mr. OBERSTAR. I am sure Mr. LaTourette will be in full partnership and agreement. The Lorraine Shipyards will be happy to see some of that money flow.

[Laughter.]

Mr. MARGARONIS. So would we.

Mr. OBERSTAR. I yield back. I thank our witnesses for their patience, their contribution. I am sorry I couldn't be here for your individual testimony. I had other problems, the cities and the highways and others to deal with.

Mr. CUMMINGS. I want to thank all of you for being here. Your testimony has been extremely helpful and as I said at the beginning of the hearing, one of the things that Mr. Oberstar has emphasized is that we don't need to be having hearings just to be having hearings. We are trying to get things done and solve the problems of the American people. This is a major one. It just has, no pun intended, a rippling effect.

So you have heard the Chairman, and we are going to work to make as much happen as we possibly can in the time that we have. We just don't want to be in the situation, as I said before, where 10 years from now we are grappling with the same problems, or another group of Congresspeople are grappling with the problems. We really appreciate all of you. We appreciate you for driving again, so far, and hope that you all have a better trip back. Your father looks like he is in better shape than you.

[Laughter.]

Mr. CUMMINGS. Maybe this driving is good for him.

Thanks a lot, and this hearing is called to an end.

[Whereupon, at 12:32 p.m., the Subcommittee was adjourned.]

STATEMENT
of

James R. Barker

Vice Chairman
Mormac Group, Inc.
Moran Towing Corporation

Chairman
Interlake Steamship Company
New England Fast Ferry Company

Before The

SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION
of the
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
UNITED STATES HOUSE OF REPRESENTATIVES

Hearing On

The Development of Short Sea Shipping in the United States

WASHINGTON, D.C.
February 15, 2007

Overview

- If short sea shipping really offers so many benefits for addressing the congestion that increasingly clogs our rail and highways systems, why don't we have it already?
- Because short sea shipping does exist successfully on a commercial basis in the United States for some trades or services, such as bulk or passenger ferries, why isn't it developing more rapidly in other areas directly related to reducing highway and rail congestion, such as intermodal freight?
- With over 150 years of experience in short sea shipping, the Great Lakes offers both lessons and opportunities for future development.
- Three models of short sea intermodal freight service worthy of further study:
    - Lake Michigan Cross-Lake between Muskegon and Milwaukee
    - New York By-Pass New Jersey to New London
    - New York Intra-Harbor
- Eight Rules for Developing Short Sea Intermodal Freight Services

  (1) There must be an obstacle that somehow makes competing rail and truck services impossible or at the very least less economically efficient.

  (2) There must be sufficient financing available at commercially viable rates to meet the infrastructure requirements of the proposed services, both afloat and ashore

  (3) There must be shore-side infrastructure to support the proposed service.

  (4) To attract trucks there must be incentives for trucks.

  (5) Frequency and reliability of short sea services are more important than speed per se in attracting commercial freight customers.

  (6) To succeed, only bite off what you can reasonably chew (and afford).

  (7) The business models of the trucker and the short sea vessel operator must be complementary.

  (8) The role of the Government should be to reduce barriers, not impose them.

TESTIMONY

Mr. Chairman and Members of the Subcommittee:

Good morning. I am Jim Barker, Vice Chairman of Mormac Group, Inc., which includes three companies operating ships in U.S. domestic trades – Interlake Steamship Company on the Great Lakes, Moran Towing Corporation in the coastwise and harbor towing trades, and New England Fast Ferry Company in the coastwise passenger trade. I am pleased to appear before the Subcommittee today to speak on the development of short sea shipping in the United States. In particular I would like to address what seems to be an enigma – if short sea shipping really offers so many benefits for addressing the congestion that increasingly clogs our rail and highways systems, why don't we have it already?

The short answer is, of course, we already do. The companies that I represent here today are primarily engaged in short sea shipping of one form or another, in some cases for many decades. Thus, a second, more vexing question is that if short sea shipping does exist successfully on a commercial basis in some trades or services, such as bulk or passenger ferries, why isn't it developing more rapidly in other areas directly related to reducing highway and rail congestion such as intermodal freight?

To help answer that question, I will use three examples of potential short sea intermodal roll-on/roll-off freight services employing truck ferries that I have asked my technical, operating, and financial experts to assess: (i) a cross-lake service between Michigan and Wisconsin; (ii) an intra-harbor network serving the New York metropolitan area; and (iii) a coastwise service from New Jersey to a point or points in Southern New England.

Today, I would like to leave the Subcommittee with three points that summarize the development of short sea shipping in the United States:

- Our experience with short sea shipping in bulk and passenger services, and limited intermodal freight services, suggests that expanded intermodal freight services can be developed and be commercially successful in U.S. markets.
- The public policy benefits of shore sea shipping are evident and well documented, but as a general rule the commercial need for such services and the ability of vessel operators to provide them at commercially competitive rates are not

foregone conclusions; to succeed, short sea initiatives must be tailored to specific markets.

- Short sea intermodal freight services must be developed in close working partnerships with principal trucking company customers because to succeed the business plans of the customer and of the short sea vessel operator must be complementary.

Last, but not least, there is one overriding thought that I want to leave with you today. To succeed commercially over the long term, short sea shipping must make sense commercially for the provider and for the customer. Any service that relies solely or extensively on government assistance to be competitive will, over time, fail commercially. The role of the Government in short sea shipping, as in other modes of domestic transportation, must be to ensure the availability of basic infrastructures to support the services. Operating them will be up to us.

I. INTRODUCTION TO THE MORMAC GROUP

The Mormac Group today includes three companies operating in Jones Act trades – Interlake Steamship Company in the Great Lakes, Moran Towing Corporation on the U.S. East and Gulf Coasts, and New England Fast Ferry, between New Bedford and Martha's Vineyard. Interlake is among the four largest vessel operating companies on the Lakes. Our ten vessels include four 1,000-foot long, self-unloading bulk carriers and we are proud that Interlake was among the first companies introducing these revolutionary vessels into the Lakes trade. Today we are one of only two operators of that class ship on the Great Lakes. In addition, we operate four smaller (700-800 ft.) self-unloading bulk vessels, one non-self-unloading bulk vessel, and one self-unloading integrated tug-barge.

Moran Towing Corporation owns and operates a fleet of 84 tugs providing coastwise towing and harbor services in 13 U.S. East and Gulf Coast ports, with an additional 11 tugs under construction or on order. In addition, Moran operates an extensive fleet of 8 ocean-going dry bulk barges, 11 inland hopper barges, and 7 petroleum product barges, all of which are double-hulled, and has three additional double hull articulated tug barges under construction. In addition to its own coastwise services, Moran also has supplied towing services for other short sea services.

The newest member of our family, New England Fast Ferry, operates two high-speed passenger ferries providing 3-10 voyages daily between New Bedford, MA and Martha's Vineyard depending on the season, and, during the summer season, 6 voyages daily between Providence and Newport, RI. As its website states, by traveling with us from New York, Connecticut, Boston or Providence, you save over an hour each way and feel fresh sea air rather than staring at brake lights on the Cape and I-95.

Together these companies provide a broad perspective into the Jones Act industry and short sea shipping in the United States as it exists today, and how it can develop further in the future.

II. SHORT SEA SHIPPING IS ALIVE AND WELL

As this small plug for New England Fast Ferries suggests, short sea shipping is already contributing to reducing congestion on U.S. highways, or at least helping to ease the impact of continued growth. Nowhere, however, is this more clear than in the Great Lakes region.

Shipping on the Great Lakes began in 1679 when the first ship to sail the upper lakes, the Griffon, was launched. By the mid-19th century, the bulk shipping industry had begun on the Great Lakes with the transport of iron ore, wheat and coal. While the late 19th century may have been the Golden Age of Great Lakes shipping when the lines of ships moving up and down the lakes were similar to the bumper-to-bumper traffic of today's urban roadways, the cargoes carried by today's Fleet far exceed those of earlier times. Indeed, in terms of pure tonnage transported, in an average 300-day sailing season, the U.S.-flag Great Lakes fleet transports more than three times the total tons of cargo carried by the U.S.-flag fleet operating in international trade.

How these numbers translate into congestion mitigation on our roads and highways can be easily extrapolated from the cargo carrying capability of just one of our 1,000 foot vessels. In a single voyage, each such vessel transports the equivalent cargo of 7 100-car unit trains or 2,800 25-ton trucks. Thus, in the course of a 300-day, 50 voyage season, the Interlake fleet of 4 1,000 footers and 6 smaller vessels conservatively carries the cargo equivalent of almost 3,000 100-car unit trains or over 1 million 25-ton trucks. This means less congestion on the already congested road and rail networks in the region, less impact on

aging rail and highway infrastructures, less impact on the environment, and less impact on the millions of U.S. and Canadian citizens living in the region.

Without the contribution made by the Great Lakes fleet overall, it is unlikely that the Great Lakes region could sustain 70 percent of all automobile manufacturing in the United States and half of all heavy manufacturing. Because Great Lakes transportation is a system both geographically and economically, every participant in that system – carrier, customer, and consumer – benefits if the system is operating in the most efficient manner possible. The available of highly-efficient, cost-effective short sea shipping has been vital to sustaining the manufacturing base of the Great Lakes basin for over 150 years and gives every promise of continuing to do so into the future.

III. DEVELOPING NEW INTERMODAL FREIGHT SERVICES

The Great Lakes is well-positioned to serve as an example for how short sea shipping can develop in other areas and services, particularly new services dedicated to or primarily carrying intermodal freight. To assist in this exercise, I have asked our companies' operating, technical, and financial experts to develop three models of new services that appear to ripe for development: (i) a cross-lake service between Michigan and Wisconsin; (ii) an intra-harbor network serving the New York metropolitan area; and (iii) a coastwise service from New Jersey to a point or points in Southern New England. Based on their analyses, one can derive general guidelines that should prove of use to the Congress, and other potential operators in other areas, in developing new short sea shipping initiatives.

Vessel Prototype

The prototypical vessel used in these analyses is a 320' roll-on/roll-off single-deck truck ferry built on twin catamaran hulls. For redundancy and safety, the twin-screw vessel will be powered by four 2,000 hp MTU Detroit 8V400 medium-speed diesel engines, the same highly fuel efficient engines we are installing in all of our new construction tugs. With this propulsion arrangement, the vessel would have a top speed of 27 knots and a service speed of 19 knots. If the engines were upgraded to Detroit's 3,000 hp 16V4000 engine, the top speed could be increased to 33 knots. In this configuration the vessel would be capable

of transporting 40 53-foot trailers or 48 40-foot containers on chassis, and greater numbers of smaller trucks or passenger automobiles.

As designed, the vessel could accommodate approximately 150 passengers in covered seating and others in open-deck seating, although we would expect it to be certified by the Coast Guard for up to 500 passengers. For longer runs, such as the Cross-Lake or New York By-Pass models, modern seating, tables, and limited concessions services may be provided.

The twin hulls could economically be constructed of steel, which would be required for use on the Great Lakes where ice conditions could be expected, or aluminum. Because the vessel is modeled on similar vessels already under construction in U.S. shipyards for coastwise or offshore support services, it should be capable of being constructed in those same shipyards.

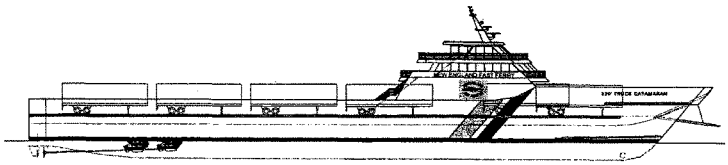


Fig. 1 Prototype 320' Intermodal Freight Ferry

Intermodal Freight Service Models

Cross-Lake Services

The first such model envisions a roll-on/roll-off intermodal freight service crossing Lake Michigan between Muskegon, MI and Milwaukee, WI. This service would have the benefit of connecting the I-96 corridor from Detroit/Southeast Michigan to the Interstate network radiating from Milwaukee, with options to serve both the Northern Chicago metropolitan area and points west, including the Minneapolis/St. Paul metropolitan area. In addition to offering a shorter over-the-road trip from Detroit to Minneapolis, this service would allow truckers to avoid the highly congested Chicago metropolitan area.

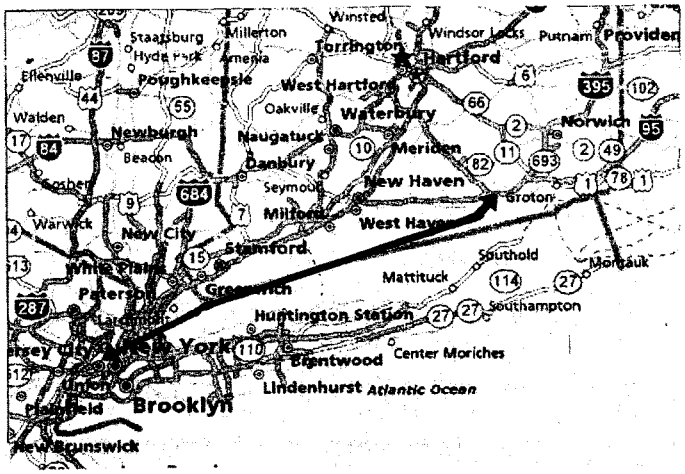
By allowing trucking companies using the service to draw on two local pools to serve Detroit and Chicago, this service also would help address the shortage of over-the-road truckers being experienced by that industry. For example, within a 10-hour service day, a Detroit based trucker could deliver a trailer to the dock in Muskegon for shipment and return to Detroit with a landed trailer. Similarly, a trailer landed in Milwaukee could be delivered to the Minneapolis area within the same 10-service hour day.

On this route a single vessel could make 4 round voyages every 48 hours. Maintaining year-round service on this route would require a steel-hulled vessel due to ice-breaking concerns. Existing cross-lake services are limited to seasonal automobile/passenger service between Milwaukee and Muskegon (no trucks) or mixed truck/passenger service between Ludington and Manitowoc, which lacks the Interstate highway connections available in Muskego and Milwaukee.

New York Bypass

This service would operate between a point in New Jersey and one in Southern New England such as New London, CT to allow trucks to by-pass the New York metropolitan area. This would allow truckers to avoid the tolls and congestion on major highways and

choke points, allow the use of local trucker pools on both ends to address the shortage of over the highway truckers, and actually provide one day service well up into the New England region. For example, Portland, ME is only about 3.5 hours by highway from New London.



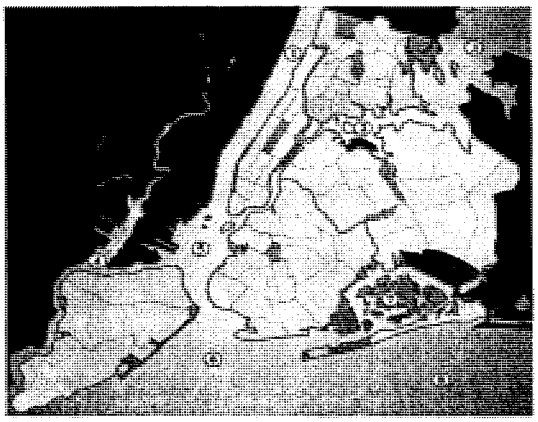
In this service, the prototype vessel could make one round voyage daily, and by following a non-open ocean routing maintain reliable service less susceptible to weather delays.

Services of this nature could be integrated into complex business models to help generate cargo flows. For example, a trailer delivered to New London overnight, could be delivered by truck well up into New England in the morning, a return cargo brought back by that same truck in the afternoon, that cargo dropped off by ship in Brooklyn during the night for the New York market, and empty trailers from Brooklyn returned by ship to the New Jersey terminal. In each case, the landside deliveries can be made by local truckers operating in New Jersey, New York City, and New England.

New York Harbor Services

A third potential employment for this type vessel would be to provide a network of services within the New York metropolitan area, calling points such as the upper West Side

(allowing trucks to avoid the George Washington bridge), Brooklyn, JFK International Airport/Jamaica Bay, and Bayonne/Perth Amboy in some rotation. Given the limited distances and easy on/off capability of the vessels, a single vessel could make as many as eight round trips daily between any two points in that rotation.



1. Hudson River
2. East River
3. Long Island Sound
4. Newark Bay
5. Upper New York Bay
6. Lower New York Bay
7. Jamaica Bay

IV. WHAT'S NEEDED FOR SHORT SEA SHIPPING TO DEVELOP

It is now commonly accepted that the principal users/customers of short sea intermodal freight services will be trucking companies. But what does it take to get trucks off the road and onto our ships?

The public policy benefits of short sea shipping – congestion mitigation, reduced environmental impact, etc. – are well known. But if public policy benefits alone were sufficient, we wouldn't need to be here talking about developing short sea intermodal freight shipping in the United States. It would be happening on its own.

Equally well known are the challenges facing the trucking industry – driver shortages, especially in the over-the-road segment, increasing fuel costs, hours of service regulations, and congestion that reduces the cost effectiveness of long-haul services. But as with public policy generally, the pressures on the trucking industry have not yet risen to the point of

forcing it to unilaterally seek alternative solutions that will leverage existing truck and driver resources.

For intermodal short sea freight services to develop, there must be a convergence of: (i) public policy benefits to justify public "investment" in creating such services, whether that investment is economic or in the form of tailored regulation; (ii) increasing costs to the trucking industry to maintain current services in the face of changing economic and highway conditions; and (iii) short sea shipping resources – vessels and shore-side infrastructures, that in combination can be employed in a manner that is commercially and economically beneficial to both the prospective operator and to its potential customers.

In short, no simple solution exists. Nor will the solution, when found, be a "one size fits all" solution. Nonetheless, based on our experiences on the Great Lakes and our investigations into the short sea models summarized above, it is possible to posit some guidelines for developing short sea intermodal freight or mixed freight/passenger services in the United States.

(1) <u>There must be an obstacle that somehow makes competing rail and truck services impossible or at the very least less economically efficient</u>. This obstacle can be geographic (e.g., large bodies of water or major rivers) and/or man-made (e.g., cities, congestion). Or it can simply be choke points that have developed because of limited options to cross rivers such as the Ambassador Bridge between Detroit and Windsor, Ontario, or the George Washington Bridge crossing the Hudson to Manhattan. Absent such an obstacle, because the U.S. rail and trucking systems are highly efficient providers of intermodal transportation, waterborne transportation is generally limited to bulk goods where the greater cargo carrying capacity of vessels per unit of energy required to move the goods gives a competitive advantage to ships.

(2) <u>There must be sufficient financing available at commercially viable rates to meet the infrastructure requirements of the proposed services, both afloat and ashore</u>. To support commercial financing of a vessel generally requires a commitment by a customer to employ such vessel under charter or contract operation for periods as long as 10-15 years. The shorter the commitment, the more the lender will look to the prospective shipowner for equity investment in the project. Two options that may help meet these needs are:

- Non-recourse financing in the form of security loans which bar the lender from action against the borrower if the security value falls below the amount required to repay the loan, such as are used by the U.S. Government in loans to farmers on surplus crops; and
- Loan guarantees such as under the Title XI loan guarantee program for ship construction – it is difficult to imagine a better use for limited Federal dollars than to invest in loan guarantees that historically have leveraged the Federal investment twenty-fold, and which in the end result in more work for U.S. shipbuilders and improved transportation for the U.S. economy generally.

(3) There must be shore-side infrastructure to support the proposed service. The infrastructure requirements for intermodal short sea roll-on/roll-off short sea services are generally much less than those required to serve large ocean-going containerships. The vessels employed in short sea shipping are generally smaller (i.e., require less space for the staging of cargo), have shallower drafts (i.e., less dredging), and are self-loading/unloading (i.e., no costly cranes). Often a bulk-headed landing, parking for trucks and trailers waiting to load, and highway access are all that's required. Nonetheless, those needs still face competing pressures. For example, almost any transportation infrastructure improvement or expansion is faced with the NIMBY (Not In My Back Yard) syndrome, even if it is just concern about increased trucks using adjoining roads. Moreover, waterfront property often has high value for alternative uses, as one-time dock areas are now being turned into high-end retail, office, and residential developments.

(4) To attract trucks there must be incentives for trucks. To some extent, such incentives can come from meeting the needs of the trucking industry, such as by helping to solve the increasing shortages of over-the-road drivers. As illustrated in our developmental models, short sea shipping often allows a trucking company to rely on local driver pools at either end of the waterborne segment rather than having to recruit over-the-road drivers. Similarly, such services allow a trailer to keep moving without being subject to hours of service restrictions. In our cross-lake model, a single driver could make the trip from Detroit to Minneapolis using the cross-lake ferry with no hours of service limitation in an elapsed time of approximately 12.5 hours. While that same trip by road via Chicago would require only approximately 11 hours under ideal conditions, if that driver were to encounter hours of service limits during the trip, it could easily extend to over 19 hours.

Another option for providing added incentives to the trucking industry to use short sea intermodal freight services is for the Government to grant credits to truckers using the services that would reflect the benefits derived by the Government, such as reduced impact on roads and highway infrastructures.

(5) Frequency and reliability of short sea services are more important than speed per se in attracting customers. One lesson that becomes clear in reviewing studies of short sea shipping options in the United States and elsewhere, is that for the greater part of such services, the frequency and reliability of short sea services are more important than speed per se in attracting commercial customers. High speed, i.e., 40+ kts., appears to be a factor only when transporting passengers. Every loaded trailer embarked on a catamaran-type hull exerts a substantial price in terms of reduced speed. To achieve higher speeds when carrying such heavy cargoes requires added propulsion units that soon render a project commercially infeasible.

On the other hand, frequency and reliability of service are increasingly important to the commercial customer. Where recent short sea initiatives have failed, lack of frequency is often cited by potential customers as a reason for not using the service. Short sea services offer advantages to trucking customers in a number of ways as discussed above, but those advantages can be offset if the trucks must sit for extended periods waiting for the next departure. Those planning short sea services must remember that they are in competition with truck services that, if traveling over road, can leave a loading dock within minutes of being loaded, and rail services that are offered daily. Any frequency greater than that risks losing cargoes.

(6) To succeed, only bite off what you can reasonably chew (and afford). All too often short sea intermodal freight services are presented as grandiose schemes that soon outreach their backers ability to provide the services necessary to attract commercial customers. Far better for such services to grow from affordable and sustainable services, such as the New York By-Pass Model described above (New Jersey to Connecticut) than to fail as a result of trying to establish similar services from New York to Florida. As the intended service area expands, economic and operational challenges will grow exponentially, involving everything from the weather to the capital investment required to run even a daily

service over such distances. Moreover, we are not convinced that New York-Florida traffic represents a single market, but rather a series of shorter segments, each of which must be accommodated in terms of vessel calls.

(7) The business models of the trucker and the short sea vessel operator must be complementary. Because shipping is a service industry, its business models must complement those of its principal customer base if it is to succeed. In short, much more than in other businesses, the vessel operator and its intended trucker customer must engage jointly in business development planning. If their models are not integrated, the trucker will not get the benefits it seeks, and the vessel operator will not get the customers it needs. Thus when planning short sea services, the prospective vessel operator must remember and take into account the fact that it is asking its potential customers to abandon what are for them viable logistics models in exchange for the promise of something better. To develop, it will not be enough for short sea shipping to be just as good as existing rail or highway options – it must be better for its customers than those options in some significant respect.

(8) The role of the Government should be to reduce barriers, not impose them. In developing these models, we have been careful to avoid options that would work only if provided large amounts of Government capital or operating subsidies. Not only is such assistance unrealistic in the present fiscal climate, but ultimately for a short sea shipping service to survive, it must be commercially viable without such assistance. If a service makes economic sense to its customers and its providers, it will not require government aid to work.

This is not to say, however, that there is no role for the Government in creating an environment in which short sea shipping services can develop. This is particularly true in the areas of taxation and regulation. In both, for short sea shipping to become a reality, the Government must look to removing barriers to such services – such as the Harbor Maintenance Tax – and to avoid imposing additional barriers in the form of increased regulation. For example, increased port security is of vital concern to the Government and the nation as a whole. In pursuing that goal, however, the Government must act carefully to not impose such requirements where they will do little good, but have a potential for great harm. There is little security benefit to forcing a trailer loaded in New Jersey and passing

through a New Jersey port en route to a port in Southern New England on a U.S. vessel with a U.S. crew with no intervening stops, to pass through the same security measures as a cargo arriving in that same port from overseas. Yet such procedures could easily stifle the development of a short sea service seeking to compete with trucks in the New Jersey to New England market where those trucks undergo no similar inspection delays.

V. CONCLUSION

The stage is being set for the development of increased intermodal freight short sea shipping services in the United States – trucks are lined up for hours at ocean terminals and choke points, highway speeds in and around major metropolitan areas approaching single digits, rail intermodal is not much faster, and the trucking and rail communities acknowledge that we cannot build highways or railroads fast enough to meet growing demand.

Let me close with the same thought that I presented earlier. To succeed commercially over the long term, short sea shipping must make sense commercially for the provider and for the customer. Any service that relies solely or extensively on government assistance to be competitive will, over time, fail commercially. The role of the Government in short sea shipping, as in other modes of domestic transportation, must be to ensure the availability of basic infrastructures to support the services. Operating them will be up to us.

Thank you.

DEPARTMENT OF TRANSPORTATION

STATEMENT OF MARITIME ADMINISTRATOR

SEAN T. CONNAUGHTON

BEFORE THE

SUB-COMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION

OF THE
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
UNITED STATES HOUSE OF REPRESENTATIVES

ON THE
DEVELOPMENT OF SHORT SEA SHIPPING

FEBRUARY 15, 2007

Good morning, Mr. Chairman and Members of the Committee. It is indeed a pleasure to be here today to discuss the Department of Transportation's efforts to build a public-private maritime partnership that will both improve our transportation efficiencies and grow our economy. Today's hearing initiates a dialogue that will lead to the expansion of the Nation's marine transportation system. I think that it is fitting that my first Congressional hearing as Maritime Administrator is on the topic of short sea shipping[1] or, as I have begun to call it, America's Marine Highway. I believe this term more accurately describes the nation's waterborne transportation system and the promise of its extensive capacity.

I would first like to provide you with some of the history of America's Marine Highway initiative, and discuss with you some of our plans for the future. Early this decade, the Department of Transportation's leadership recognized the need to address landside congestion through the expanded use of waterborne transportation alternatives, specifically through the use of the marine highway. When moving high volume and bulk freight, short sea shipping is more cost effective, is more fuel efficient per cargo ton mile, and is a vital alternative transportation mode in a natural disaster. When fully integrated into the Nation's transportation system, the marine highway will facilitate enhanced freight flow, expand freight capacity, reduce congestion, and improve air quality.

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[1] Short Sea Shipping is defined as commercial waterborne transportation that does not transit an ocean. It is an alternative form of commercial transportation that utilizes inland and coastal waterways to move commercial freight from major domestic ports to its destination.

As a former County Executive in Northern Virginia, I am keenly aware of how surface transportation congestion adversely impacts our daily lives. The impact on our productivity is enormous. We lose 44 billion person hours a year due to transportation delays[2] – translating into billions of dollars of lost productivity. And, I also know first hand that we cannot pave ourselves out of this situation.

A robust U.S. economy depends on the efficient movement of freight to stimulate domestic production and satisfy consumer demand. Consider these facts – since 1995, container growth has increased by at least 10% every year and this growth is expected to continue. By 2020, every major U.S. container port is expected to double the volume of cargo it must process, with East Coast ports tripling in volume and some West Coast ports quadrupling in volume. The United States is expected to import 30 million containers in 2010 and 40 million in 2020. The domestic tonnage of freight carried by all U.S. systems will increase by 67%, while international trade is expected to at least double. Presently, this domestic freight is carried almost exclusively by road or rail -- coastal shipping handles only two percent of our domestic freight, even though coastal counties hold more than half of the Nation's population.

This massive growth means that our Nation must expand its overall port volume capacity by 10% yearly just to sustain this expected growth – an annual capacity growth greater than the overall size of the ports of Seattle and Tacoma combined. As Maritime Administrator, I am one of the people responsible for finding a solution to our growing congestion problems and I look forward to working with the Committee to determine "where we go from here" in our quest to find solutions to a capacity crisis that threatens to overwhelm our existing transportation system.

Clearly, the Nation's marine highway can help mitigate this congestion. The world's waterways are an infinite system, and our marine highways have infinite capacity. Unlike rail and roads, there are no fixed infrastructure costs to develop transportation routes, and ships can carry more cargo per dollar than any other method of transport. The full scope of America's Marine Highway – a system that includes not only our coastal waters, but our inland waterway system and the Great Lakes, is enormous – and, if properly utilized and integrated, can help us expand our way out of the crises before us. That is why I am here today and, why I am so pleased that the Members of this Committee have made the decision to investigate the advantages of our marine transportation system.

It is my hope that your discussions will lay the groundwork for legislative initiatives that will add new, permanent capacity to our Nation's freight delivery systems and grow our economy. Now, I am not naive enough to think that our marine highway will solve our congestion problems overnight – after all, much of the vessel capacity we will need to accommodate our projected trade growth is still on the drawing board.

[2] Texas Transportation Institute as cited by the U.S. Department of Transportation press release: http://fhwa.dot.gov/pressroom/fhwa0220.htm

However, a minimal reduction in the anticipated growth of trucks on highways can make a significant difference. For example, one 80,000 pound tractor-trailer truck does as much damage to pavement as 9,600 cars. Alternatively, the use of America's Marine Highway would reduce the costs of road maintenance and possibly extend the Present Serviceability Rating (PSR) of roadways. Accordingly, this will benefit the public, as well as State and Federal entities – and assist our transportation planners to properly allocate vital public resources.

America's Marine Highway has existed since our Nation's founding. It is used today to transport over 1 billion tons of domestic cargo on an annual basis, and clearly has room to grow. Transporting freight by water has traditionally been for the movement of bulk commodities such as coal, petroleum, grain, and lumber. Current waterway operations thrive along the Mississippi and Ohio River systems, across the Great Lakes, through the St. Lawrence Seaway, and along some coastal routes. They already accommodate 13% of the national cargo tonnage for less than 2% of the national freight bill.

An excellent illustration is the use of barges in the Mississippi River system. The river transports over 312 million tons of cargo per year between its upper reaches in Minnesota and its lower parts into the Gulf of Mexico.[3] If this system had to be replaced, it would require over 12.4 million semi-trucks or 3.12 million rail cars to make up the capacity difference.[4] Annually, in rail capacity alone this would consist of 31,000 trains pulling one hundred cars each.[5]

In an attempt to develop our own water transportation initiative, we looked to Europe. The European Union (EU) moves approximately 40% of all its freight on the water. The EU Commission has vigorously supported the concept of an integrated marine highway system for over twenty years, and has recently set aside over one hundred million euros in a multi-year program to provide incentives to shift freight from the congested landside modes to the water. In October 2006, the Commission awarded 16 projects totaling 21.7 million euros in an effort to divert truck growth (134,000 truck loads) to the water.

As educational tools to facilitate a public dialogue on the issue of increased waterborne freight movement, the Maritime Administration (MARAD) has sponsored annual industry-wide conferences and initiated or participated in a number of studies to examine the viability of alleviating surface transportation congestion through increased waterborne freight movements. Three major short sea shipping conferences, sponsored by MARAD, were designed to create awareness and open opportunities for the commercial industry regarding the use of the marine highway.

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[3] U.S. Waterway Transportation System – Transportation Facts, USACE, December 2005 (latest available).
[4] Based on truck capacities of 25 tons each and rail cars of 100 tons each as cited at Port of Tulsa, OK fact sheet: http://www.tulsaweb.com/port/facts/htm.
[5] Rail cars carrying 100 tons each applied to trains of 100 rail cars each. Ibid.

The 2002-2004 conference series emphasized the advantages of short sea shipping to transportation planners and the maritime stakeholder community as a means to accommodate trade growth. The conferences catalogued the business dynamics of successful and failed domestic waterborne services. The meetings also addressed issues of facility design, workforce development, the identification of potential research and development needs, expanded freight planning, integration of short sea shipping services into the transportation planning process, and public awareness.

In 2003, as a direct result of stakeholder requests made at the Agency's first Short Sea Shipping Conference, MARAD founded the Short Sea Shipping Cooperative Program (SCOOP). SCOOP is an industry-centered organization which provides a forum for industry, labor, government, and related transportation stakeholder groups to share resources and information in the development of the Nation's marine highway services.

In September 2006, MARAD, in cooperation with SCOOP, hosted the first in a nation-wide series of domestic shipper and short sea shipping operator workshops. The workshop facilitated opportunities for discussion among domestic shippers, third party logistics companies, truckers, and domestic marine operators to engage in dialogue regarding the feasibility and development of specific short sea shipping services in the United States. Another in this series of workshops is scheduled later this month in St. Petersburg, Florida.

One outcome of this series is the realization that large shippers are currently not in a position to utilize inter-coastal shipping as those services are currently configured. Transportation cost and "just-in-time" delivery have been a major deterrent to any real commitment to the use of waterborne transportation by the Nation's shipper community. But, while time sensitive performance is important, it was determined that shippers will utilize water transportation alternatives as long as the marine operator can meet pre-agreed delivery times at a lower cost. (Generally, smaller niche market shipping companies handle less time sensitive cargo, such as hazardous materials, more suitable to waterborne transportation services.)

Therefore, workshop participants have suggested an expanded outreach emphasis on attracting mid-sized shippers to inter-coastal marine operations. Participants also had a clear understanding that freight congestion will ultimately require a larger share of the nation's freight to move from the surface transportation system to water. The workshops are generating a greater interest by industry in the mitigation of congestion, improving safety, and the development of greater efficiencies within the transportation system. It is important to note that the workshop series is also attracting significant interest by the nation's marine operators. The ultimate goal of this effort are successful shipper-operator business arrangements that more fully utilize the promise of our marine highway – business arrangements that begin to break the shipper "truck addiction.".

In the spring of 2006, the Maritime Administration and Transport Canada jointly sponsored the North American Short Sea Shipping Conference in Vancouver, Canada. At this meeting, our NAFTA trading partners expressed interest in viable alternatives to reduce congestion, improve reliability, increase capacity, efficiency, economic performance, and extend the environmental sustainability of the transportation system. A Trilateral Declaration was signed at the Vancouver Conference among Canada, Mexico and the United States, committing the three nations to expand marine highway operations in North America by establishing a Steering Committee focused on the creation of a trilateral strategy.

The Trilateral Conference participants also agreed to foster the use of short sea shipping operations by developing an interactive website that will provide information and encourage business communications among North American shippers and marine operators. To this end, MARAD is developing the *North American Short Sea Shipping Electronic Information Clearinghouse* (Clearinghouse), an interactive website, to provide information and encourage business communications between shippers and operators. In addition to providing updates on current short sea shipping events, and other useful information links, the Clearinghouse will permit shippers to electronically request assistance in locating qualified marine carriers for the movement of domestic freight. When fully operational, the webpage will be available to thousands of North American shippers and marine operators to facilitate the increased utilization of waterborne transportation sources in the movement of freight.

Since 1999, MARAD has initiated or participated in studies to examine the condition of the Nation's marine transportation system (MTS) with the prime purpose of addressing surface transportation congestion through the development of waterborne transportation alternatives for the movement of freight.[6] The input for this particular report came from regional listening sessions, a National Conference on the Marine Transportation System, and through the MTS Task Force. The "needs assessment," the first of its kind, and the regional listening sessions, laid the groundwork for the creation of the Secretary of Transportation's Marine Transportation System National Advisory Council (MTSNAC) and the overall MTS initiative. The MTSNAC provides a structured approach for non-Federal stakeholders to provide input on national-level issues.[7]

The U.S. Chamber of Commerce (Chamber) released a study in March 2003, which outlined the ability of the national transportation system to respond to changing and increasing trade patterns. This study was one of the first to call for a national freight policy within the Department to include a national intermodal planning and

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[6] U.S. Department of Transportation, *An Assessment of the U.S. Marine Transportation System: A Report to Congress,* ONE DOT (Washington, D.C.: September 1999).

[7] Council recommendations, which may reflect broad-based consensus, could provide support to advance Administration goals, such as seeking legislative change to address a specific problem or to improve the MTS.

development initiative, a coherent environmental regulatory process, up-to-date freight data collection, and the integration of the modes and labor into the planning equation.[8] The Chamber report was also one of the first studies to clearly document the dangers of ignoring the dramatic increase in trade and the resulting impact on the Nation's transportation system. The study clearly supports the conclusion that the Nation cannot build itself out of this impending capacity crunch.

In 2005, the Government Accountability Office (GAO) submitted a report recommending that the Department of Transportation and MARAD "develop a more thorough understanding of short sea shipping issues before defining a Federal role involving substantial investment and, to encourage other public-decision makers to use a systematic approach to investment decisions involving freight mobility projects."[9] The study, produced at the request of the ranking Members of both the Senate Commerce and House Transportation and Infrastructure Committees, essentially recommended further analysis of the issue of short sea shipping before significant public resources were committed to the development of this type of marine transportation system.[10] Our efforts to investigate and promote the idea of short sea shipping have not required a large expenditure of public monies. MARAD has, instead, focused on the development of a public-private partnership to investigate, educate, and recommend proposals to ease our growing freight capacity issues.

By way of example, MARAD, in November 2005, consulted in the production of the I-95 Corridor Coalition's "Short Sea-Study and Coastal Shipping Options Study." The I-95 Corridor Coalition is a public-private partnership composed of State DOT agencies and transportation planning organizations along the Eastern seaboard, and the study assessed commodity flows and attempted to determine the viability and sustainability of a short sea shipping service along the Maine to Florida transportation corridor.

Phase II of the study commenced in late 2006 and sought to incorporate the participation of metropolitan planning organizations (MPOs) to bring water-based transportation, especially short sea shipping services, into the overall local transportation planning process.

The Coalition study found:

> The I-95 Northeast and Mid-Atlantic corridor is physically suited for short sea operations.[11] Congestion drives the business model for short sea

[8] U.S. Chamber of Commerce, *Trade and Transportation: A Study of North American Port and Intermodal Systems,* National Chamber Foundation pp.30-31 (Washington, D.C.: March 2003).
[9] GAO, *Freight Transportation: Short Sea Shipping Option Shows Importance of Systematic Approach to Public Investment Decisions,* GAO-05-768 (Washington, D.C.: July 2005).
[10] Ibid., p. 48
[11] The region's economy and industry base is very diverse...as a result, a wide variety of commodity types are shipped into, and out of, the Coalition's region. There are many potential markets for short sea shipping operations, particularly in areas with underutilized port capacity.

> shipping.[12] In less than 15 years, the Corridor transportation system will be strained beyond capacity -- truck traffic on the I-95 Corridor is expected to increase from 32,000 trailers daily in 2004 to 58,000 trucks per day by 2020. State and MPOs must play a critical role in waterborne transportation development.[13]

Additionally, the Department's Office of the Secretary (OST) recently completed a study assessing the feasibility of short sea shipping operations along four potential domestic U.S. traffic lanes or corridors and determining if such services could serve as an economically viable alternative to overland freight transportation. The study was specific to the U.S. domestic market and excluded Canada and Mexico water transportation routes. The study found that the primary economic advantage of short sea shipping is its ability to generate significant economies of scale by moving large numbers of highway trailer-loads on a single vessel providing numerous labor, energy, environmental, and infrastructure advantages.

The OST study found:

> There are significant perceived opportunities for short sea services in the domestic freight transportation market. Short sea shipping, as MARAD defines it, is currently in operation in the contiguous domestic trade. Short sea shipping can be particularly competitive for heavy and/or hazardous shipments currently moving over the road such as chemicals (a recurring finding in many studies). There are also significant interregional container flows (10 million container shipments per year from the Gulf to the New York region). Interviews with truckers revealed "interest with healthy skepticism" about short sea shipping, but ports and vessel operators were "supportive" or expressed "strong interest" in the concept.
>
> Of the corridors studied, short sea shipping appears to be competitive with other modes for service across Lake Michigan (above Chicago), and from the Gulf to the East coast, especially for chemical and bulk products. The study concluded by recommending that DOT encourage and facilitate short sea shipping by taking on a role similar to that of a "business development" department in a large corporation (e.g., market research and strategic plan development).

If the right incentives are offered to the maritime industry and its supporting agencies, every citizen from our dockworkers to the American consumer will benefit. Removing a significant portion of container freight from the highways and railroads

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[12] U.S. freight transportation demand is projected to increase 60% percent by 2020 (five trillion ton miles).

[13] The Coalition is working to convince local MPOs to include water transportation issues in their overall transportation plans.

would have the effect of increasing capacity on our surface modes as they exist in their present size and operating methods.

Coastal shipping operators and those contemplating start-up services have identified the Harbor Maintenance Tax (HMT) as a major impediment to profitable domestic waterborne freight movements (notably goods moving in containers). The maritime industry has consistently pointed out that the HMT is particularly burdensome for container feeder services since the tax is assessed twice, once for the international movement and again on the domestic waterborne leg of the trip. Trucks and trains do not pay the HMT. As such, potential marine highway operators envision themselves at a competitive disadvantage when considering a new service (since any potential business plan must include the payment of a tax that may or may not be ultimately collected). Further, the elimination of the HMT for the domestic movement of cargo containers would have negligible impact on our nation's Treasury. A SCOOP commissioned study dated October 2005, "Short Sea Shipping and the Harbor Maintenance Tax" found that domestic container HMT movements only yielded the Treasury $1.7 million - $1.9 million per year.[14]

As you know, legislative proposals to waive the HMT have been introduced in Congress. In the last Congress, Congressmen Philip English (R) of Pennsylvania, Chris Shays (R) of Connecticut, Dave Weldon (R) of Florida, and Congresswoman Stephanie Jones (D) of Ohio introduced legislation to exempt either truck cargo, containerized cargo carried between mainland U.S. ports or certain geographic areas from the tax. No committee action was taken on any of these proposals. However, Congresswoman Jones re-introduced HMT exemption legislation this week.

Recent interest in eliminating the Great Lakes region HMT is shipper and port driven due to the desire to stimulate cross-lake services that avoid the additional hours necessary to move cargo around the Lakes on a crowded surface transportation system. This type of industry interest and activity may serve as a catalyst for Congressional action, especially if a possible proposal can be crafted to carve-out an affordable "first step" in eliminating the HMT for a specific market. Any related development of new Great Lake marine highway services will ultimately provide this Committee with a "test case" model to gauge the impact of HMT relief on industry growth. The expansion of marine highway services on the Great Lakes will ease surface congestion, improve "just-in-time" delivery, and grow the Midwest economy. A related effort to eliminate certain customs fees to achieve some type of modal shift in the Gulf of Mexico might also serve as a stimulant for start-up cross Gulf marine services.

Any new proposal to eliminate all, or a portion, of the HMT will require significant stakeholder support to achieve ultimate passage. Waiving the HMT, in specific

[14] The report Short Sea Shipping and the Harbor Maintenance Tax can be found on the Short Sea Shipping Cooperative Program website: www.shortsea.us.

markets, as well as eliminating certain custom fees, will clearly encourage greater use of the marine highway, reduce landside congestion, and ultimately enhance just-in-time delivery.

The Maritime Administration seeks a larger role in the development of new North American marine highway services designed to mitigate congestion (especially border and corridor related congestion). Expanding waterway use is the only policy choice that offers this unique and direct outcome, short of constructing new capacity. Accordingly, the Maritime Administration seeks to identify and catalogue obstacles to waterborne trade and explore viable legislative and policy proposals for the elimination of those obstacles. We will also seek to integrate the marine highway into the national, state, and local transportation planning process. Specific efforts are underway to facilitate a series of national "one on one" dialogues between transportation users and providers in an ongoing effort to, identify impediments to the expanded utilization of waterborne transportation, accelerate the modal shift from surface to waterborne transportation, and build consensus support for a policy reform package.

MARAD is also actively working to highlight existing marine highway services that illustrate, in a practical way, the promise of the marine highway. For example, Columbia Coastal Transport is a reliable U.S.-flag barge operator that works in close cooperation with carriers, ports, and labor to provide essential containerized cargo feeder services linking ports in North America. Its five barge services link the ports of New York, New Jersey, and Boston; New York, Baltimore, and Norfolk; Norfolk and Baltimore; and, Charleston, Savannah and Miami. Recently, the company announced a new service linking the ports of Baltimore and Philadelphia. They offer complete transportation services for project cargo including: heavy lift truck hauls; rail coordination; lift-on/lift-off service; roll-on-roll-off barges with access to shallow and undeveloped ports; and, a full array of port logistics services. Columbia Coastal services by-pass much of the I-95 surface corridor and offer shippers a reliable, cost-effective, and environmentally-friendly transportation alternative to a congested surface transportation system.

Osprey Lines is another prime example of a marine operator that plays a vital transportation role, in this case moving agricultural products in the country's heartland. Osprey first initiated services between Memphis and New Orleans in 2004. The company now offers container-on-barge services to ports in the Gulf of Mexico and along the U.S. inland waterway system including Houston, Lake Charles, New Orleans, Baton Rouge, Memphis, Chicago, Pascagoula, and Mobile. Its primary customers are ocean carriers who use Osprey's container on barge services to re-position containers for their customers at various locations on our Nation's inland waterways. These containers are then loaded mostly by agricultural shippers who use Osprey's services to return them to deep water ports in the Gulf of Mexico. Osprey, like Columbia Coastal, uses the marine highway to offer a low-cost transportation alternative to product providers and shippers – and, to the benefit of the American consumer.

The increased use of water to move cargo is evident along many crowded coastal transportation corridors and border crossings. Cargo ferry services are coming on-line to avoid choke points along the coasts and in the Great Lakes. These services have sprung up out of economic necessity to avoid land-based obstacles that inhibit the timely and cost efficient movement of cargo and passengers. I believe it is the role of government to provide these emerging services with the tools to succeed and expand. It is clear, that given the proper tools, many other successful niche market marine services can emerge, not only as a solution to some of our freight flow and congestion issues but, as a catalyst for the development of our Nation's underutilized port capacity.

Maritime community stakeholders have sent the message that the time for talk is now at an end. They want affirmative action that focuses on the expansion of America's marine highway -- action to achieve a true modal shift that will ease landside congestion problems, improve transportation efficiencies, and grow our economy. Clearly, our freight congestion problems will not be solved without an active public-private partnership that focuses on initiatives designed to eliminate obstacles to the expansion of our transportation choices -- a marine stakeholder driven partnership that begins at the local level and ensures an integrated transportation planning process. This partnership will build on the successful marine highway services I have discussed before the Committee today and fulfill the vision of a truly intermodal National transportation system. Congress plays an integral role in this partnership – the way forward in solving our freight congestion problems begins here in this Committee.

I stand ready to assist you in addressing an issue that is vital to our continued economic security – the development of America's marine highway. I want to thank the Members of this Committee and Chairman Oberstar for their leadership in holding this hearing today. I will be happy to answer any questions you might have.

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SEABRIDGE INC.

United States House of Representatives

Committee on Transportation & Infrastructure

Subcommittee on Coast Guard and Maritime Transportation

Honorable Elijah E. Cummings, Chairman

Testimony regarding

"The Development of Short Sea Shipping in the United States"

February 15, 2007

Submitted by

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Good Morning, Mr. Chairman and Members of the Subcommittee. Thank you very much for giving me the opportunity to appear before you today to testify regarding the development of Short Sea Shipping in the United States.

As you will no doubt learn from these hearings and from further study, there are many quite different types of waterborne transport services included under the banner of "short sea shipping". Indeed, it should not be overlooked that short sea shipping exists in the United States today and moves significant quantities of goods along our coasts and through our inland waterways. That said, it has also become abundantly clear that we must find ways to increase substantially the ability of our coastal oceans and inland waterways to add badly needed capacity to our national transportation network.

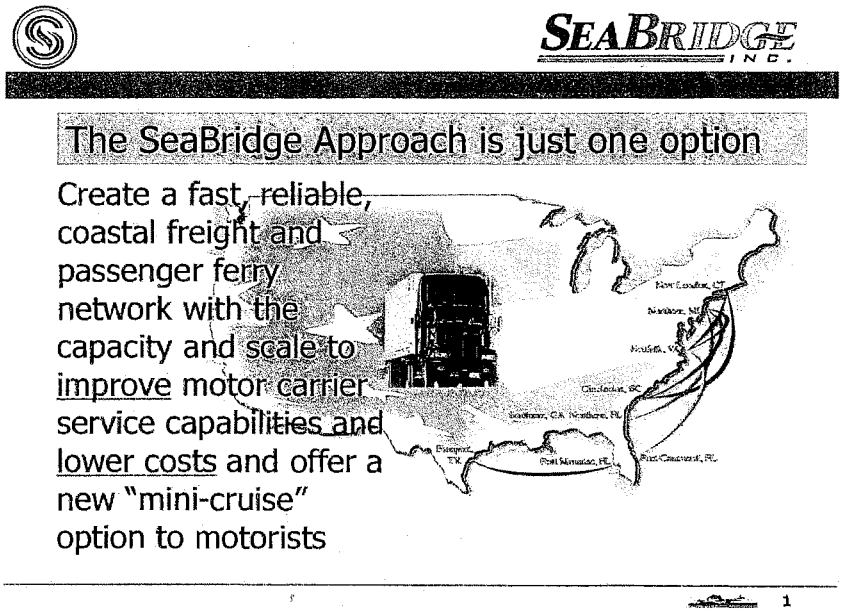
SeaBridge Inc. is pursuing a unique short sea shipping vision – unique, that is, for the United States. It has developed and proposes to introduce high speed, scheduled, long haul roll-on/roll-off freight and passenger ferry services between major population centers along the East and Gulf Coasts, using an innovative vessel design and state-of-the-art port facilities.

An immense market for passenger and freight – commonly referred to as "ro-pax" – ferry services exists throughout much of the world. In Europe over 450 million passengers, 100 million cars, and 22 million trucks were transported on ferries in 2005. Successful private companies have proven that matching service offerings to customer needs is profitable across a range of markets.

The important drivers of high European ferry demand – congested roads, high fuel prices, tolls and road taxes, hours of service limitations for truck drivers, driver shortages and increasing highway safety concerns – exist in the U.S. today. The principal difference between existing ro-pax ferry operations in Europe and prospective ro-pax ferry services in the U.S. is that here such services have to compete directly with the highway system because virtually all freight and people moving in the continental United States can reach their destinations without, save for a bridge or tunnel, crossing any body of water. An example of marine service offering an

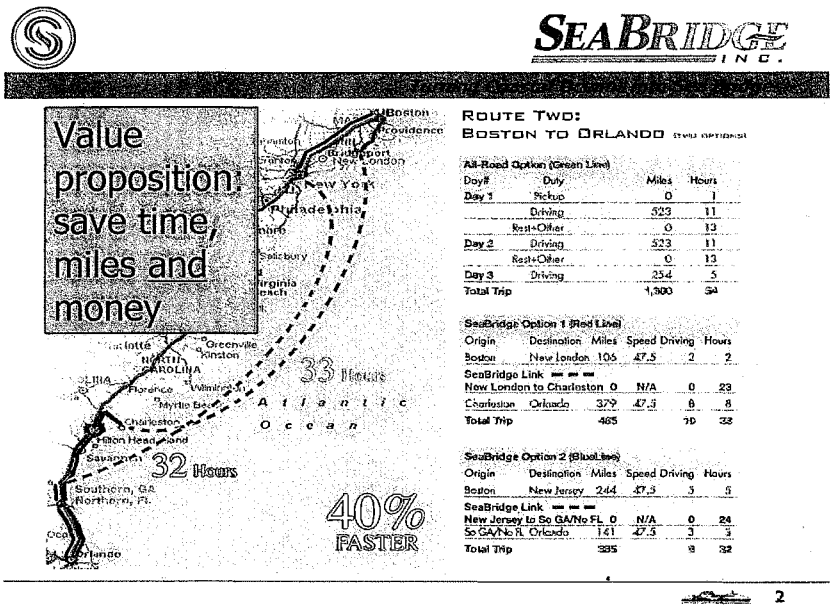
alternative to land based connections exists between the states of Washington and Alaska, where marine operators provide a water alternative to the highway corridor through Canada.

The SeaBridge vision is to create a marine highway network in the United States capable of adding new "lanes" to two of the Nation's most congested traffic corridors, complementing and supplementing existing transport infrastructure along I-95 and I-10. At this point in of the Committee's study of the potential for short sea shipping, it is important to distinguish among the types of coastal ferry services that we and other operators envision.



One may ask what motivated SeaBridge to invest six years and close to $4 million to pursue and develop an advanced vessel design capable of providing freight and passenger services that can draw traffic from highways.

This next graphic captures the "draw" that we believe will lead motor carriers and motorists to use our coastal ferry services when they offer a suitable alternative to other means of transportation. This belief has been fully vetted and validated through extensive market research. The attraction of this service is time and money; convenience and efficiency.

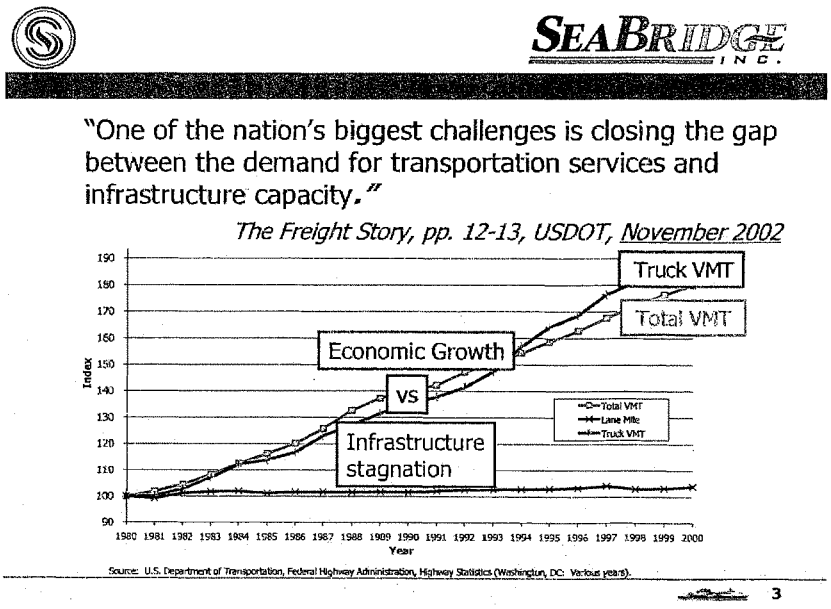


Unlike rail intermodal service where only the trailer or container is transported between fixed intermodal ramps to await local pickup or delivery, SeaBridge's coastal ro-pax service enables the truck or power unit (which is often owned by the driver and leased to a trucking company) to accompany the trailer. Hence, the trucker as part of his journey from origin to destination drives on to the vessel, parks his vehicle as if at a truck rest stop, and checks into his accommodation on board the vessel. When the vessel docks at the end of its long haul "marine highway" movement, the trucker drives off the ship and proceeds to his final

destination. This is a target trucking market that typically does not use rail services but could and would use marine highway services.

Rather than use my testimony to describe our marine highways concept in detail, appended to my testimony is a copy of our proposal to the Federal Highway Administration's "Corridors of the Future Program" which provides a more detailed look at of our network. Ours was the only short sea shipping proposal among the 38 submitted to the FHWA under their September 5, 2006 Request for Applications.

As the next graphic clearly illustrates, growing highway and rail congestion and the absence of easily available or affordable land-based alternatives is a major threat to the health of our economy.



The challenge of meeting our freight transportation infrastructure needs cannot be underestimated. Short sea shipping must be viewed in this context, as a viable and necessary component in the Nation's transportation infrastructure worthy of equal consideration as the other surface transportation modes. Indeed, the relative speed with which marine assets can be deployed compared to the construction of highways or railways should make short sea shipping alternatives very attractive in meeting this challenge.

As governments at the Federal and State level struggle to find cost-effective ways to finance needed new infrastructure capacity, short sea and coastwise shipping offers commercially viable marine highway options that will add significant new transport capacity and meet other national policy priorities, including job creation within the commercial shipbuilding and maritime services industries. In addition, in the event of a national or international emergency, this new capacity offers high-speed, long-range sealift capability for national defense and homeland security, both of which are top priorities of the U.S. military. This lift capability also applies to natural disaster response and recovery efforts to provide alternative evacuation capacity as well as inbound relief supplies.

When one grasps the implications of the preceding graph, is there any wonder that there is a growing chorus of increasingly concerned voices calling for action on what is now generally acknowledged in informed circles to be an imminent freight and personal mobility crisis? The crisis is not "news". Its existence and the growing danger it poses to the economic health of the U.S. has been known for years. The 2003 U.S. Chamber of Commerce Foundation's Report on Trade and Transportation concluded that the U.S. intermodal freight system is now being operated in many areas near the limits of economically sustainable capacity.

In a speech to the U.S. Chamber of Commerce Foundation in June 2003, Former Secretary of Transportation, Norman Mineta, after observing that "[o]ur landside transportation system is already stressed to the limit and currently planned infrastructure improvements and expansion cannot possibly meet this escalating demand," suggested that "[o]ne intermodal alternative is

development of a robust short sea shipping system that would aid in the reduction of growing freight congestion on our nation's rail and highway systems."

The performance of our surface transportation system has been deteriorating at an accelerating pace over the past decade. The ability of our land and water transportation infrastructure to support our economic growth, international trade and global competitiveness is a major economic and political challenge that has to be addressed as a matter of utmost urgency. Addressing the causes of this deterioration is not an insignificant financial challenge either.

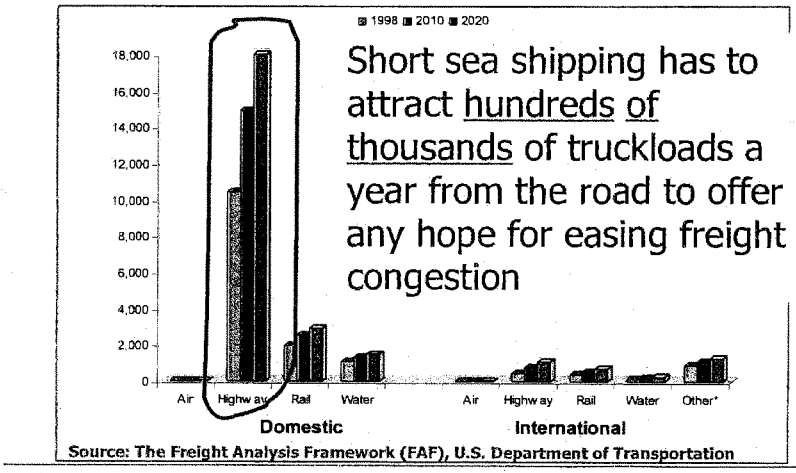
Adding capacity to our road and rail networks is expensive, politically and environmentally sensitive, and requires long-term advance planning. The oft-quoted estimated cost of adding lanes to existing highways or building new ones is an average $32 million per lane mile. The cost does not include delays associated with overcoming public resistance. In many sectors along the I-95 and I-10 corridors, highway expansion, particularly in and around urban areas, is no longer an option even if money were available. Intelligent transportation systems can produce a little more capacity on existing highways and technology can improve rail efficiency, but neither can add more than marginal capacity to the system.

Additionally, the fragility of current transportation infrastructure within any given corridor – and our heightened sensitivity to the potential for sabotage to critical infrastructure – points to the need for redundancy. System mobility will improve when cargo owners and vehicle operators have more options. That can only be provided through effective government and private sector partnerships utilizing the inherent advantages of all modes of transportation.

Indeed, a key purpose of these hearings is to enable the Committee to tackle the key question posed by the Secretary's suggestion: How can short sea shipping become "robust" enough to help reduce growing freight congestion? I would add a companion question: How can marine transportation be made integral to the surface transportation system on which the Nation depends? More on that below. Clearly, there will be no single, silver bullet short sea shipping solution. The SeaBridge "marine highway" network will be an important contributor to the robustness of short sea shipping services.

To be robust and sustainable, short sea shipping services must attract traffic that now uses our highways. The challenge of handling the growing volume of international cargo is important, but it pales in comparison to the challenge presented by the movement of domestic freight by highway. SeaBridge has invested its resources to develop services designed to draw highway users to its coastal routes.

Over the past fifteen years, motor carriers and railways have created an intermodal revolution on land. They have gradually moved past the historic modal warfare of the previous seventy years to collaborate in creating new freight capacity. However, even doubling rail intermodal use will not begin to address the projected "gap" between demand and capacity nor address highway truck movements that are not conducive to rail movements.



Yet, with limited exceptions such as the movement of bulk commodities and empty containers, scant attention has been given to using our coastal oceans to add capacity.

Let there be no doubt, as the burden of vehicles and freight tonnage grows, the limits of road and rail capacity will be stressed even more. Coastwise shipping will be successful only if it can provide trucking and logistics companies and shippers with cost and time effective alternate route infrastructure and options which will make it easier for land modes to manage the projected growth in intermodal freight.

Modern coastwise shipping operations can provide long haul trucking companies greater options in the management of driving personnel and would allow truckers to meet hours of service requirements while allowing freight to remain in motion. In that and other ways the coastwise movement of freight will help trucking companies to further rationalize their resources and contribute to safer travel on these densely traveled corridors. As noted earlier, in contrast to rail intermodal, trucking companies could opt to have their driver accompany the load on board the vessel, rest, and resume driving when the vessel arrives at its destination. Alternatively, like rail intermodal, the trucking company can use the vessel exactly like it now uses the rail.

Efficient and price-competitive freight and passenger maritime transportation services will foster greater development of modern coastal shipping in the U.S. and thus enhance the national transportation system in the long term. New marine highway networks can move literally, and I do mean literally, billions of vehicle miles per year from these congested coastal corridors by integrating domestic intermodal shipping with land routes.

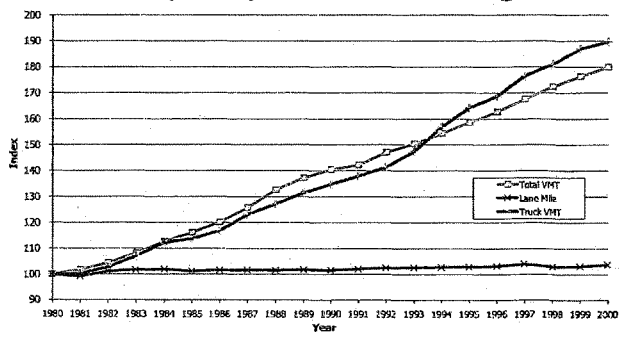
While SeaBridge believes it can provide a commercially viable, corridor-wide option for the Nation to use its vast coastal maritime assets to relieve road congestion by adding significant new capacity that is sustainable, environmentally sound, and can keep pace with the ever increasing mobility of people and goods along the Eastern and Gulf Coasts, it is but one outlet. There need to be other short sea shipping services, many others, to make a dent in the surface infrastructure capacity challenge facing the nation.

Mr. Chairman, the Nation is facing an economic challenge of unprecedented magnitude, no less daunting than faced our forebears in the previous three centuries. We built the canal systems that served the economy of the early Republic in the 18th Century, the railways that propelled the Nation's economic growth in the 19th and into the 20th Century, and the Interstate Highway System, airports and the air traffic control system in the second half of the 20th Century that helped spur the creation of one of the most efficient modern economies known to man.

Each of these accomplishments required private initiative and public support. All required substantial capital investment. The challenge we face today is maintaining and adding capacity to these systems but just as importantly, utilizing our existing surface transportation resources – highways, railways and waterways – in ways that optimize their collective ability to sustain our economy. This, too, will be no less a financial challenge than our earlier successes were.

SEABRIDGE INC.

Absorbing vehicle miles from highways creates capacity without adding lanes



Source: U.S. Department of Transportation, Federal Highway Administration, Highway Statistics (Washington, DC: Various years).

5

Advocacy of policies aimed at promoting economic growth and international trade, which inevitably appear as increased freight on our domestic road and rails without at the same time supporting policies which ensure commensurate growth in the capacity of the national surface transportation system is short-sighted and unsustainable. It is the equivalent of pursuing policies that encourage people to run while at the same time supporting polices that tie their shoelaces together. Yet, this is precisely the flawed path we have been following.

The cost of congestion across our surface transportation infrastructure is a tax – the nastiest kind of tax, hidden and regressive. Worst of all, the impact of this "congestion tax" multiplies as goods move through the supply chain, accumulating until we pay it in the price of everything we buy. Starving our national transportation infrastructure of investment is, indeed, as foolish a policy as can be imagined.

As befits the history of the development of the modes that now form our national transportation system, we have defined our system in modal terms - highways, railways and waterways – each with its own unique set of attributes e.g., ownership, operations, financing, institutions, etc. This has produced a "stove-pipe" approach to infrastructure development and financing, which in turn fostered the creation of institutional approaches that make it very difficult to elevate our view of transportation challenges to a regional or national level and beyond individual modes. As a result, we have balkanized surface infrastructure planning and financing that has limited the role that waterways can play in our national surface freight and passenger transportation system. I, for one, am heartened that this Committee is taking the lead in studying the potential of this long overlooked resource.

As our population and commerce expanded, particularly during the last 25 years, the Federal government began to recognize that this "modal" approach to transportation mobility was not an effective or sustainable way to ensure either the growth or viability of our transportation infrastructure. Passage of the Intermodal Surface Transportation Act (ISTEA) in 1991 began the slow shift Federal transportation policy to view transportation corridors as intermodal and multi-modal pathways upon which flowed goods and people across jurisdictions and modes. That said, we have far to go in implementing the spirit of that landmark law.

The Transportation Equity Act of the 21st Century (TEA-21) continued this policy direction as does its successor, SAFETEA-LU which provided $286 billion in the last six year highway reauthorization, an amount that the Department of Transportation's own 2002 estimates indicate was almost $200 billion short of the amount needed just to maintain the existing highway system for the period. This Subcommittee and the full Committee must not shy away from the scale of the financial challenge, nor the fact that in infrastructure terms, the day of reckoning is closing in on us fast.

We know the problem, but must move from diagnosis to treatment, from lamenting the problem to building support for enactment of a comprehensive, modally blind, practical solution that can meet a vital national interest – the ability of an integrated national surface transportation system to meet the needs of our economy in the 21st Century. As a contribution to that process, I am submitting for the record a paper I have prepared which offers as a starting point six principles to guide creation of a comprehensive, unified approach to address the competing demands of maintaining and upgrading the existing system and adding new capacity.

Thank you for your time and attention. I look forward to working with the Committee in any way in which I can be of assistance in its efforts to develop policies that will enable the Nation to take full advantage of its ample coastal and inland water resources to add much needed capacity to our national transportation system.

SeaBridge USA, Inc., Corridors of the Future Proposal: Atlantic & Gulf Marine Highways

Executive Summary

SeaBridge USA, Inc. ("SeaBridge") proposes to introduce high speed roll-on/roll-off freight and passenger ferry service between major population centers along the East and Gulf Coasts, using an innovative vessel design and state-of-the-art port facilities. The SeaBridge marine highway network will add new "lanes" to two of the Nation's most congested traffic corridors by complementing and supplementing existing transport infrastructure.

SeaBridge will offer transportation providers an expedited sea-based intermodal option that can compete cost-effectively with over the road service. It will also offer an attractive option to the tens of millions of motorists who now drive the increasingly congested I-95 and I-10 corridors.

SeaBridge's introduction of efficient and price-competitive freight and passenger transportation services will foster greater development of modern coastal shipping in the U.S. and thus enhance the national transportation system in the long term. Based on the network outlined in this proposal, SeaBridge's new marine highway network can move between 560 million and 2 billion vehicle miles per year from these congested coastal corridors by integrating domestic intermodal shipping with land routes. By its very nature that marine highway network will entail little in the way of physical infrastructure and thus will impose an insignificant footprint to impact green space and communities.

SeaBridge will provide long haul trucking companies greater options in the management of driving personnel and would allow truckers to meet hours of service requirements while allowing freight to remain in motion. In that and other ways the coastwise movement of freight will help trucking companies to further rationalize their resources and contribute to safer travel on these densely traveled corridors.

As governments at the Federal and State level struggle to find cost-effective ways to finance needed new infrastructure capacity, SeaBridge offers a commercially viable marine highway option that will add significant new transport capacity and meet other national policy priorities, including job creation within the commercial shipbuilding and maritime services industries. In addition, in the event of a national or international emergency, SeaBridge ships offer high-speed, long-range sealift capability for national defense and homeland security, both of which are top priorities of the U.S. military. This lift capability also applies to natural disaster response and recovery efforts to provide alternative evacuation capacity as well as inbound relief supplies.

Corridor Definition

Traditionally, transportation corridors have been defined in modal terms such as a "highway" corridor or a "rail" corridor each with its own unique set of attributes e.g., ownership, operations, financing, etc. As the nation's population and commerce expanded, particularly over the last 50 years, the federal government recognized that this "modal" approach to transportation mobility was no longer an effective or sustainable way to ensure future growth and viability of the nation's transportation infrastructure. The passage of the Intermodal Surface Transportation Act (ISTEA) in 1991 began slowly to shift federal

transportation policy to view transportation corridors as intermodal and multi-modal pathways upon which flowed goods and people across jurisdictions and modes.

In its September 5, 2006 Notice; request for applications [71 Fed.Reg. 52364] (NRFA), the Department recognizes that major transportation corridors are both multi-state in scope and multi-modal in breadth. The NRFA also recognizes that the private sector plays a key role in identifying and advancing multi-State transportation corridor investments that can alleviate current or forecasted congestion. This is especially true given that a transportation capacity crunch of unprecedented proportions looms just over the horizon. Adding capacity to crowded corridors and offering alternatives to persistent metro area chokepoints is a transportation policy imperative.

Today we can see the disastrous results that a sudden or unexpected disruption, either nature or event driven, can cause e.g., West Coast Port shutdown and the I-40 bridge collapse. The fragility of current transportation infrastructure within any given corridor—and our heightened sensitivity to the potential for sabotage to critical infrastructure—points to the need for redundancy. System mobility will improve when cargo owners and vehicle operators have more options. That can only be provided through effective government and private sector partnerships utilizing the inherent advantages of all modes of transportation and operational stewardship.

Accomplishing this goal at minimal cost to government and with minimal disruption to the urban and rural landscape is increasingly vital to workable transportation solutions. The demand for new infrastructure capacity is competing for available funding with the increasingly expensive task of maintaining the existing Interstate system and other highways and crossings. Private investment in transportation infrastructure and networks is an essential element of the national strategy to provide a National Transportation System ("NTS") suitable for the 21st century.

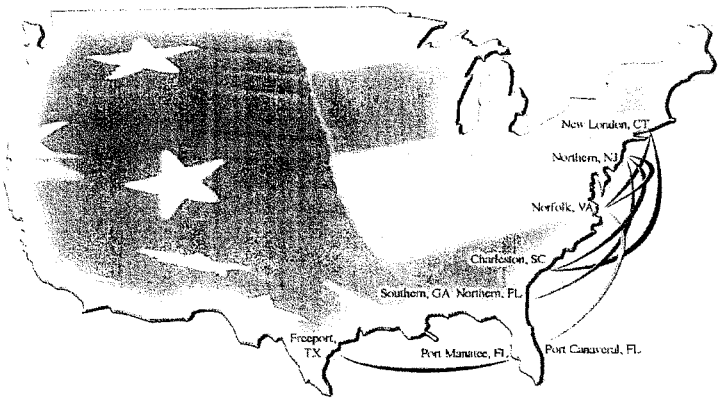
Proposed "Marine Highways" Corridor of the Future

The Eastern Seaboard and Gulf Coast States have year-round easy access to navigable waters from Maine to Texas. Major population centers are located along this coastline with both commerce and people in constant movement. Two of the nation's most important and vital interstate highways, I-95 and I-10, parallel the coasts as do private sector rail lines. However, the speed and reliability of the highway transportation and freight systems between these States are deteriorating as vehicle traffic grows and congestion increases. (At the same time the cost of interstate highway maintenance is climbing.) Yet with limited exceptions such as the movement of bulk commodities, scant attention has been given to making use of this maritime asset that in many respects is existing corridor capacity waiting to be used. As the burden of vehicles and freight tonnage grows, the limits of road and rail capacity will be tested. Coastwise shipping can provide trucking and logistics companies with alternate route infrastructure and make it easier for the land modes to manage the projected growth in intermodal freight.

Adding freight capacity to U.S. road and rail networks is prohibitively expensive, politically and environmentally sensitive, and requires long-term advance planning. Adding lanes to existing highways or building new ones is estimated to cost on average $32 million per lane mile plus the delays associated with overcoming public resistance. Indeed, SAFETEA-LU authorizes expenditures of $286.4 billion, with most of the money designated for highway maintenance, not expansion. In many sectors along this corridor, highway expansion, particularly in and around urban areas, is no longer an option even if money were available.

SeaBridge as well as many others believe that the time has come for the Nation to take full advantage of our coastal waters by seamlessly integrating one or more marine highways into the surface transportation system as Corridors of the Future.

The SeaBridge plan is to create a coastal network of twelve large, fast freight and passenger ships. The network, which will offer fourteen daily sailings between eight strategically located East Coast and Gulf Coast ports, will provide truckers with cost-effective, expedited intermodal alternatives to traveling congested coastal highways. The millions of travelers moving along these same coastal corridors will be able to enjoy a restful and safe trip, with dining, entertainment, shopping, and other on-board amenities.



Trucking will be the principal beneficiary of the SeaBridge service. Trucking and logistics companies will optimize their routings to take advantage of the speed and cost savings SeaBridge will provide. Motorists will recognize that SeaBridge effectively widens the highway system by offering an attractive and cost-effective alternative to driving on congested roads.

Effective Coastal Marine Highways

Using deep-sea U.S. coastal waters to provide additional transportation capacity to fulfill some of the current and projected demands for freight and travel growth is feasible and readily achievable. Not only is the sea "free" because "rights of way" are available at no cost, but its surface can be used immediately without the extensive engineering/construction/permitting work required of highway or railroad infrastructure.

Waterborne services that increase the productivity and efficiency of truckers and provide viable transportation alternatives for motorists can add significant new capacity to the U.S. transportation system. Heretofore, marine highways have been limited to non-contiguous segments of the NTS, most notably the Alaska Marine Highway, which developed out of the practical need for greater mobility between Alaska and the "lower forty-eight" and Alaskan communities. Today, that practical need for greater interstate and regional mobility is not limited to those more distant states and territories. (Note: SeaBridge does not propose to be financed by Highway Trust Fund monies.)

The U.S. Department of Transportation finds value in the marine highway concept. Indeed, former Secretary of Transportation, Norman Mineta, identified development of "a robust short sea shipping system" as a way of reducing congestion more than three years ago.

> In many instances, our landside transportation system is already stressed to the limit and currently planned infrastructure improvements and expansion cannot possibly meet this escalating demand. Major expansion of rail or highway infrastructure to meet this increased demand is prohibitively expensive and often physically impossible . . . [D]evelopment of a robust short sea shipping system . . . would aid in the reduction of growing freight congestion on our nation's rail and highway systems.
>
> *Honorable Norman Y. Mineta, U.S. Secretary of Transportation – June 2003*

Preliminary Design Features

Advances in hull design over the past decade combined with increased efficiency of propulsion systems and powering options and improved computer-assisted design tools have enabled ship designers to create, and shipyards to produce, ships with significant gains in speed and overall operating performance. In the past ten years, the average speed of large roll-on/roll-off passenger (ROPAX) ships has increased 50%, from an average under 20 knots to near 30 knots. Smaller vessels, such as catamarans, are operating at speeds up to 40 knots in various markets around the world.

SeaBridge will advance the effort further by taking advantage of the unique capabilities of the highly efficient pentamaran high-speed hull designed and patented by BMT Nigel Gee and Associates Ltd. of the U.K. Six years, untold professional time and a substantial amount of money have been invested in the conceptualization, design, development, evaluation, and testing of the SeaBridge pentamaran ROPAX hull and structure.

The pentamaran ROPAX design has successfully completed extensive resistance and self-powered dynamic model tank testing at Marintek in Norway. It has also undergone the design appraisal preview process with satisfactory results by a leading classification society, Det Norske Veritas ("DNV"), which specializes in the classification of high speed passenger ships. DNV is authorized to approve construction and commissioning of ships for the U.S. Coast Guard.

Much of the development effort to date has been dedicated to an exhaustive examination of key market and operating elements and to the design and testing of ships that provide exceptional transportation capabilities. The following three are key to a successful business model:

Ship Performance

Critical to the success of the SeaBridge coastal ferry network is the performance of the ships being used. Combining ship size and payload with speed is the key technology advance that enables the SeaBridge to offer a viable alternative to long hours on roadways.

The ship's speed is important to ensure schedule integrity and to maximize ship utilization. Its size is key to achieving scale economies. Fuel efficiency is critical to profitability because fuel is the single largest cost element. Maneuverability affects the rapidity with which a ship can move into and out of port in various types of weather. Loading and unloading efficiency controls port turnaround time and faster port operations mean that the ship may sail slower, burning less fuel, without impairing the schedule. Seakeeping is the technical term that describes how comfortable the ship is for passengers and how

secure it is for freight. Clearly, passenger comfort and cargo security throughout each voyage are essential to attracting and maintaining customers.

Port Location and Operations

In an effective coastal ferry network, selection of port locations must balance connectivity to the road network against ready access to coastal sea lanes. Selection must be based on geography. Since trucks and cars can drive on and off a SeaBridge ship, port infrastructure requirements are minimal. The map on page 3 shows the ports referenced in SeaBridge's business plan.

Terminal facilities will either be leased from public port authorities or owned. Each terminal will be staffed by SeaBridge personnel handling ticketing, loading and discharge operations, and security. As is the practice in Europe today, terminal operations will be fast-paced to meet tightly scheduled port turnaround times – ship loading in two hours and discharging in one hour.

Service Integrity

Service integrity refers to the ability to maintain a high level of on-time performance. Market analysis and numerous studies have documented that frequency of service and reliability are crucial to attracting and maintaining freight business. Arrivals and departures as scheduled without fail will be the hallmark of the SeaBridge coastal ferry network.

The ships will operate at various speeds appropriate to the length of each route. Overall, an average speed of 35 knots between the sea buoys at departure ports and the sea buoys at arrival ports will be required to maintain schedule. The ships are equipped to sail at speeds up to 42 knots, thus providing a 7 knot margin over the average speed required. This will enable the ships to make-up time lost due to weather or port delays.

Estimated Capital Costs

The capital required to build the full complement envisioned by the SeaBridge business plan (twelve ships and terminal facilities in eight ports) is estimated at $2.8 billion. The ships, which have an estimated service life of twenty-five years, are expected to cost $200 million each and port facilities are expected to require on average $50 million each. Using the estimate of $32 million per lane mile, the capital cost of SeaBridge's marine highway option equals the construction of less than 90 miles of land-based highway. As will be explained in the Financing Mechanisms section below, SeaBridge proposes to raise the capital for this project from private markets, using government support.

The foregoing estimated capital cost amount includes all of the capital costs associated with the full network described above. The SeaBridge business plan does contemplate a phased approach to developing its full network to reduce the initial amount of capital required to initiate a threshold level of service consistent with the needs of its primary markets.

Proposed Delivery Schedule

SeaBridge has developed a comprehensive business plan that covers calendar years 2007 through 2018 and is divided into the following phases:

- Pre-construction phase – January 2007 through October 2007

- Pre-operations/construction phase – November 2007 through June 2011
- Operations phase – July 2011 onwards

Ship construction, which begins in November 2007, extends into the operations phase. The first two ships are scheduled to be commissioned in July 2011; the last two ships will be commissioned at the end of April 2013.

Based on ever growing freight and automobile traffic on American highways, the potential for long-term growth of the business is substantial. Once the initial route network is functioning with all twelve ships in operation, demand for services will be measured to determine where additional density is required. In addition, new routes will be evaluated. More ships can be built and deployed as needed, taking into consideration the competitive environment, profit economics, and the availability of capital. Worth noting, too, is that SeaBridge success may encourage the introduction of coastwise shipping services by others and revitalize our domestic commercial ship building industry.

Financing Mechanisms

Trucking and logistics executives have endorsed the scheduled, daily marine highway services that SeaBridge proposes. Anecdotal and other research reveals a huge potential market for passengers and their vehicles. However, obtaining sufficient capital to finance ships and port facilities is the critical challenge.

Regardless of its European precedents where similar models have proved successful, SeaBridge, as the first business of this type in the United States, will require federal support to attract the private capital needed to build the ships and port facilities. Such assistance may well prove unnecessary in the later years as SeaBridge proves the market and others enter it.

A key factor supporting a government finance strategy is that SeaBridge can add capacity to the Nation's existing transportation system *at a profit*, including repayment of the capital cost of its ships and port facilities. By using realistic, but conservative revenue assumptions, SeaBridge will generate a profit when all twelve ships are in operation. SeaBridge can add meaningful new transportation capacity *AND* repay the capital cost required to do so *with interest.* It is not surprising that the Maritime Administration has expressed "...federal interest in a SeaBridge infrastructure alternative."[1]

There is recent precedent for Federal and State governments to provide Federal Highway Trust funding for off-highway corridor projects that can potentially reduce traffic and congestion on existing highway corridor infrastructure. SAFETEA-LU authorized $95 million ($90 million under Section 1301(m)(2) and $5 million under Section 1702, Project No. 5072) for the Heartland Corridor rail double-stack clearance project which is to be used for improvement of intermodal facilities and double-stack clearance of tunnels on the Norfolk and Western mainline in the movement of intermodal freight from Ohio to Virginia. In September 2006, a Memoranda of Agreement was reached with the Federal Highway Administration (FHWA) and states of Virginia, West Virginia and Ohio and the Norfolk Southern Railway Company allowing for the release of the federal funding.

SeaBridge does not propose using HTF funds. It proposes using something similar to the Railroad Rehabilitation and Improvement Financing ("RRIF") program, which enables the Federal Railroad Administration to provide 25 year government loans for up to 100% of a project, or a government

[1]This quotation is from an August 26, 2005 letter from the Maritime Administration which is available upon request.

guarantee program.[2] SeaBridge is studying the use of private activity bond financing and other financial support from the States and communities that would benefit from its service network and is open to any form of assistance from the Federal Government in this effort.

Being designated as one of the five projects invited to submit a Corridor Application in Phase 2 will have a tremendous positive impact on securing additional private finance for the project.

The financial and operating assumptions that underlie the SeaBridge plan are backed by extensive market research, investment analysts specializing in the trucking industry, European best practices, and SeaBridge's executive management team.

SeaBridge's coastal marine highway network offers a compelling value proposition to the Federal government. The initial twelve ship network, serving routes on the East and Gulf Coasts, can move between 560 million and 2.0 billion vehicle miles per year from these congested coastal highways at a profit. In other words, within five years SeaBridge can add lanes to the existing East and Gulf coastal corridors by removing a significant volume of traffic that would otherwise be adding to the overload of the existing surface systems.

Traffic Trends

An immense market for passenger and freight ferry services exists throughout much of the world. In Europe alone, over 450 million passengers, 100 million cars, and 22 million trucks were transported on ferries in 2004.[3] Successful private companies have proven that matching service offerings to customer needs is profitable across a range of markets.

The important drivers of high European ferry demand – congested roads, high fuel prices, tolls and road taxes, hours of service limitations for truck drivers, driver shortages and increasing highway safety concerns – exist in the U.S. today. The principal difference between the existing ferry operations in Europe and prospective ferry services in the U.S. is that here such services have to compete more directly with the highway system because virtually all freight and people moving in the United States can reach their destinations without needing to cross any body of water except by means of fixed bridges.

Railroads currently provide nearly all of the intermodal capacity available in the U.S. by carrying both road trailers and containers on railcars. The railroads are able to double-stack containers on most rail intermodal routes and, so are generally able to offer lower prices for domestic and international containers than for carriage of trailers in many markets. Nationally, this has reduced the number of road trailers carried by rail, but has also increased the efficiency of rail intermodal services. However, on the East Coast, where tunnel height and other restrictions limit the railroads' capacities and service to single-stack service, making service on North/South coastal rail intermodal routes less efficient and more expensive than East/West rail intermodal routes.

In 2003, the Transportation Research Board produced a study, "Freight Capacity for the 21st Century," that examined freight capacity trends in a number of areas including highway and rail. The trends indicated "a pattern of unprecedented tight capacity in certain parts of the freight transportation system, expected continued growth of traffic, and slowing of the rate of addition of capacity...by 2020, the nation's total output of goods and services probably will increase by 70 percent, highway travel and all domestic freight traffic will increase by about 40 percent . . . ."

[2]One existing federal program that could conceivably be used to finance the ships to be used in the SeaBridge marine highway is Title XI.

[3]Source: ShipPax Statistics 04. Europe includes the Baltic, North, and Mediterranean seas.

The report went on to say "Rail intermodal is seen as an opportunity to relieve pressure on overburdened highways...However, growth will be inhibited in the future by capacity constraints on the rail system, and the potential to displace trucking is limited: rail intermodal traffic is today roughly equivalent to 8 percent of the volume of combination truck traffic; if it doubles in the next decade (nearly twice its rate of growth in the 1990s), it will still amount to only about 10 percent of combination truck traffic."

Road congestion is the fastest growing concern among highway users. Trucking companies have publicly voiced their concerns, recognizing the threat that an inadequate highway infrastructure poses to their industry's ability to serve its customers. In major urban areas, 32% of daily travel occurs in congested traffic, resulting in a 26% increase in transit times. Federal Highway Administration (FHWA) studies show that in 2001 over 3,000 miles of urban Interstate and 500 miles of rural Interstate were rated in the worst category of "severely congested". Based upon FHWA projections of traffic growth, another 2,400 miles of urban Interstate and 1,300 miles of rural interstate will graduate to the severely congested category in the near future.

The dramatic growth of intermodal traffic demonstrates the trucking industry's readiness to incorporate non-highway links, where serviceable, in its overall logistics chain. SeaBridge offers a familiar and faster intermodal option. There is substantial evidence that travelers want a non-highway option to get to vacation destinations with their own vehicles. SeaBridge will offer that option from large centers of population in the Northeast and Mid-Atlantic to/from destinations in the Southeast/Gulf Coast.

SeaBridge's introduction of efficient and price-competitive freight and passenger transportation services will lead the revitalization of coastal shipping in the U.S.[4]

Economic Benefits

The economic impact of building twelve ships in the U.S., constructing facilities in eight ports, and operating daily service on seven routes is very significant to local and state economies. The shipbuilding itself will generate in excess of $3 billion in economic activity, including thousands of new jobs. Total labor income will increase significantly during the shipbuilding phase; and state and local tax revenues will rise substantially.

Port facility construction is estimated to generate $240 million in total output, 2400 jobs and $33.6 million in state and local tax revenue for the eight ports in the route network. Total labor income will increase by $101 million during construction of the eight port facilities.

SeaBridge's ongoing operations will create long-term employment opportunities for thousands of people and, in turn, tax revenues for state and local administrations. In fact, SeaBridge will become one of the largest employers of American seafarers in the U.S.

[4]The Office of the Secretary commissioned a study of the potential of short sea shipping which was published on August 15, 2006: *FOUR CORRIDOR CASE STUDIES OF SHORT-SEA SHIPPING SERVICES: Short-Sea Shipping Business Case Analysis* (Ref. #DTOS59-04-Q-00069) conducted by Global Insight in association with Reeve & Associates. Two of the four corridors studied are included in SeaBridge's "Marine Highways" Corridor. The study does not address the business case that SeaBridge proposes in that it concentrates solely on freight and uses cost data for lift-on/lift-off, instead of roll-on/roll-off ships. However, its key findings certainly indicate the lower costs and greater flexibility that roll-on/roll-off ships enjoy compared to lift-on/lift-off ships. It also finds that there is a substantial volume of trailer traffic moving in the East and Gulf coast corridors that SeaBridge has targeted, which traffic could be moved to a marine highway depending upon service, cost and frequency. We especially direct you to the conclusions set out on pages 45 & 46 of the study which support the freight aspects of the business case presented in the SeaBridge business plan.

Contacts with potential Corridor stakeholders

Over the past several years, SeaBridge representatives have been in contact with public and private sector stakeholders in States along the Eastern Seaboard and Gulf Coast. Meetings have been held with persons in all potential ports where terminals might be located. Additionally, SeaBridge has met with senior-level officials of the Office of the Secretary of Transportation, MARAD, FHWA, and RITA; and with senior-level officials of the Military Sealift Command, U.S. Navy, U.S. Transportation Command, and U.S. Army. In the development of the SeaBridge business plan, substantial market analysis was done and the plan has benefited by the response of trucking and logistics companies.

States, including some of those noted below, developed, through departments of transportation and port authorities, their own initiatives for short sea shipping service or studies on the subject. Connecticut has taken a particular interest and has supported the development of container RO/RO service between Bridgeport and New York Harbor to mitigate truck traffic on I-95 corridor. The Port Authority of New York & New Jersey developed an extensive northeast regional plan for barge service and started the Albany Express container barge service. The State of Florida and particularly Port Canaveral have encouraged short sea service development.

Status of agreement among States and/or private entities

SeaBridge has a letter of agreement with VT Halter Marine, Inc. of Mississippi to serve as lead shipyard in a consortium ship building effort. SeaBridge also has an agreement with BMT Nigel Gee and Associates Ltd. of the U.K. for use of the pentamaran hull design within North America.

SeaBridge has met with numerous corridor stakeholders to establish its system of intermodal connectors to the landside surface infrastructure, including port or business representatives in Connecticut, New York, New Jersey, Virginia, South Carolina, George, Florida and Texas.

SeaBridge has met with senior executives of the largest trucking and logistics companies in the U.S. and with the American Trucking Associations, American Association of State Highway and Transportation Officials (AASHTO), National Industrial Transportation League, National Defense Transportation Association, U.S. Chamber of Commerce, and other freight organizations in the course of developing its business plan.

Senior SeaBridge officers have been in conversation with the I-95 Corridor Coalition and have been invited to make a presentation on the potential of short sea shipping to the I-95 Corridor Coalition at its annual meeting in Norfolk, Virginia in December 2006. The Coalition has shown interest in the idea of short sea shipping and issued a market analysis report on the potential for East Coast short sea service.

Federal and Indian Lands

The proposed SeaBridge "marine highways" corridor does not cross any federal or Indian lands.

Remaining Activities

As is evident from the preceding description, the SeaBridge proposal for a "marine highways" corridor is already in development. The remaining activities to be undertaken are as follows:

- Finalization of a construction plan for its ships with VT Halter Marine and development of the shipbuilding consortium of yards required to complete them;
- Completion of extensive, detailed market research on the passenger market in the corridor; and securing commitments from logistics and trucking companies for use of the freight capacity;
- Finalization of the selection of ports and complete negotiations with States and port authorities for development of port terminal facilities;
- Development and construction of relevant port facilities and otherwise executing the business plan.

SeaBridge can provide its full business plan upon request. As for the concurrences of the States that would be involved in the corridor, SeaBridge estimates that it will be able to secure them within the time deadline set forth in the Notice to submit a detailed Corridor Application.

Conclusion

Simply stated, SeaBridge believes that it represents the only commercially viable, corridor-wide, option for the nation to use its vast maritime assets to relieve road congestion by adding significant new capacity that is sustainable, environmentally sound, and can keep pace with the ever increasing mobility of people and goods movement along the Eastern and Gulf Coasts.

Respectfully submitted,

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October 24th, 2006

SURFACE TRANSPORTATION INFRASTRUCTURE FINANCE FOR THE FUTURE -- GUIDING PRINCIPLES FOR DEVELOPING A NEW FEDERAL APPROACH

Stephen Flott (sflott@seabridge.net)

"Unreliable transportation threatens the economic vitality of the United States and distorts business decisions. Our highways, seaports, rail yards, airports and border crossings all have a profound significance for bottom-line costs for businesses that depend on an efficient supply chain and product distribution system. . . Sustained growth is going to require serious rethinking about the way that we build, finance, manage and maintain the transportation system that moves our economy."

Excerpts from a speech given by the Hon. Norman Y. Mineta, Secretary of Transportation, to the Bear Stearns Global Transportation Conference, May 10, 2006

"Congestion is a cancer on our economy. The country's 200 worst highway bottlenecks cost the trucking industry $7.8 billion each year as a result of 243 million hours our trucks waste while idling on these gridlocked, so-called freeways. . . These costs filter through our economy, affecting our nation's global competitiveness, consumer prices and jobs. . . The facts are very simple - our infrastructure cannot support our future economic growth.

Excerpts from a speech given by Pat Quinn, Chairman, American Trucking Associations, to the ATA Board Meeting in Dallas, October 30, 2006

These comments echo a growing chorus of increasingly concerned voices calling for action on what is now generally acknowledged in informed circles to be an imminent freight and personal mobility crisis. This crisis is not "news". Its existence and the growing danger it poses to the economic health of the U.S. has been known for years.

The performance of our surface transportation system has been deteriorating at an accelerating pace over the past decade. This alarming trend reflects the absence of workable, fiscally supportable and politically acceptable solutions to two distinct financing challenges: a) maintaining the existing surface transportation system; and b) adding new capacity to that system. The ability of the Nation's land and water transportation infrastructure to support our economic growth, international trade and global competitiveness is a major economic and political challenge that has to be addressed as a matter of utmost urgency.

Advocacy of policies aimed at promoting economic growth and international trade without at the same time supporting policies which ensure commensurate growth in the capacity of the national surface transportation system is short-sighted and unsustainable. It is the equivalent of pursuing policies that encourage people to run while at the same time supporting polices that tie their shoelaces together. Yet, this is precisely the flawed path we have been following.

The cost of congestion across our surface transportation infrastructure is a tax – the nastiest kind of tax, hidden and regressive. Worst of all, the impact of this "congestion tax" multiplies as goods move through the supply chain, accumulating until we pay it in the price of everything we buy.

Finding a Way Forward

We must move from diagnosis to treatment, from discussing the problem and lamenting Congressional inaction to building support for enactment of a sound, practical solution. Accordingly, this paper offers as a starting point six principles to guide creation of a comprehensive, unified approach to address the competing demands of maintaining and upgrading the existing system and adding new capacity. The approach recognizes the abiding public interest in the adequacy and performance of the Nation's surface

transportation infrastructure and the important role that government must play in planning, directing and financing it. At the same time it also recognizes the unavoidable truth that private investment in public infrastructure is both a practical necessity and a basic tool to measure the value of that infrastructure to its users and the national economy. Although there are many crossover similarities in transportation infrastructure financing, this paper does not address financing of public transit and air transportation systems.

Principles for Developing a New Federal Approach to Surface Transportation Infrastructure Finance

1. Start with a "blank slate"; avoid being captive to how components of the existing surface freight transportation system came to be part of the mature, successful system we have today.

2. Create two separate funding mechanisms and processes: one for maintaining/improving existing transportation infrastructure and another for adding significant new surface capacity through highways, railways, waterways and intermodal connectors.

3. Focus reform of existing surface transportation infrastructure funding (e.g., fuel taxes, user fees, federal programs and investment, etc.) on improving the efficiency of the existing system; create incentives (e.g., tax credits) to encourage private investment in existing rail and port facilities, which are not typically supported by the Highway Trust Fund.

4. Insist on "mode neutral" evaluation of major additions to the national system; recognize that the surface transportation system needs to utilize land, water and intermodal options.

5. Encourage innovation and creativity by accepting some risk in new infrastructure projects; support projects based on expected, measurable, positive impact on system capacity, not mode or sponsor.

6. Use the federal government's creditworthiness to attract the maximum amount of private capital to surface transportation infrastructure projects at the least cost to the federal treasury.

Applying these Principles to Surface Transportation Infrastructure Finance – Recognizing Two Distinctly Different Challenges

Maintaining Existing Surface Transportation Infrastructure

Improving the performance of the existing surface transportation system can capture important "hidden" capacity and add it to the system more quickly in many cases than new projects can. Getting full value from existing surface transportation infrastructure and making it work as efficiently as possible are critical. Backed by a revived and strengthened Highway Trust Fund, the government agencies and processes already in place for identifying local and state priorities should concentrate on supporting infrastructure improvements of local significance and financing long overdue maintenance of, and upgrades to, the existing surface transportation network. We must recognize that, as our surface transportation system expands and ages, the cost of maintaining it in good working order grows at a quickening pace. Failing to distinguish between paying to keep what already exists working well and adding substantial new capacity is at the heart of our current crisis.

Adding New Capacity

Existing governmental and financing mechanisms are handicapped in advancing important state and local priorities when they confront projects of national and regional significance. A case in point is expansion of I-81 in Virginia, projected to cost more than $6.5 billion. Expansion of this important transportation corridor is not a matter of "maintenance" nor is it a single state's concern. It is a project best tackled and coordinated at the regional or national level. Our current fuel tax based system and the

governmental and political processes tied to it cannot address adequately such important new infrastructure projects without severely impacting the financing of maintenance of existing infrastructure.

We need financing mechanisms and processes specifically designed to add highway, railway, waterway and intermodal capacity based on national and regional priorities and targeted to address and reduce congestion in key national transportation corridors. DOT in consultation with the states and other key transportation stakeholders should develop clear, measurable surface transportation infrastructure investment priorities and guidelines, incorporating performance standards in the use of infrastructure, where applicable, and criteria such as economic benefits, environmental impact and sustainability, national defense attributes and social benefits. Public and private entities, separately or in combination, should be eligible to obtain financing/backing for new surface transportation infrastructure projects. To ensure these priorities and guidelines are implemented, Congress should create an independent, expert and self-financing non-governmental entity to allocate federal financial support for new surface transportation infrastructure projects in accordance with the priorities and guidelines established by DOT.

Each entity seeking federal financial support for a surface transportation project should be required to demonstrate how its project meets DOT's priorities and guidelines, how and over what period the project is to be financed, and how and how much of the project's capital cost is to be recouped during that period.

Financing – A Brief Overview of Options

There are five surface infrastructure government financing options: tax-funded (e.g., fuel, sales and income taxes); tax-preferred finance and tax incentives (e.g., tax exempt and tax credit bonds, investment tax credits); government loans (e.g., Transportation Infrastructure Finance Innovation Act – "TIFIA"; Railroad Rehabilitation & Improvement Financing – "RRIF"); government guarantees (e.g., TIFIA, RRIF, and Title XI Ship Finance); and buy/leaseback financing in which instances the government owns the asset (most often land) and leases it to private operators (e.g., state leases to railroads for investments in kind).

Tax-funded finance is straightforward. Projects are funded from fuel, sales and income taxes. Congress appropriates tax dollars to be spent or lent (directly or by the States) for projects covered by applicable legislation (e.g., Highway Trust Fund, TIFIA and RRIF).

Tax-preferred finance and tax incentives differ from tax-funded finance in that the "tax cost" is the tax revenue lost to the Treasury from the tax preference and credits. Congress limits how much tax-preferred debt can be issued, but the "tax cost" is not reflected in the budget and, therefore, is not "appropriated" by Congress. The amount generated by tax-preferred finance to fund projects is the maximum amount of bonds that can be issued. The amount of capital generated by tax credits depends upon the type of credits offered and the amount of capital private entities are willing to invest based on their circumstances and the attractiveness of the credit.

Government loan programs differ from tax-preferred finance in that they must be tax-funded at the start. Congress has to appropriate tax dollars and authorize the lending of these funds to approved borrowers. TIFIA and RRIF require borrowers to repay loans with interest rates set at or above the government's cost of borrowing. Recapturing borrowed funds enables these programs to fund new projects.

Federal guarantee programs differ from tax-funded and tax-preferred finance in that the federal government itself does not lend or spend cash. It guarantees lenders that they will be paid in full if the borrower defaults on its loans. Using the guarantees, borrowers are able to borrow money at favorable interest rates. Unlike the other finance options, the tax "cost" is primarily budgetary. That is, Congress must appropriate funds to be held as a "reserve" against potential defaults in guaranteed loans. The amount appropriated is a function of the percentage of the guarantee amount that OMB decides must be held against

default. For example, if OMB sets the reserve amount at 10 percent, Congress must "appropriate" $100 to support the issuance of $1,000 in government guarantees.

A Modest Proposal – Government Support for Private Infrastructure Financing

The following modest proposal applies the principles and financing options outlined earlier.

Principles 1 & 4 suggest a "unified" approach to infrastructure financing instead of the mode-oriented approach that has historically driven political debates over infrastructure funding and produced and perpetuated the "stovepipe" approach that exists today.

All surface transportation infrastructure projects involve the transformation of a surface (land or water) into usable infrastructure. On land, rights of way must be transformed by design, engineering and money into highways and railways. On water, design, engineering and money must be invested to enable ports and vessels to function in exactly the same way – as infrastructure. A unified approach should treat land and water options equally, evaluating each proposal on the basis of its ability to add capacity to the Nation's transportation system, not on the surface or type of infrastructure used to do so.

Principle 2 acknowledges that there are distinctly different challenges associated with funding the less glamorous tasks associated with making what already exists work better, which are best managed at the local and state level, and those associated with funding additions of significant new capacity, which are in most cases best managed at national and regional levels.

Principle 3 suggests the use of tax-funded finance (e.g., a reformed and bolstered Highway Trust Fund and Harbor Maintenance Trust Fund) to pay for infrastructure maintenance which in essence represents the annual cost of keeping the infrastructure that exists in good working order.

DOT published a report – *The Freight Story* – in November 2002 on its three year study of mounting challenges facing freight mobility across the Nation's surface transportation system. According to *The Freight Story* we should be spending $76 billion (2000 dollars) every year between 2001 and 2020 to maintain the highway system as it existed in 2000. Yet, SAFETEA-LU provided less than two-thirds of that funding for the current six-year cycle ($286 billion vs. 6 x $76 = $456 billion), a $170 billion gap that the States are unlikely to make up with their fuel tax revenues. In other words, the maintenance deficit will have grown by the time of the next reauthorization in 2008.

Making up the maintenance deficit with user fees (e.g., tolls) on existing highways is not justifiable. User fees might be acceptable if they are supported by the creation of commensurate economic benefits. Highways create value for communities, not just for users. Furthermore, if tolls do not equal the economic benefits to users, they are likely to divert traffic to less suitable routes, thereby only shifting, not remedying, the problem.

Funding "infrastructure maintenance" has to include paying for incremental additions to existing surface transportation assets. What is needed is a principled basis for determining when such additions should be considered "maintenance" and funded as such instead of being classed as "new capacity".

Principles 5 & 6 emphasize the need to involve all elements of surface transportation and acknowledges that innovation by necessity entails the risk of trying something new and suggests the use of loan guarantees as the most tax efficient way to finance new projects that are expected to pay their own way. A new solution is always going to be "untried" or "unproven" at first. The challenge is balancing risks associated with a new project against its promise for adding capacity to the surface transportation system.

The Build America Bonds Act of 2005 (S. 428) ("BABA"), which was incorporated into the Senate version of SAFETEA-LU as the Talent-Wyden Amendment offers a thoughtful and innovative starting point for developing a new federal approach to financing surface transportation infrastructure. BABA was not included in the final SAFETEA-LU legislation.

All requests for financing, regardless of sponsor, should be supported by a "business plan" that sets out the project's economic justification and shows how it meets the priorities and guidelines set by DOT. There are surface transportation projects that need to be financed but may not be able to repay their capital costs over the customary long-term bond financing period (i.e., 25 or 30 years) or may only be able to recover part of their costs even over an extended period of time. BABA offers a creative, well-thought out approach for using tax credit financing for projects like this.

Water projects need port facilities and vessels to create new infrastructure capacity. Even if the surface – water – is free, making use of that surface requires significant investment in assets. The Federal Railroad Administration's RRIF program (RRIF loans can be for 100 percent of capital costs, but must be repaid over terms not to exceed 25 years) is an existing model that could be applied more broadly. All water or short sea shipping projects, whether sponsored by public or private entities, ought to be required to repay their capital costs in full with interest either over the life of the assets being financed or 30 years whichever is shorter.

The use of loan guarantees is the most tax efficient (i.e., costs the least in terms of tax dollars needed to fund projects) to finance any new infrastructure project that can reasonably be projected to repay its capital cost plus interest (tax-exempt or not) over a maximum of 25 or 30 years. If a guarantee program is adopted, it should be self-financing. Sponsors seeking guarantees for their projects should pay for guarantees, like homeowners who purchase homes with loan-to-value ratios above a certain percentage pay mortgage guarantee insurance.

An important benefit of the government guarantee approach is that interest paid to holders of guaranteed debt is taxable as are the earnings of those engaged in construction of surface infrastructure projects financed through such guaranteed debt. The combined use of tax-credit bonds and guaranteed debt to finance added capacity for the Nation's surface transportation system could generate more tax revenue than the "tax cost" of the tax preferences.

Where from Here?

This paper is intended to move the substantive discussion that is currently underway within the transportation community toward consensus on the key elements of a workable, fiscally supportable and politically acceptable solution to the twin challenges of (a) ensuring reliable, adequate funding for the upkeep of existing surface transportation infrastructure and (b) creating sufficient funding for much needed new capacity, including processes for making sure that funding is directed to projects in accordance with agreed upon principles and national and regional priorities.

The following quotation from a speech by Michael L. Eskew, Chairman and CEO of UPS, to the Houston Forum on March 30, 2006 summarizes why it is critical that we to shift from talk to action as quickly as possible.

> *"If we're going to take our rightful place as a nation in the world of trade, we must have the best infrastructure. By now, we all know that it's Rush Hour on our nation's transportation systems. And statistics tell us it's only going to get worse as global commerce expands. We need to ask ourselves, whether we're in the public or private sectors: Are we willing to stand by and watch as we slide into gridlock? Or are we willing to take the necessary steps today to ensure a vibrant economy tomorrow? Do we really have a choice?"*

WRITTEN STATEMENT OF
COLLISTER JOHNSON, JR., ADMINISTRATOR
SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

BEFORE THE
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
U.S. HOUSE OF REPRESENTATIVES

FEBRUARY 15, 2007

Chairman Cummings, Ranking Member LaTourette, Members of the Subcommittee,

I am pleased to be here today to offer the views of the Saint Lawrence Seaway Development Corporation (SLSDC or Corporation) regarding the opportunities and challenges facing Short Sea Shipping in the Great Lakes and St. Lawrence Seaway. Why is Short Sea Shipping important to the Seaway? Historically, this waterway has been a pathway primarily for bulk commodities. Yet, the Seaway serves the industrial and agricultural heartland of North America and could be used for the transshipment of containers to inland ports, thereby easing congestion in the rail and truck modes and strengthening the nation's economy.

As background for the Subcommittee, the SLSDC is a wholly owned government corporation and an operating administration within the U.S. Department of Transportation. The SLSDC is a sister agency to the U.S. Maritime Administration and seeks to complement that agency's leading efforts to promote Short Sea Shipping as a viable mode of transportation. The Corporation operates the two U.S. Seaway locks located in Massena, N.Y., and controls navigation in the U.S. portions of the Seaway. In addition, the Corporation is charged with promoting maritime trade into and out of the Seaway.

The Great Lakes offers tremendous and tangible possibilities for Short Sea Shipping in this country. It has a wealth of marine assets already in place to facilitate this type of commerce. It also has several established U.S. and Canadian companies and well-financed entrepreneurs who are making sizeable investments in marine transportation. In addition, the region is the location of the greatest international flow of goods anywhere in the world.

An additional reason for the SLSDC's interest in Short Sea Shipping is the Department of Transportation's focus on congestion mitigation as our most important policy initiative for the next two years. Secretary Mary Peters has charged each Administrator with seeking tangible solutions to the congestion problems facing this country. The Seaway is a major transportation

resource with plenty of room to grow, a claim that few other transportation routes can make. We estimate that the Seaway currently operates at only 50-60 percent of its potential capacity where other modes of transport are straining under the weight of growing congestion.

The intense focus on Short Sea Shipping in the Great Lakes is the result of one simple fact – the level of trade between the U.S. and Canada represents the largest bilateral trade relationship in the world. In 2005, annual goods and services trade between the two countries was valued at $557 billion. According to the Canadian-American Business Council, Canada and the United States exchange goods worth an average of $1.2 billion per day. Canada buys nearly one-quarter of all U.S. exports of goods and no fewer than 37 U.S. states count Canada as their number one export destination.

The Ambassador Bridge, which links Detroit, Michigan, and Windsor, Ontario, annually carries more cargo by value than the entire U.S. imports received from Japan, our fourth largest trading partner ($128 billion vs. $118 billion in 2003). Figures from 2000, the most recent figures we could find, show that the Ambassador Bridge was the world's busiest border crossing, accounting for 26 percent of the total 13.6 million annual commercial crossings between Canada and the United States. Since the passage of the North American Free Trade Agreement (NAFTA) in 1993, bilateral commerce between our two countries has grown at a 6 percent annual rate and is expected to continue performing at least as well into the future.

Needless to say, as a result of the enormous volume of Canada-U.S. trade, there is tremendous congestion at this country's land border-crossing points. Traffic delays at the Ambassador Bridge of more than two hours during peak traffic periods are common. The congestion statistics for the border bridges in and near Buffalo, N.Y. are equally sobering. The costs associated with this congestion, in terms of lost productivity, wasted fuel, air pollution, and infrastructure degradation are enormous. For example, the Ontario Chamber of Commerce claims that the annual loss to the U.S. economy as a result of such congestion is $4.1 billion and notes that 73 percent of U.S. exports to Canada by value moved by truck. More than 37,000 trucks cross our northern border every day, a rate that works out to one truck every 2.5 seconds. With the cost of an idling truck estimated to be $150 per hour, more and more shippers are eager to explore a waterborne solution to a growing surface-congestion problem.

The Great Lakes are a vast inland sea with deepwater access to the world markets through the Seaway. The Lakes serve the population centers of all the major manufacturing states of the region: Ohio, New York, Pennsylvania, Illinois, Michigan, Indiana, Wisconsin, and Minnesota. Given this geographic fact, the volume of cross-border trade, and the acute congestion at the land border crossings, one would expect to find numerous marine ferry services between the Unites States and Canada carrying trailers, containers, and every imaginable form of commercial cargo. This, however, is not the case. In fact, the entire Great Lakes region has only one active Short Sea Shipping truck ferry service, the Detroit - Windsor Truck Ferry, which is a niche carrier ferrying hazmat cargo and oversize project cargo.

Why is there such a dearth of cross-lake, non-bulk Short Sea Shipping when it would appear that all the economic and geographic conditions needed for it to thrive are in place? I have asked many business executives, port directors, and other industry experts this question over the past

three months since coming into this job. Based on these conversations, I believe that a large part of the answer to this question is that certain aspects of the regulatory framework created to address commercial navigation never contemplated Short Sea Shipping developing here as an option. Both the U.S. and Canada have several laws and policies that make it difficult, if not impossible, for Short Sea Shipping to prosper on the Great Lakes.

The Harbor Maintenance Tax (HMT) is the prime example on the U.S. side exemplifying this situation. Application of this tax encourages cross-border traffic to move by land rather than by water. The HMT was created in 1987 as a part of the Water Resources Development Act of 1986. The tax is currently imposed on most commercial cargo imported into the U.S. through ports where the Army Corps of Engineers has expended funds to improve or maintain such port. The HMT is vitally important to supporting the commercial navigation infrastructure of this country. Indeed, my agency is directly funded through the revenue raised through the HMT. Nevertheless, the HMT does not apply to cargo imported into this country over land. As a result, U.S. shippers moving goods into this country who have a choice will invariably move cargo in a truck over land, rather than in a ship over water, even if doing so means having to incorporate hours of delay at the border into their logistics schedules. These delay-related costs have, unfortunately, become part of the "cost of doing business" to ship goods over the border. They are also exacerbating land-based congestion at our northern border. Trucking companies we have talked to are fully supportive of cross-lakes truck ferry service because it allows them to achieve much greater productivity with their assets and drivers. Moreover, it is my understanding that since there is no appreciable Short Sea Shipping on the Great Lakes, the HMT produces virtually no revenue for the U.S. Treasury from this source. Consequently, it appears that if the HMT was removed or waived for Great Lakes Short Sea Shipping, there would be no appreciable loss of revenue to the U.S. Government.

Another public policy issue that adversely affects the development of Short Sea Shipping in the Great Lakes Seaway System is the 24 hours of advance notice required by U.S. Customs and Border Protection (CBP) for cargo traveling from Canada by water. There is no question that advance notice of imported goods serves a vital national interest. To ensure adequate security at our borders, CBP has adopted a policy that requires shippers importing cargo into the U.S. to provide information on what they are importing prior to the shipment's arrival at a border crossing. In the case of a truck trailer, a shipper must provide CBP with advance notice of only one hour prior to arriving at the border crossing. For shipments moving by rail, the notice requirement is two hours. For a similar shipment moving into the U.S. via water where there is no driver on board, however, CBP requires at least 24 hours advance notice prior to the cargo being loaded into the vessel.

Over the past three months, I have met with the heads of various U.S. and Canadian companies who are interested in launching Short Sea Shipping services on the Great Lakes: Marine Link, which would operate a year round trailer ferry service from Hamilton, Ontario, to Oswego, N.Y. and from Port Maitland, Ontario, to Erie, Pa.; Great Lakes Feeder Lines which would transship containers through the Seaway from Montreal, Quebec, to Canadian and U.S. ports; and Hannah Marine, which would carry grain on tug barges through the Seaway to Wilmington, N.C. Based on these meetings and from my many years as an executive in the transportation industry, I believe that these companies are ready with the expertise, financing, and equipment needed to

make Short Sea Shipping a reality on the Great Lakes within the next two years, but only if a workable solution to the two issues I have identified today can be found. They are ready to work cooperatively with the relevant U.S. agencies to satisfy their concerns in an effort to make Short Sea Shipping a viable option on the Great Lakes.

I would like to commend the Subcommittee for taking the time to focus its attention on Short Sea Shipping. Congestion is one of the greatest transportation problems facing our country today, and Short Sea Shipping offers a real solution to address this problem. Nowhere among our nation's waterways is there a greater potential for using this form of waterborne transportation, and of reaping the safety, social, economic, and environmental benefits it can provide, than in the Great Lakes St. Lawrence Seaway System. The Corporation will continue to work closely with the Maritime Administration on this important initiative, as well as with other interested agencies.

Thank you again for this opportunity to appear before you today. I would be pleased to answer any questions you may have.

Testimony of
Anastassis Margaronis, President
Santa Maria Shipping, LLC
452 Derby Lane
Santa Rosa, California 95404
707-484-6805

on

The Development of Short Sea Shipping in the United States

before the
House Committee on
Coast Guard and Martime Transportation
2167 Rayburn House Office Building
Washington, DC

held on
Thursday, February 15, 2007

Subcommittee on Coast Guard and Maritime Transportation - The Development of Short Sea Shipping in the United States

FEB 15, 2007: 2165 Rayburn House Office Building, Washington, DC 20515

A NATIONAL SHORT SEA SHIPPING INITIATIVE

BY STAS MARGARONIS, PRESIDENT SANTA MARIA SHIPOWNING & TRADING, INC.

THANK YOU FOR THE OPPORTUNITY OF APPEARING BEFORE YOU. MY NAME IS STAS MARGARONIS AND I AM THE PRESIDENT OF SANTA MARIA SHIPOWNING & TRADING A START-UP COMPANY ORGANIZED TO BUILD AND OPERATE CONTAINER SHIPS FOR THE US DOMESTIC TRADES. SANTA MARIA RECENTLY SIGNED A LETTER OF INTENT TO LEASE FACILITIES AT THE FORMER BETHLEHEM SHIPBUILDING COMPLEX AT SPARROWS POINT, MARYLAND. SANTA MARIA BELIEVES THAT SHIPBUILDING IN THE UNITED STATES HAS TREMENDOUS POTENTIAL FOR ECONOMIC GROWTH. AS CONGESTION, HIGH FUEL PRICES AND RADICAL CLIMATE CHANGE ARGUE FOR A COASTAL///SHORT SEA SHIPPING ALTERNATIVE.

BUT THE FEDERAL GOVERNMENT WILL HAVE TO PLAY A ROLE IN THE WATER HIGHWAYS JUST AS IT DOES ON LANDSIDE INTERSTATES.

A NATIONAL INVESTMENT IN US COASTAL SHIPPING WOULD SERVICE TWO MARKETS:

1) THE FEEDERSHIP MARKET: TRANSPORTING IMPORTS FROM MAJOR PORTS TO END USER PORTS.
2) THE SHORT SEA MARKET: TRANSPORTING DOMESTIC FREIGHT BETWEEN TWO US LOCATIONS, SUCH AS ALONG THE I-95 CORRIDOR, THE I-5 CORRIDOR, THE MISSISSIPI RIVER CORRIDOR OR ALONG THE GREAT LAKES.

SUPPORTING A NATIONAL SHORT SEA INITIATIVE CAN:

1) MAKE PORTS THE NEXUS OF THE NEW SHORT SEA NETWORK. AND BECOME THE FOUNDATION OF A NEW CONTAINERIZED TRANSPORTATION THAT REDUCES THOUSANDS OF DAILY TRUCK TRIPS AT NUMEROUS CONGESTION POINTS AROUND THE COUNTRY.

2) CREATE A NEW GENERATION OF US-MANNED COASTAL FEEDER SHIPS THAT CAN CUT THE NEED FOR TRUCK FUEL BY 50% AND BY SO DOING ALSO CUT TRUCK EMISSIONS THAT CONTRIBUTE TO GLOBAL WARMING.

3) RE-ESTABLISH THE UNITED STATES AS A COMPETITIVE SHIPBUILDER AND CREATE THOUSANDS OF NEW FAMILY WAGE JOBS IN SHIPBUILDING COMMUNITIES.

4) SAVE SHIPPERS AND CARRIERS MONEY AND REDUCE TRAFFIC CONGESTION AT MAJOR PORTS SUCH AS LA/LONG BEACH, NORFOLK AND NEW YORK.

5) SPUR THE DEVELOPMENT OF A NEW GENERATION OF US-BUILT MARINE ENGINES POWERED BY NON-PETROLEUM FUELS TO ADVANCE THE GOAL OF ZERO PETROLEUM IMPORTS.

6) INCREASE EDUCATION AND TRAINING OF MARINERS TO MEET SHORT SEA REQUIREMENTS AT US MARITIME ACADEMIES ALONG WITH NEW RESEARCH PARTNERSHIPS IN MARINE ENGINE DEVELOPMENT, TERMINAL HANDLING AND VESSEL SAFETY.

7) DEVELOP NEW PARTNERSHIPS WITH TRUCKING COMPANIES TO DELIVER SHORT SEA CONTAINERS.

8) DEVELOP NEW, AUTOMATED CARGO HANDLING SYSTEMS, ON - DOCK RAIL AND ALTERNATIVE POWER FOR SHIPS THAT REDUCE EMISSIONS AND FUEL CONSUMPTION.

9) REVITALIZE THE US MARITIME ADMINISTRATION (MARAD) SO AS TO PROVIDE FINANCING AS WELL AS MOBILIZING THE RESOURCES OF THE MARITIME ACADEMIES TO PROVIDE RESEARCH FOR: NEW MARINE ENGINES, NEW TERMINAL HANDLING TECHNOLOGY, BETTER PORT SECURITY, SAFETY AND EMERGENCY SERVICES.

10) IMPLEMENT PARTNERSHIPS BETWEEN MARAD, US COAST GUARD, US CUSTOMS, ARMY CORPS OF ENGINEERS AND THE MARITIME UNIONS. IN ADDITIONA, OFFER THE NEW COMMERCIAL FLEET TO THE US NAVY AS A NEW MILITARY SEALIFT RESERVE.

SUCH A NATIONAL NETWORK CAN STREAMLINE TRANSPORT ALONG THE EAST, WEST, AND GULF COASTS AS WELL AS THE GREAT LAKES, AND INLAND WATERWAYS SUCH AS THE MISSISSIPPI RIVER.

FEEDERSHIP SERVICE CAN RELIEVE CONGESTION AT MAIN PORTS, SAVE SHIPPERS MONEY AND WON'T NEED TAXPAYER SUBSIDY

THE OBVIOUS STARTING POINT IS TO RELIEVE CONGESTION AT MAJOR PORTS SUCH AS LA/LONG BEACH, NEW YORK/NEW JERSEY AND NORFOLK WITHOUT HUGE INVESTMENTS IN ROADS, BRIDGES AND TUNNELS. A SHORT SEA SERVICE CAN TAKE CONTAINERS DELIVERED AT OCEAN CARRIER TERMINALS AND MOVE THEM DIRECTLY ON TO VESSELS FOR DISTRIBUTION AT NEARBY FEEDER PORTS. THIS TRANSFER CAN BE DONE BY DIRECT CRANE TO FEEDER VESSEL MOVE OR AN ADJACENT GROUND TO CRANE MOVE. THE RESULT WILL BE A SUBSTANTIAL INCREASE IN PORT PRODUCTIVITY.

AS A RESULT, A CONTAINER SHIP CARRYING 150 FORTY FOOT CONTAINERS ON A SEVENTY-FIVE MILE VOYAGE FROM OAKLAND TO STOCKTON OR LOS ANGELES TO SAN DIEGO, CAN SAVE SHIPPERS 10% ON THEIR TRUCKING COSTS. IF OCEAN CARRIERS CONTRACT FOR THE VESSEL SERVICE, NO TAXPAYER SUBSIDY IS REQUIRED.

NEW US SHIPBUILDING NEEDED

A CRITICAL ISSUE IS DEVELOPING A DOMESTIC SHIPBUILDING CAPABILITY TO BUILD SMALL AND MEDIUM SIZE FEEDERSHIPS IN THE UNITED STATES. THE SHIPS NEED TO MEET DEMANDING FUEL AND AIR EMISSION REQUIREMENTS. OPERATING IN US DOMESTIC TRADES, SHIPS MUST BE BUILT IN THE UNITED STATES, OWNED BY US CITIZENS AND OPERATED BY US CITIZENS UNDER THE JONES ACT. THIS MANDATE IS CRITICAL IN AN INCREASINGLY DANGEROUS NATIONAL SECURITY ENVIRONMENT. NEW MARITIME JOBS WILL PAY FAMILY WAGE INCOMES, GENERATE NEW TAX REVENUE AND PROVIDE OUR CHILDREN WITH AN ECONOMIC FUTURE.

ESTABLISHMENT OF A SHORT SEA FUND THROUGH THE US MARITIME ADMINISTRATION'S TITLE XI LOAN GUARANTEE SHOULD BE A TOP LEGISLATIVE PRIORITY IN 2007.

THE US MARITIME ADMINISTRATION'S TITLE XI LOAN GUARANTEE PROGRAM CAN PROVIDE THE NECESSARY PUBLIC FINANCING TO ESTABLISH A NATIONAL NETWORK OF MODERN, CLEAN AND FUEL EFFICIENT US-BUILT SHIPS. THIS WILL REQUIRE A DOWNPAYMENT OF ONE BILLION DOLLARS TO THE TITLE XI LOAN PROGRAM. THIS WILL PROVIDE OVER $20 BILLION IN

GUARANTEES TO FINANCE NEW SHIPS AND SHIPYARD UPGRADES. CONGRESS WILL NEED TO STREAMLINE THE PROGRAM TO INCORPORATE MORE MODERN LOAN PROCESSING METHODS TO ADD A PROVISION TO EXTEND GUARANTEES TO US PORTS FOR TERMINAL HANDLING UPGRADES, SUCH AS NEW CONTAINER CRANES. THE RESULT WILL BE A NEW TRANSPORTATION SYSTEM THAT CAN ALLEVIATE SPENDING FOR ROADS AT A FRACTION OF THE COST TO THE TAXPAYER. LOANS CAN BE GUARANTEED BY PORTS SEEKING TO REDUCE CONGESTION OR SHIPPERS SEEKING LOWER FUEL COSTS FROM MARINE TRANSPORT. BEST OF ALL, NO TAXPAYER SUBSIDY IS REQUIRED AND THE SEAS DO NOT REQUIRE MAINTENANCE SPENDING.

THE MOST FUEL EFFICIENT VESSEL TO TRANSPORT THIS FREIGHT IS BY THE CONTAINER SHIP. THIS VESSEL HAS THE BEST HYDRODYNAMICS TO CARRY TIME SENSITIVE CARGOES IN A COST EFFICIENT MANNER, ALTHOUGH, THERE WILL ALSO BE A NEED FOR TUG/BARGES AND RO/ROS.

PORTS WITH INDUSTRIAL LAND, ZONED FOR INDUSTRIAL USE, SHOULD HOLD ON TO THESE PROPERTIES. THEY ARE VITAL FOR PORT EXPANSION, SHIPBUILDING AND REPAIR. LEGISLATIVE PROTECTION MAY ALSO BE NEEDED TO PREVENT REAL ESTATE DEVELOPMENTS OBSTRUCTING THE NATION'S SEALANES AND MARITIME COMMERCE.

ADVANTAGES TO TRUCKING

SHORT SEA'S DEVELOPMENT OF SHORTER DISTANCE TRUCKING CREATES A NEW GROWTH OPPORTUNITY FOR TRUCKERS, A CRITICAL SUPPLY CHAIN LINK. SATELLITE FEEDER TERMINALS WILL ALLOW TRUCKING COMPANIES MORE TURN TIMES OVER SHORTER DISTANCES WHICH IMPROVES PRODUCTIVITY, AND ALLEVIATES THE DRIVER SHORTAGE PROBLEM.

REDUCED EMISSIONS

BY CONSOLIDATING HUNDREDS OF TRUCKLOADS ONTO ONE SHIP, THE INTRODUCTION OF LOW SULFUR DIESEL FUEL FOR FUEL EFFICIENT MARINE ENGINES CAN FAR MORE QUICKLY REDUCE HARMFUL EMISSIONS THAN THE PHASED IN REPLACEMENT OF NEW CLEAN TRUCK ENGINES.

ALSO, THE POSSIBILITY EXISTS THAT COASTAL SHIPS MIGHT BE ABLE TO ELIMINATE PETROLEUM USE ALTOGETHER BY GOING TO A CLEANER ALTERNATIVE POWER SOURCE, SUCH AS NATURAL GAS OR ELECTRICITY. THIS COULD BE A MAJOR BREAKTHROUGH IN THE EFFORT TO CUT CARBON DIOXIDE EMISSIONS AND THE THREAT OF GLOBAL WARMING.

SOUTHERN CALIFORNIA: A REGIONAL SCENARIO

SHORT SEA SHIPPING HAS THE POTENTIAL TO DIMINISH SOUTHERN CALIFORNIA'S AIR QUALITY PROBLEMS CAUSED BY TRUCK-GENERATED ROAD CONGESTION. SHIPS CAN SHIFT CONTAINERS FROM LA/LONG BEACH TO NEARBY PORT HUENEME AND SAN DIEGO REDUCING CONGESTION AND MAKING DELIVERIES DIRECTLY TO END USERS. THIS ELIMINATES THE ADDITIONAL TRUCK TRIPS TO AND FROM DISTANT DISTRIBUTION CENTERS. THE SOLUTION BEGINS WITH THE COOPERATION OF CARRIERS AND SHIPPERS TO STOW CONTAINERS FROM ASIA ON VESSELS SO THAT THEY ARE READY FOR TRANSFER TO FEEDER SHIPS ON ARRIVAL. CURRENTLY CALIFORNIA IS LOOKING AT PLANS TO EXPAND THE LONG BEACH FREEWAY AT A COST OF $5.5 BILLION TO ACCOMMODATE PORT GENERATED TRUCKING. SHORT SEA SHIPPING REDUCES THIS NEED. INITIALLY, SIX 300 TEU VESSELS OFFER THE POTENTIAL TO ELIMINATE 1,800 TRUCKS FROM THE TWO PORTS AT A TOTAL COST OF ABOUT $150 MILLION. CURRENTLY, OCEAN CARRIER CONTAINER DEMANDS REQUIRE 14,000 TRUCKS PER DAY TO SERVE THE LA/LONG BEACH PORTS. SO $150 MILLION BUYS A 13% REDUCTION IN TRUCK CONGESTION. IT IS ESTIMATED THAT SHIPPERS WILL REALIZE A 10% REDUCTION ON DELIVERY CHARGES COMPARED TO ROAD TRANSPORT.

LONG-HAUL TRUCKING BY WATER

IF SHIPS CAN BE COMPETITIVE WITH TRUCKS AT A DISTANCE OF 75 MILES, THEY CAN BE COMPETITIVE ON LONGER HAUL TRIPS ALONG THE 1-95 CORRIDOR ON THE ATLANTIC COAST AND THE I-5 CORRDIOR ON THE PACIFIC COAST. ONE TRUCKING COMPANY IS LOOKING TO EXPAND ITS BUSINESS THROUGH SHORT SEA SHIPPING. CALIFORNIA-BASED WESTSTAR TRANSPORT IS LOOKING TO DEVELOP LONG-HAUL TRANSPORT OF TRUCKLOADS BY SHIP, LINKING SOUTHERN CALIFORNIA TO NORTHERN CALIFORNIA AND OTHER PACIFIC COAST PORTS.

IMPROVED PORT SECURITY AND EMERGENCY SERVICES

FEEDER SHIPS CREATE THE ABILITY TO DE-CONSOLIDATE IMPORT VOLUMES INTO SMALLER MANAGEABLE VOLUMES FOR SCREENING AT FEEDER PORTS. NEW TERMINAL DESIGNS CAN BUILD IN IMPROVED CARGO HANDLING WITH AUTOMATED CONTAINER SCREENING TO EASE HAZARDS TO LONGSHOREMEN AND REDUCE THE SCREENING OVERLOAD AT MAIN PORTS.

FEEDER SHIPS PROVIDE A SHALLOW DRAFT ALTERNATIVE TO MOVE CARGOES IN AND OUT OF MAIN PORTS IN CASE OF NATURAL DISASTERS OR TERRORIST ATTACK.

IN THE CASE OF AN EMERGENCY, RIVERS AND COASTAL LOCATIONS CAN BE SERVED BY FEEDERSHIPS WHEN ROADS AND BRIDGES ARE DOWN.

CONCLUSION

SHORT SEA'S ADVANTAGES INCLUDE: NEW CONTAINER BUSINESS FOR FEEDER PORTS, NEW TERMINALS, NEW SHIPBUILDING, NEW SHIPS, NUMEROUS ECONOMIC DEVELOPMENT OPPORTUNITIES, IMPROVED EMERGENCY SERVICES AND PORT SECURITY. OTHER BENEFITS ARE LESS GLOBAL WARMING, LOWER SHIPPING COSTS, LESS TRANSPORTATION SPENDING, LESS DELAYS AND A GIANT STEP TOWARDS ENERGY INDEPENDENCE FOR THE UNITED STATES.

WE HAVE SUCCEEDED AT MUCH GREATER CHALLENGES IN OUR PAST: WE BUILT A NATIONAL RAILWAY SYSTEM, WE BUILT A NATIONAL HIGHWAY SYSTEM, WE PRODUCED A WAR MACHINE THAT HELPED WIN WORLD WAR TWO. OUR SPACE EXPLORATION CAPABILITY HAS TAKEN US TO THE MOON AND BEYOND.

IT IS TIME FOR AMERICANS TO RETURN TO THEIR MARITIME ROOTS... AND GO BACK TO SEA.

THANK YOU VERY MUCH.

DETROIT-WINDSOR TRUCK FERRY, INC.
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THE DEVELOPMENT OF SHORT SEA SHIPPING IN THE UNITED STATES

SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
U.S. HOUSE OF REPRESENTATIVES

EXECUTIVE SUMMARY

STATEMENT OF GREGG M. WARD, VICE PRESIDENT
DETROIT-WINDSOR TRUCK FERRY

FEBRUARY 15, 2007

Short Sea Shipping provides a genuine opportunity to relieve congestion in certain freight corridors and at border crossings, expand national highway freight capacity and improve the security and safety of our transportation system in a environmentally sustainable manner.

Challenges holding back the development of Short Sea Shipping in the United States include:

- Harbor Maintenance Fee
- APHIS AQI Fees
- Binational Issues such as Canada Customs Cost Recovery Fees, Canadian Icebreaking Fees and Highway signage.
- Lack of enforcement of existing National Hazardous Materials Route Registry (NHMRR) restrictions.

The following actions are being asked of Congress to promote the development of Short Sea Shipping in the United States:

- Support H.R. 891, the Great Lakes Short Sea Shipping Act
- Enforce the NHMRR at the border.
- End preferential tax treatment of land border crossings.
- Harmonize NAFTA border security, safety and tax policies.
- Demand from all operators of international border crossing transparency, accountability and compliance with federal security priorities.

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THE DEVELOPMENT OF SHORT SEA SHIPPING IN THE UNITED STATES

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STATEMENT OF GREGG M. WARD, VICE PRESIDENT
DETROIT-WINDSOR TRUCK FERRY

FEBRUARY 15, 2007

It is a true honor to come before you today to speak about Short Sea Shipping.

On Earth Day 1990 the Detroit-Windsor Truck Ferry service was started by my father and me. We chose this start up date 16 years ago to symbolize our commitment to environmental stewardship and a belief that marine transportation can help reduce highway congestion, air pollution and the consumption of finite fossil fuels. The company operates a border crossing between Detroit, Michigan and Windsor, Ontario. Using a flat deck barge and a tugboat, trucks roll-on, cross the river and roll off again on the other side. We transport mainly hazardous material laden trucks that are restricted by US regulations from crossing the Ambassador Bridge and the Detroit-Canada Tunnel. The alternative legal crossing for these vehicles requires a detour of 165 miles. The types of hazardous materials crossing our facilities include flammables, acids, radioactive materials and explosives. We also move those transports too large or heavy for the other crossings. At times of significant congestion at the bridge, we provide surge capacity to vehicles carrying critical automotive freight. With a one-mile crossing of the Detroit River, we are natural extension of the highway.

My comments today will refer mostly to the Great Lakes region and as a point of reference, the Detroit area. Establishing a freight border crossing is filled with many obstacles and learning experiences. The challenges our company has faced and some yet overcome, may help chart a course for developing of Short Sea Shipping in the United States. I am cautiously optimistic about the opportunities to establish a robust, self-sustaining marine highway program. With regulatory coordination between the US Department of Transportation, Customs and Border Protection, and our neighbors North and South, Short Sea Shipping can develop into an important part of the North American Transportation System.

Short Sea Shipping is an opportunity to relieve congestion on certain highways, expand national highway freight capacity and potentially reduce travel times. Heavily congested routes along the coast and at border crossings can be served with marine alternatives to

keep freight moving and provide redundancy to critical infrastructure. Marine assets can be put into service in a relatively short period of time.

NATIONAL SECURITY: A tremendous amount of U.S. and Canada trade moves by truck mostly over bridges. In Detroit alone 10,000-12,000 trucks cross the bridge each day. Borders are vital conduits of trade as well as symbolic and economic targets for those who wish our nation harm. The loss of a single cross border bridge because of a terrorist action, serious accident or natural disaster would have a devastating and cascading affect on our national economy. The Department of Homeland Security national strategy to prevent, protect and respond to all hazards is integrally linked with the word recovery. For our nation to overcome any breakdown in the Northern border system there needs to be alternate systems in place for the seamless transfer of cargo and people.

Short Sea Shipping can add significant and immediate redundancy and resiliency to our transportation network. Within the Great Lakes, we can establish water routes parallel to North-South trade corridors and most obviously near fixed border crossings.

A recent DOT study confirmed short sea shipping has significant potential to carry hazardous material shipments. Removal of this cargo from high availability/high consequence critical infrastructure and trade corridors helps protect system integrity, improves anomaly detection for law enforcement and decreases potential public exposure.

TRANSPARENCY: Three Port Security grants have allowed our company to design and develop an advanced notification system software application for law enforcement to know all critical data elements of what is being moved before entry into the country. Even as a private company, our operations are transparent to law enforcement – from cameras in our terminals and offices to detailed customer and traffic information. The cycling of vessel arrivals allows enforcement authorities time to analyze vessel manifest and invoice data – which includes detailed driver, passenger, cargo and vehicle information, make critical pre-arrival decisions and physically examine 100% of all inbound and outbound transports. This high-level of security and domain awareness is not possible at fixed crossings. At the land border, law enforcement's primary interaction with vehicles occurs after they have already crossed the bridge and tunnel.

HIGHER LEVEL OF GOVERNMENT OVERSIGHT: Another reason for dangerous cargoes to move by water is the higher level of government oversight. Unlike the privately owned and operated Ambassador Bridge, a private marine operator like the truck ferry is subject to extensive government oversight and actual physical inspection of vessels and facilities from both the United States and Canadian authorities. Soon the Transportation Worker Identification Card will add another layer of security to marine operations that is absent at the fixed border crossings.

ENVIRONMENT: The environmental benefits of marine transportation are immediate and well-defined by research. In 16 years of operation, our small truck ferry service has

removed tens of millions of miles off the route of hazardous material laden and oversize transports - reducing the risk of accidents, highway congestion, wear-and tear to roads, consumption of finite fossil fuels and air emissions. Operations are as simple as a parking lot on each side of the river and a floating platform to carry trucks across. Located on an industrial brownfield site, we are removed from population centers and close to the highway system. To expand the service requires only adding a second vessel, the terminal footprint remains the same.

SURGE CAPACITY: The experience of September 11 proved the value of redundancy in cross-border transportation options. In particular, the merit of cross border marine links was evident by the success of the Detroit-Windsor Truck Ferry in helping to avert post 9/11 plant closings in the automotive industry.

With back ups at the Ambassador Bridge and the Blue Water Bridge exceeding 14 hours, it was incumbent on logistic managers to identify and implement alternative transportation plans for meeting the just-in-time requirements. Beginning September 11, the auto companies used the ferry to carry low risk/critical freight across the border as well. Working cooperatively, automotive companies and suppliers, transporters and the truck ferry managers were able to prioritize shipments based on need. The impromptu ranking assessment was as simple as which production line would be halted or which plant would close without a shipment. That shipment was then moved to the front of the line.

General Motors, in a letter to US Customs following September 11, stated, "The Detroit-Windsor Truck Ferry became our only alternative that would enable General Motors to continue operation of the Detroit/Hamtramck Assembly Plant." (Over 3,400 employees).

At the border, diverse crossing options are essential if manufactures are to continue operations during crisis. The marine industry is a viable substitute for a portion of the traffic that moves on rubber down the highway.

CHALLENGES:

THE SINGLE MOST IMPORTANT IMPEDIMENT TO THE DEVELOPMENT OF SHORT SEA SHIPPING IN THE UNITED STATES IS THE HARBOR MAINTENANCE FEE (HMF)

The HMF applies, with limited exceptions, to domestic and foreign marine cargo unloaded at a U.S. port, including waterborne cargo arriving from our NAFTA partners. The HMF is not assessed on the harbor or port, nor is it assessed on the vessel's operator or owner. The tax is set on the value of the cargo, and is to be paid by the shipper or importer of the cargo.

Not subject to the HMF is domestic highway freight and imported cargoes arriving in the U.S. by a land border - highway, bridge or tunnel.

So when you think of SSS as a viable transportation alternative, you must consider the added cost element of the HMF. The tax is $125 for every $100,000 in (domestic) merchandise or import value. Because of the HMF, the seamless diversion of traffic from congested highways and bridges to waterborne services will be unlikely, expensive and require extraordinary coordination among the carrier, shipper and import community.

To use a SSS carriage alternative, the highway carrier must contact every shipper with freight in the trailer to seek permission to subject each shipment to the HMF at the expense of the shipper or importer. The domestic shipper/importer will calculate the added cost (HMF) of shipping by water and make a business decision whether the time and money saved on the congestion avoidance route (SSS) is worth the added tax and document filing obligation. If it agrees to incur the added costs associated with the HMF, the domestic shipper/importer will need to declare accurately the shipment contents and value of the merchandise shipped. Shippers of freight and carriers are business operators, not social engineers. They make shipping decisions based on convenience, price and service.

For example, most of freight transports crossing the truck ferry from Canada are empty hazardous material shipments which are still subject to the National Hazardous Materials Routing Registry restrictions. These empty transports have zero declared value, so they are not charged the HMF. Depending on the value of the hazardous material shipment, it is sometimes less expensive for shippers to detour 4-5 hours and 165 miles to a bridge than take the 20 minute crossing of the truck ferry and pay HMF. Even during severe border congestion at the Ambassador Bridge, some companies remain idling in long queues, to the detriment of the environment and transportation efficiency, instead of diverting to the truck ferry for a scheduled crossing of the river. Time and again the coordination and cost burden of the HMF are identified as the problem.

Unless the issue of the Harbor Maintenance Fee is addressed, a robust SSS system <u>will not develop</u> in the United States.

APHIS: US Department of Agriculture, Animal and Plant Health Inspection Service will begin in March 2007 requiring payment of Agriculture and Quarantine Inspection fees from commercial vessels, trucks and railroad cars entering the United States from Canada. Because we operate a truck ferry service, APHIS AQI fees are collected twice – once on the vessel ($490.00) and then again on the truck ($5.25). If a truck crosses a bridge or tunnel, the fee only applies to the truck ($5.25).

BINATIONAL ISSUES

Canada Customs: A serious challenge to developing Short Sea Shipping within the Great Lakes region will be the Canadian government policy of charging any new international marine operation the full cost recovery of customs services. These identical services are provided to bridges and tunnels without charge. Until late 2005, the Detroit-Windsor Truck Ferry was the only freight border crossing in Canada subject to these fees. It was only after extensive litigation that our company no longer pays these fees which

averaged about $10 for every truck transported by ferry. Any new operation is subject to these same fees - only at a higher rate.

Canadian Icebreaking Fees: The Detroit-Windsor Truck Ferry is in litigation with the Canadian government over icebreaking fees. To make a one-mile crossing of the Detroit River, (which has the international boundary in the middle) the Canadian government charges a $3,100 transit fee for ice breaking services. These fees are capped at three transits a month per vessel. It does not matter if there is ice in the river or the fact that our privately owned truck ferry service in not legally eligible to receive dock to dock icebreaking transit assistance. Further, ice breaking in the Detroit River is a shared responsibility of the United States Coast Guard and the Canadian Coast Guard. Thus we are being charged fees by Canada for icebreaking services conducted by the United States government and funded by US taxpayers. During the four month ice season, these fees equal about $17 a truck transported.

Signage: On the Canadian side of the border, directional signage to the ferry exists on highways as well as county and local roadways. These signs identify the U.S. hazardous material restrictions at the border and provide excellent trailblazing to the truck ferry terminal. On the U.S. side of the border before the entrance to the bridge and tunnel, not a single sign exists on the state, county or local roadways providing information on the US National Hazardous Materials Route Registry restrictions or the alternate hazardous material crossing of the Detroit-Windsor Truck Ferry.

HAZARDOUS MATERIALS

The final and most important challenge to the Detroit-Windsor Truck Ferry is the lack of transparency for hazardous materials crossing the border between Detroit and Windsor. Security of movement and the safety of infrastructure are imperiled without continuous and effective situational awareness of hazardous material. Unfortunately there is no coordinated regional policy for the enforcement of existing regulations when they apply to a privately owned bridge.

To illustrate this point please consider the following:

- Since 1929, hazardous material routing restrictions have been in place to restrict certain hazardous materials from crossing the Ambassador Bridge and Detroit-Canada Tunnel. [Attachment A – National Hazardous Materials Route Registry for Detroit]
- The Detroit-Windsor Truck Ferry was established in 1990 to eliminate the circuitous detour route trucks took when transporting restricted cargoes to avoid the local bridge and tunnel.
- Following September 11, 2001, the Detroit media showed video footage of 13,000 gallon fuel tankers and trucks with hazardous materials illegally crossing the Ambassador Bridge – a critical lifeline for the US economy.
- The National Hazardous Materials Route Registry is enforced by the State in which the restrictions take place. However the Michigan Department of

Transportation wrote to me on October 18, 2001 about the restriction of hazardous materials on the Ambassador Bridge and said, *"The state does not have jurisdiction concerning the transport of hazardous materials across a privately owned bridge, that is the responsibility of the private owner/operator."* The letter went on further to state, *"Jurisdiction over transport of hazardous material across a city street may either be under the jurisdiction of the MSP (Michigan State Police) and/or local enforcement agencies such as the City of Detroit."*

- According to media reports, the Ambassador Bridge, a privately owned and operated international border crossing, informed the Michigan State Police it does not have "the authority to determine what crosses a private piece of property." [Attachment B]
- USDOT legal council states the Hazardous Material Regulations apply to private bridges. [Attachment C]
- The Ambassador Bridge distributes letters allowing certain privileged companies to transport restricted hazardous material across the bridge in contravention of the routing restrictions. [Attachment D] The Michigan State Police state these letters are illegal. [Attachment B]
- For hazardous material restricted routes throughout the US, highway signage is used to inform the commercial vehicle operators of route restrictions. No such signs are in place at the Michigan border crossings. Only one such sign exists on the Ambassador Bridge, seen by trucks after toll collection. [Attachment E]
- In Canada there is no signage on the plaza of the Ambassador Bridge notifying truckers with hazardous materials that the facility is route restricted. On the Canadian side of the border there are no toll booth operators to stop a vehicle from illegally crossing the bridge with restricted hazardous materials.
- In Canadian law there is no hazardous material routing restrictions at the border however in Windsor, Ontario signage has been installed to inform drivers of the US restrictions. [Attachment F]
- From the FMCSA Guide to Developing an Effective Security Plan for Highway Transportation of Hazardous Materials. Part D En Route Components: "Explosives, poisons, and flammables all represent significant potential consequences for weapons conversion in a tunnel scenario. Long-span bridges, such as suspension bridges, are targets for both their iconic and economic value."
- In December 2001, the Ontario Ministry of Transport reported to the media that over 9,000 hazardous material vehicles a year illegally crossed the privately owned bridge. [Attachment G]
- In the March 2006 GAO report, Review of Undeclared Hazmat Entering the United States, according to officials, undeclared hazmat shipments occur for two main reasons: (1) Lack of knowledge: Domestic and foreign shippers may be unfamiliar with hazmat regulations and laws. (2) Economics: Shippers may not declare hazmat to avoid additional costs. This generally occurs because declared hazmat shipments require special placarding, packaging, additional training, carrier surcharges, and insurance.

Following September 11, 2001, it became clear the agenda of those with the intent to do harm to our nation anticipated the use of hazardous material laden vehicles as weapons of

destruction. It is not difficult to imagine how those with the intent to do harm to an important trade corridor could exploit the absence of authority and the lack of a consistent hazardous material policy to permanently disable this critical NAFTA transportation link. One cannot assume that our enemies have taken this modus operandi off their agenda. Protection of our international borders requires a consistent enforcement plan based upon transparent rules and regulations.

Canada: International Bridge and Tunnels Act

Until recently the Canadian government as well had no clear authority to regulate matters concerning approvals for the constructing new, or altering existing, international bridges or tunnels; approvals for changes in ownership, operation or control; and issues about maintenance, operations, safety and security.

To resolve this problem, the Canadian government recently enacted into law the **International Bridge and Tunnels Act.** This legislation provides the federal government with legislative authority to ensure effective oversight of the existing 24 international vehicular bridges and tunnels and nine international railway bridges and tunnels, as well as any new international bridges or tunnels built in the future. The Minister, through the governor-in-council, has the power to regulate the safety, security, operation and use of international bridges and tunnels. The Minister will have the authority to issue an emergency directive in response to a potential threat to the safety or security of any international bridge or tunnel. To help protect the safety, security and efficiency of the transportation system, Ministerial approval will be required for transactions that result in changes in ownership or the operation of any international bridge or tunnel.

In the United States there is no similar authority or oversight when it comes to privately owned international border crossings. This is a danger for our national security. Even after September 11, 2001, our company, a transporter of dangerous cargoes across the border, has not been formally interviewed to ask how we finance operations, who beneficially owns our company or what other companies do we control and operate.
As these questions have not been asked of our company, I guarantee you there has not been any vetting of other privately owned border crossings.

This Congress should consider the dire national consequences of not having a clearly defined authority over our international borders.

CONCLUSION

The value of a Short Sea Shipping system in the United States, particularly at the northern border, is integrally linked to the condition and vulnerability of our aging transportation infrastructure. Again referring to the Detroit-Windsor border, about 25% of our nation's trade with Canada, our largest trading partner, crosses a bridge built in 1929. Over $300 million in trade is trucked each day across the Ambassador Bridge. If

that facility failed, there is no ready replacement plan; the economy of the entire United States will be harmed.

When a section of the I-495 Beltway around Washington DC closes, traffic snarls and delays abound, but the system continues to operate through the use of secondary roads that absorb the temporary excess traffic demand. At the U.S. and Canada border, this will not happen. If the Ambassador Bridge closes, US bound freight would have to divert either 100 miles to the nearest international bridge crossing in Sarnia, Ontario or 250 miles to Fort Erie, Ontario. Such delays would cripple the automotive industry, its suppliers and our economy overnight.

To mitigate this risk, we must build, without delay, a versatile and flexible multimodal transportation system that includes Short Sea Shipping. The Congress of the United States is being asked today to take a leadership role in this necessary expansion of our transportation network. The following actions are required:

1. Support the reintroduced Great Lakes Short Sea Shipping Act, H.R. 981, to exempt shippers paying the Harbor Maintenance Tax on non-bulk shipments on the Great Lakes and St. Lawrence Seaway System between a port in Canada to a U.S. port. This is the most critical action to be taken for development of Short Sea Shipping in the Great Lakes region.
2. Enforce the Hazardous Material Routing Restriction at the Detroit border and select the Detroit-Windsor Truck Ferry as the prescribed route for high-risk and hazardous materials. The public depends on government to enforce rules and regulations that are put in place to protect people, property and commerce. The continued inconsistent application and enforcement of the NHMRR weakens the overall regulation and emboldens those who wish to harm our nation.
3. End preferential tax treatment of land border crossings. This practice protects incumbent operations, discourages competition and reduces the development of alternative modes of transportation. Be it crossing a lake or an inland river, a Short Sea Shipping vessel should be seen for what it is, a valuable extension of the highway, replacing bridges and tunnels where not practible.
4. Harmonize NAFTA border security, safety and tax policies so there is a consistent and equitable regulatory framework for freight entering this country by either land or marine.
5. Demand from all operators of international border crossings transparency, accountability and compliance with federal security priorities.

With a border transportation system unable to recover from catastrophe, we leave our jugular exposed to the enemies who gather, prepare and plan to destroy our nation. The establishment of a sustainable marine highway system is not only desirable - it must become a national security priority.

Thank you for this opportunity to appear before you today.

U.S. Department of Transportation

Federal Motor Carrier Safety Administration

Home | Route Registry | Route Maps | Support

Route Registry > Search Results

The National Hazardous Materials Route Registry

Report Date 2/12/2002

Report Type: Verbose
States: Michigan
Categories: All Categories

STATE: Michigan

Agency:	Michigan DOT	FMCSA:	MI FMCSA Field Office
POC:	Mr. Gregory Rosine, Director	POC:	Motor Carrier State Director
Address:	425 West Ottawa P.O. Box 30050 Lansing, Michigan 48909	Address:	Federal Building, Room 205 315 West Allegan Street Lansing, Michigan 48933
Phone:	(517) 373-1884	Phone:	(517) 377-1866
Fax:	(517)-373-0176		

RESTRICTED ROUTES

Designation Date	Route Description	Restriction
1/1/1929	Ambassador Bridge [Detroit] From Porter St. to Canada [Windsor] [Phone:(519)-249-5244]	- 1 - 3 - - 7 - 9 - - - - -
3/8/1995	Blue Water Bridge [I69] [Port Huron, MI to Sarnia, Ontario. NOTE: In addition to the listed restrictions, Pyrophoric Liquids prohibited. Contact Michigan Dept. of Transportation for specific restrictions. (810)-984-3131]	- 1 - - - 5 - 7 - 9 - - - - -
1/1/1990	Interstate 696 [County of Oakland] From State Route M-10 to Interstate 75	- 1 - 3 - - - - - - - - - - - -
3/8/1995	International Bridge [I75] [All placarded vehicles require an escort. Contact Operations Supervisor at (906)-635-5255	0 - - - - - - - - - - - - - - -

	before crossing. Sault Ste. Marie, MI to Sault Ste. Marie, Ontario.]	
3/8/1995	Mackinac Bridge [I75] [Mackinac City to St. Ignace. All placarded loads require an escort by the Mackinac Bridge Authority. Phone (906) 643-7600.]	0 -
1/1/1958	State Route M-10 [Detroit] From Howard St. to Woodward Ave. [Under Cobo Hall (approx 1 mile)]	- 1 - 3 -
1/1/1964	State Route M-10 [Detroit] From 8 Mile Rd [South] to Wyoming Rd	- 1 - 3 -
10/3/1998	State Route M-59 [Utica] [1.1 mile from either direction of the Mound Rd exit]	- 1 - 3 -
1/1/1930	[illegible]	- 1 - 3 - - - 7 8 -

Restriction / Designation Key

Restrictions Prohibited for the indicated hazmat	*Designations* Recommended for indicated hazmat
0 - ALL Hazmats [illegible] 2 - Class 2 - Gas [illegible] 4 - Class 4 - Flammable Solid/Combustible 5 - Class 5 - Organic 6 - Poison 7 - Class 7 - Radioactive 8 - Class 8 - Corrosives 9 - Class 9 - Dangerous (Other) i - Poisonous Inhalation Hazard (PIH)	A - *Prescribed Route* ALL NRHM Hazmats B - *Prescribed Route* Class 1 - Explosives P - *Preferred Route* Class 7 - HRCQ Radioactive I - *Prescribed Route* Poisonous Inhalation Hazard (PIH) M - *Prescribed Route* Medical Waste

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Federal Motor Carrier Safety Administration
400 7th Street SW, Washington, DC 20590 • 1-800-832-5660 • TTY: 1-800-877-8339

Hazmat Trucks On Bridge Leads To Crackdown
Local 4 Investigation Uncovers Suspect Hauling Practice
Posted: 10:22 p.m. EST January 10, 2002
Updated: 11:18 p.m. EST January 10, 2002

DETROIT-- If trade is America's lifeline, then the Ambassador Bridge is the main artery. Every day more than 32,000 vehicles cross over -- trucks carrying precious cargo and something else. The Defenders have discovered hazardous materials are being carried illegally across. The Ambassador Bridge is restricted by federal regulations, prohibiting corrosives, explosives, radioactives and flammable loads.

Gregg Ward, Detroit /Windsor Ferry: "I think the public takes the assumption the law is enforced. So they assume that they're safely crossing these facilities."

[redacted]

Gary Percy, Windsor Fire Department: "As far as a fuel vehicle, I don't even want to think about it, but we would have a real problem." If a situation did occur, Windsor firefighters would be one of several agencies to respond. That's why Assistant Fire Chief Gary Percy supports regulations prohibiting hazardous materials crossing the bridge. Percy: "There is no water supply on the bridge. If it actually burst into flame, I'd have a real problem and concern with the actual structure of the bridge."

Defender cameras roll as this truck with flammable signs exits the bridge. Surprised? It happens more often than you think. In fact, a Canadian government report reveals 9,000 truck drivers every year are illegally driving hazardous materials over the Ambassador Bridge.

So how are trucks carrying hazardous materials supposed to cross the river? The ferry. It costs $100 -- at times, more than twice the cost of using the bridge, but it's legal. Trucker Mike Zelco takes the ferry, plays by rules and wishes others would follow. Zelco: " I don't think it's fair having hazmat cross the bridge because it's a cable-suspended bridge and they're diesel fuel. When you're sitting up there who knows what is going to happen?"

How is this happening? Sources tell the Defenders some truck drivers actually take the signs off their trucks and then sneak across the bridge, hoping not to get caught.

But the Defenders discovered the companies who own the bridge actually know and allow certain trucks to cross, even though their loads are illegal.

Company letterhead shows they're from the Detroit International Bridge Company and Canadian Tranist Company, private businesses that own the bridge. The documents are dated as far back as 1996 and as recent as two months ago. In this letter, the bridge company gives one trucking company permission "to cross the bridge even though they (the commodities) are placarded as hazardous." This letter allows the same company to transport empty alcohol tankers, still considered flammable, a violation of the law. This letter allows another company to transport illegal materials across. And so does this document. The memo reads "Do not prohibit access to our facility for this vehicle." Those documents are not legal.

We took the paperwork to the Michigan State Police Motor Carrier Unit. The agency monitors commercial traffic on the bridge. Sgt. Susan Fries, Michigan State Police Motor Carrier Unit: "Even though the bridge is a private structure, Michigan Department of Transportation says that it is a restricted route and those items cannot cross."

We went to the bridge company to get answers. Dan Stamper, the man in charge of the bridge,

would not talk to us on camera. By telephone he admits some trucks carrying hazardous material are allowed to cross the bridge. He also admits handing out memos identifying the companies that have been granted permission. Stamper: " We have a number of letters like this that have been issued to customers of the bridge who have explained what they are hauling."

Karen Drew: "I showed those documents to state police and they say those documents are illegal. Those types of trucks carrying those types of commodities should not cross on the bridge."

Stamper: "We don't believe the state has the authority to determine what crosses a private piece of property."

Fries: "They maintain there is an underlying agreement that they don't have to comply with those regulations. We maintain that they do."

Drew: "Now the bridge companies tells me that they will continue to hand out those letters giving truck drivers permission to cross with their illegal loads. Michigan State Police says they were just alerted to this problem. They are going to start to crack down on these illegal drivers. They have already handed out three tickets. One went to a fuel truck who was crossing the bridge with his load of fuel."

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U.S. Department
of Transportation
**Research and
Special Programs
Administration**

400 Seventh Street, S.W.
Washington, D.C. 20590

APR - 5 2001

Mr. Otis T. Eanes
Bridge Tunnel Patroller
Monitor-Merrimac Memorial Bridge Tunnel
P.O. Box 6570
Portsmouth, Virginia 23703

Ref. No. 01-0058

Dear Mr. Eanes:

Thank you for your February 8, 2001 letter to Secretary of Transportation Norman Mineta. Your letter has been referred to this office for response. You ask about state and local routing requirements for the transportation of hazardous materials and specifically about restrictions on the transportation of certain hazardous materials through tunnels.

The Hazardous Materials Regulations (HMR; 49 CFR Parts 171-180) set forth requirements for persons who offer hazardous materials for transportation or transport hazardous materials in commerce. The HMR explain how to class and package a hazardous material and how the package must be marked and labeled. The HMR also tell how to complete the shipping papers and emergency response information that must accompany a hazardous material shipment. In addition, the HMR tell whether the vehicle in which a hazardous materials shipment is being transported must be placarded and the specific placards that must be used. Finally, the HMR explain training requirements for persons who transport hazardous materials or prepare hazardous materials for shipment.

Hazardous materials transported in commerce, including on state- or privately-owned bridges and tunnels, must conform to all applicable requirements of the HMR. In addition, regulations issued by the Federal Motor Carrier Safety Administration (FMCSA) at 49 CFR Part 397 provide general routing standards for states and Indian tribes that wish to establish highway routing designations for non-radioactive hazardous materials (NRHM). Generally, these regulations require a state or tribal government to make a public finding that NRHM routing designations enhance public safety in both the area subject to its jurisdiction and other areas that are directly affected by the routing designation. In establishing routing designations, a state or Indian tribe must consider a number of factors, including the population potentially exposed to an NRHM release; the characteristics of the highway; the types and quantities of NRHM expected to be transported on the designated route; emergency response capabilities; and exposure and other risk factors. So long as states and Indian tribes comply with these general standards, they have broad discretion to develop routing designations for NRHM. State officials are better positioned than is the federal government to assess local bridge or tunnel conditions, accident histories, emergency

01-0058

172.701

response capabilities, alternative routes, and exposure and other risk factors in making such decisions. Similarly, we believe state authorities should be responsible for enforcing any bridge or tunnel restrictions and for training their employees to enforce the restrictions. You should discuss any concerns you may have about hazardous materials transported through the Monitor-Merrimac Memorial Bridge Tunnel with your supervisor.

I hope this information is helpful. If you have further questions, please do not hesitate to contact this office.

Sincerely,

Edward T. Mazzullo

Edward T. Mazzullo, Director
Office of Hazardous Materials Standards

Gorsky
§ 172.701
Federal vs State Regs.
01-0058

To: Norman Y. Minutia
Secretary of Transportation,
United States Department of
Transportation

Charles D. Nottingham
Commissioner of Transportation,
Virginia Departation of Virginia

From: Otis T. Eanes
Bridge Tunnel Patroller
Moniter Merrimac Memorial Bridge
Tunnel

Date: 08, Feb. 2001

Subject: The Lack of State and/or Federal Rules and Regulations for the State Owned Hampton Roads Area Tunnels

References:

I. Commonwealth of Virginia Rules and Regulations Governing the Transportation of Hazardous through Bridge Tunnel Facilities.

II. Virginia Departation of Transportation State Owned Urban Tunnel Safety Regulation 24 VAC 30-65-10 and 24 VAC 30-65-20

III. Message: D. D. Clark, Assistant Superintendent, June 16, 1999 (Campers and RV)

IV. Message: Perry C. Cogburn, Emergency Operation Office, Oct. 13, 2000 (Propane Regulation)

V. Rules and Regulations Governing the Transportation of Hazardous Materials through the Chesapeake Bay Bridge Tunnel April 24, 2000.

VI. Rules and Regulations Comparison.

VII. Fire Protection and Life Safety for Road Tunnels, Fire Protection, Winter 2000.

As a life time resident of Virginia and a two a half year employee of Virginia Department Of Transportation as a Bridge Tunnel Patroller at the Elizabeth River Tunnel (ERT) and Monitor Merrimac Memorial Bridge Tunnel (MMMBT), and not a disgruntled employee, I feel compel to write this message. I am fifty nine years old and consider myself honored and privileged to work at the MMMBT, which may be the best bridge tunnel facility in the country. The MMMBT and ERT are two of four State Owned Tunnels in the Hampton Roads Area of Virginia that are a vital link in the Interstate 64 System. Prior to this employment, I was honorabled retired as a Federal Employee from the Naval Aviation Depot in Norfolk, Va. after thirty two years of continuous service.

I find that the lack of basic instructions pertaining to the transportation of hazardous materials through these State Owned Tunnel Facilities very surprising. It appears that most information is either unknown, ignored or suppressed. There are no periodical training or shift meetings in regards to the transportation of hazardous materials through these State Owned Tunnels. All emphasis are on customer service. One would think that the main focus would be on the enforcement of the State and/or Federal Rules and Regulations pertaining to the transportation of hazardous materials through these State Owned Tunnels with strong emphasis on customer service .

In an attempt to gain information concerning the transportation of hazardous materials through the State Owned Tunnels, my efforts has been met with confusion, disappointment and frustration. There appears to be very limited basic State and no Federal Rules and Regulations at these facilities governing the transportation of hazardous materials through these tunnels. My inquiries, into these matters, has been answered with very limited printed and verbal instructions. The verbal instructions appear to be various opinionated ideas. The printed instructions (Ref I) is very limited in scope, confusing and fails to indicate the maximum number of Non-Bulk containers per vehicle.

A print of a State Owned Urban Tunnel Safety Regulation (Ref II) pertaining to vehicles using LP gas appeared at the MMMBT this pass Spring. This instruction states that all vehicles using LP Gas for cooking, heating or refrigeration

must stop at the tunnel's inspection station so that the Tunnel Personnel can conduct a manual inspection to verify that the gas containers are turned off, securely attached and determined to be safe for travel. I have no idea where this regulation came from or where to look to research it. Prior to this regulation (Ref II) we were operating on a honor system pertaining to vehicles carrying LP gas (Ref III). This instruction states that when a driver operating a Camper or RV stops for inspection, the Tunnel Patroller will take the driver's word that his LP Gas containers are turned off. To even more wonderment, a message from Perry C. Cogburn dated 10-13-2000 (Ref IV) stated that they were trying to implement a district wide Propane/RV Regulation. It would appear, that if the State Owned Urban Tunnel Safety Regulations (Ref II) is valid, it would need only to be vigorously implemented and enforced.

I have obtained a copy of the rules and regulations governing the transportation of hazardous materials through the Chesapeake Bay Bridge Tunnel from their Internet Web Site (Ref V). It is very specific and references the U.S. Department of Transportation Rules and Regulation pertaining to the many hazardous materials that may or may not pass through that facility. I have not been able to locate the Hampton Roads Area (State Owned) Tunnel Rules and Regulation on the Internet. A comparison of the State Owned Tunnel Limited Regulation (Ref I) to the Chesapeake Bay Tunnel Specific Regulation (Ref V) governing the transportation of Non-Bulk hazardous materials through their facilities reveals a various degree of difference (Ref VI).

Using FLAMMABLE 3 Non-Bulk liquids as a example, the State Owned Tunnel Limited Regulation (Ref I) is very generous with a maximum of 119 gallons per container and apparently no limitation as to the number of these containers per vehicle. Thousands of gallons of highly volatile FLAMMABLE 3 Non-Bulk liquid in a single tractor trailer truck could pass through the State Owned Tunnels as per this instruction. The Chesapeake Bay Tunnel Specific Regulation on FLAMMABLE 3 Non-Bulk liquid, following U.S. Department of Transportation Regulations, has a total not to exceed 120 gallons in 6 gallon containers or less per vehicle. I have been told, by Management, that the Chesapeake Bay Tunnel (Private Owned) and the Hampton Roads Area Tunnels (State Owned) do not have to operate by the same rules and regulation.

A catastrophic fire accident involving a truck carrying the liberal Non-Bulk hazardous materials in any of the State Owned Tunnels, that approached the magnitude of the tunnel

fires that occurred in Europe in 1999 (Ref VII) would have a profound disastrous effect on commerce and travel in the Hampton Roads Area. Two of these European Tunnel Fires during the first half of 1999 led to 51 fatalities and at least 79 injuries, millons of dollars in damages and rendered the tunnels inoperative for an extended length of time.

In light of these disastrous tunnel fires that occurred in Europe, the liberal hazardous material limits of the State Owned Tunnels should be revisited. A new set of rules and regulations governing the transportation of hazardous materials through the State Owned Tunnels should be initiated using the Chesapeake Bay Tunnel's Rules and Regulations format. A copy of all State and/or Federal Rules and Regulations pertaining to the transportation of hazardous material through the State Owned Tunnels should be readily accessible on each of the Tunnel's Internet Web Site and the Tunnel's Traffic Control Room. A clear and decisive educational program should be initiated and aggressively implemented to inform the tunnel personnel and traveling public about these State and/or Federal Rules and Regulations. Periodic training and certification of the tunnel personnel in regards to these rules and regulations should be required.

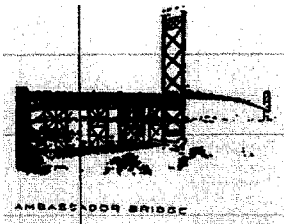
Otis T. Eanes

Otis T. Eanes

Home: 12238 Old Suffolk Rd.
Windsor, Va. 23487
(757) 242-6886

Work: Monitor Merrimac Memorial
Bridge Tunnel
PO Box 6570
Portsmouth, Va. 23703
(757) 247-2100

Cc: B. J. Wilkerson
Facility Manager,
Monitor Merrimac Memorial
Bridge Tunnel



DETROIT INTERNATIONAL BRIDGE COMPANY

P. O. BOX 32668 Detroit, Michigan 48232

AMBASSADOR BRIDGE

October 7, 1996

TO: ALL SCALE AND TOLL EMPLOYEES

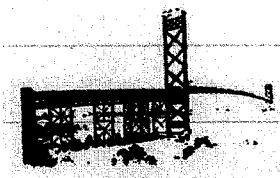
The bearer of this letter Gorski Bulk Transport Inc., has the permission of the Bridge Company to transport empty alcohol tankers. This letter, upon presentation, covers only this empty alcohol tanker and no others.

Sincerely,
Detroit International Bridge Company
Canadian Transit Company

Joe Polak

Joe Polak
Superintendent Of Operations

JP/vs



DETROIT INTERNATIONAL BRIDGE COMPANY

P. O. BOX 32666 Detroit, Michigan 48232

AMBASSADOR BRIDGE

NOTICE

TO: ALL TOLL COLLECTORS

FROM: DAVID JOLLY
GENERAL MANAGER
DETROIT INTERNATIONAL BRIDGE COMPANY

RE: COMPANY: GORSKI BULK TRANSPORT INC

DATE: 11/06/98

The commodities carried in this trailer have been exempted to cross the bridge even though they are placarded as "hazardous". Do not prohibit access to our facility for this vehicle.

David Jolly

THE CANADIAN TRANSIT COMPANY
780 HURON CHURCH ROAD, SUITE 202 Windsor, Ontario N9C 2K2
AMBASSADOR BRIDGE

NOTICE

DATE: July 30, 1998

TO: All Toll Collectors

FROM: Tom (Skip) McMahon
General Manager
The Canadian Transit Company

RE: **Company: TST Overland Express**

The commodities carried in this trailer have been exempted to cross the bridge even though they are placarded as "dangerous". Do not prohibit access to our facility for this vehicle.

T. McMahon

Tom (Skip) McMahon

NOTICE

DATE: September 09, 1999

TO: All Toll Collectors

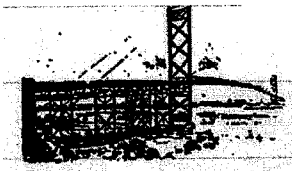
FROM: Tom (Skip) McMahon,
General Manager
The Canadian Transit Company

RE: Company: Morrica Transportation

The commodities carried in this trailer have been exempted to cross the bridge even though they are placarded. Do not prohibit access to our facility for this vehicle.

T. McMahon

Tom (Skip) McMahon



DETROIT INTERNATIONAL BRIDGE COMPANY
P. O. BOX 32666 Detroit, Michigan 48232
AMBASSADOR BRIDGE

To: Carriers

Re: Hazardous Materials

Detroit International Bridge Company and The Canadian Transit Company owns and operates the Ambassador Bridge and prohibits the hauling of acidic, caustic, flammable, explosive and radio-active material across the Ambassador Bridge.

Scalemen are instructed to check bulk tank trucks, bulk tank trailers as well as regular semi-trailers which appear to be carrying hazardous materials. Carriers must have on file with this Company a notarized affidavit on company stationery, addressed to this Company acknowledging that its tank trucks, tank trailers and/or regular equipment do not and will not haul any cargoes that are acidic, caustic, flammable, explosive or radio-active in nature.

Such affidavit must accompany each crossing unless the carrier is prepared to file a permanent notarized affidavit to cover all of its equipment.

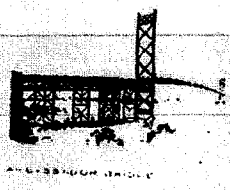
Yours very truly,

DETROIT INTERNATIONAL BRIDGE COMPANY
THE CANADIAN TRANSIT COMPANY

Joe Polak

Joe Polak
Superintendent of Operations

JP/em



DETROIT INTERNATIONAL BRIDGE COMPANY

P. O. BOX 32866 *Detroit Michigan* 48232

To: All DIB & CTC Scale & Toll Employees

Date: November 1, 2001

Re: **General Chemical Corporation**

The bearer of this letter, General Chemical Corp. has permission to transport the commodity **"ALUM"** across our bridge. This is a "mild" corrosive and the truck will be placarded as such. This letter covers only **"ALUM"** and no other corrosive or otherwise prohibited commodity. This transport is scheduled to run indefinitely, however, the carrier must obtain a updated letter after 90 days which will be February 1, 2002

Sincerely,

DETROIT INTERNATIONAL BRIDGE CO.
THE CANADIAN TRANSIT CO.

David Jolly
General Manager

DJ/sh

DETROIT INTERNATIONAL BRIDGE COMPANY
P. O. BOX 32666 Detroit, Michigan 48232
AMBASSADOR BRIDGE

TO: DIBC TOLL COLLECTORS

DATE: December 6, 2005

RE: **GENERAL CHEMICAL CORPORATION**

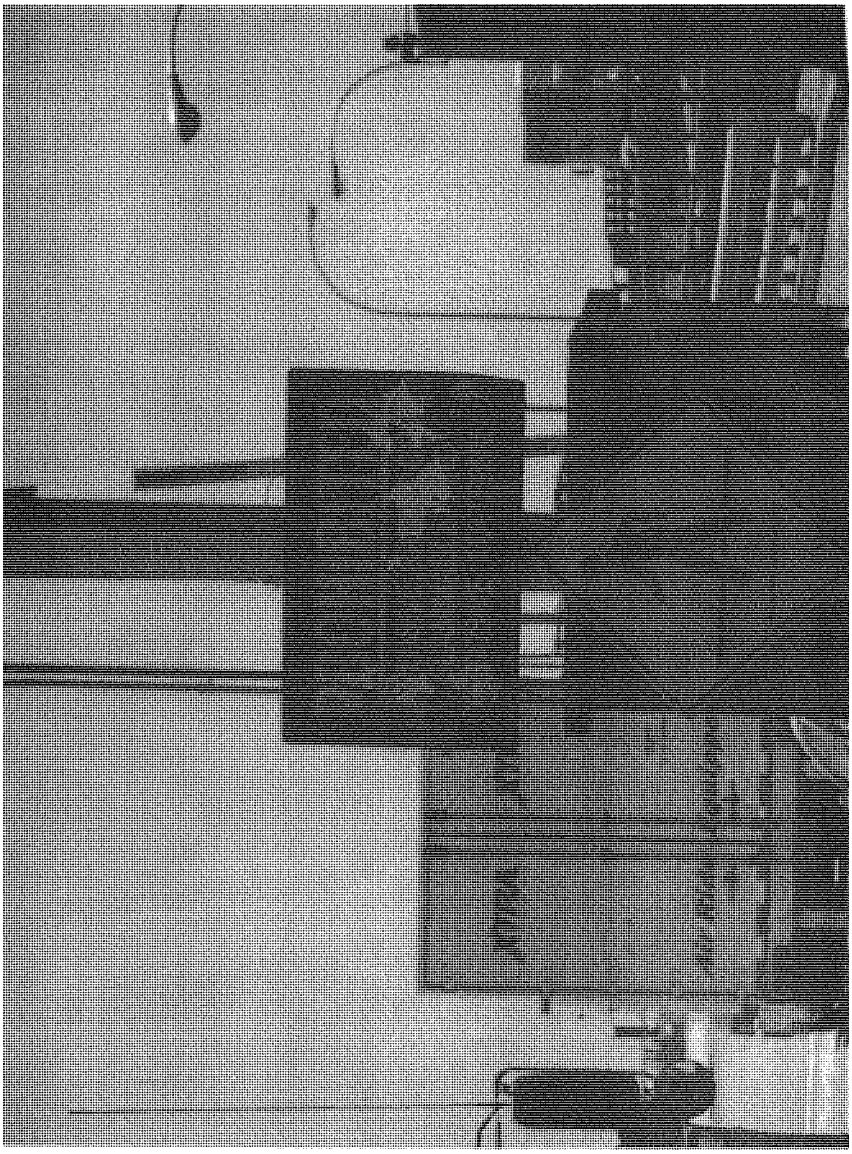
The bearer of this letter, General Chemical Corporation, has permission to transport the commodity **"ALUM"** across The Ambassador Bridge. This is a "mild" corrosive and the truck will be placarded as such. This letter covers only **"ALUM"** and no other corrosive or otherwise prohibited commodity. These crossings are scheduled to run on a routine nature, seven days per week. However, this letter is good only until March 1, 2006, when an updated letter must be obtained.

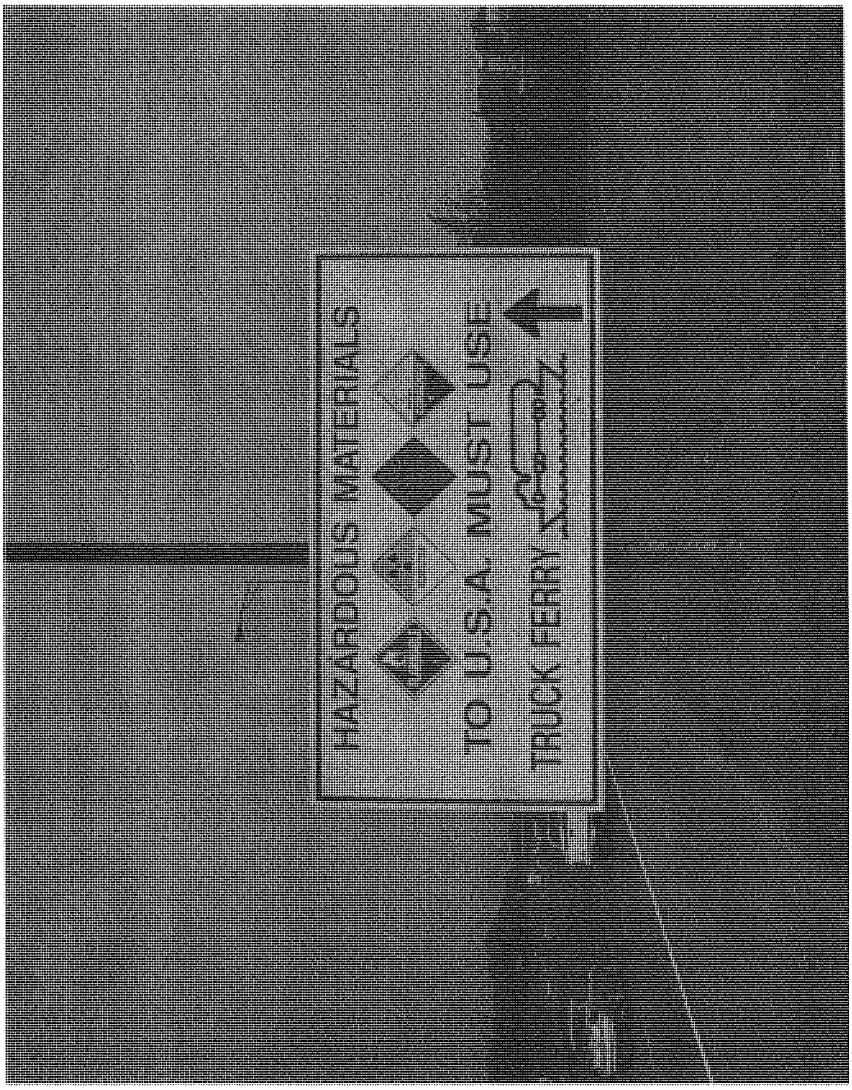
Sincerely,

DETROIT INTERNATIONAL BRIDGE COMPANY
THE CANADIAN TRANSIT COMPANY

Dave Jolly,
General Manager

DBJ/em




HAZARDOUS MATERIALS
TO U.S.A. MUST USE
TRUCK FERRY

Dangerous Goods To U.S.A.
Must Use Truck Ferry
FOLLOW
3

Unclaimed hazardous materials brought over

December 18, 2001

BY EMILIA ASKARI
FREE PRESS STAFF WRITER

The scene is repeated about 25 times a day on the side streets of Detroit near the foot of the Ambassador Bridge:

A large semi truck pulls over to the curb and stops. The driver hops out of the cab and quickly removes a placard reading "Hazardous Materials." Then the driver steers the rig across the busiest crossing between Canada and the U.S., flaunting a rule that prohibits most hazardous materials from the bridge.

A report by the Ontario Ministry of Transportation recently concluded that about 9,000 truck drivers a year follow this scenario. It is unknown how many pull their hazardous materials placards on the streets of Windsor, before crossing into the United States.

In response to the report, which will be released in its entirety next year, customs officials on both sides of the border are talking about better ways to catch and punish truck drivers who ignore the no-hazardous-materials rule.

The trucks carrying the prohibited hazardous materials represent about one quarter of 1 percent of the traffic on the bridge, Ontario Transportation Ministry Bob Nichols said Monday. The ministry reached its conclusions following a periodic survey of truck drivers on Canadian highways. Some of the drivers carrying hazardous materials indicated to official surveyors that they had entered the country via the Ambassador Bridge, Nichols said.

The materials include things that are explosive, flammable or lethal when breathed in small doses.

Hauling hazardous materials without appropriate placards is a violation of federal law in the U.S. and Canada. Neither U.S. nor Canadian law prohibits hazardous materials from crossing the Ambassador Bridge. But the private company that owns the bridge -- the Detroit International Bridge Company -- doesn't allow trucks carrying hazardous materials.

David Jolly, the bridge company's general manager, said Monday that he is reviewing the bridge's hazardous-materials policy with various officials. He declined to comment further.

The company that owns the Detroit-Windsor tunnel also prohibits hazardous materials from crossing through it. The preliminary Ontario Transportation report did not address whether trucks are carrying hazardous materials through the tunnel.

"It makes no sense in this time of heightened security to permit this," said Gregg Ward, who runs a ferry that legally shuttles trucks carrying hazardous materials between the cities.

The drivers have an economic incentive to hide their hazardous materials placards. Ward's ferry costs between $50 and $100, depending on the truck's weight. The bridge costs between $15 and $45.

The Hon. Herb Gray, deputy prime minister of Canada, is seeking a meeting with officials from both sides of the border.

Contact EMILIA ASKARI at 248-586-2606 or askari@freepress.com.

Hazmat Trucks On Bridge Leads To Crackdown
Local 4 Investigation Uncovers Suspect Hauling Practice
Posted: 10:22 p.m. EST January 10, 2002
Updated: 11:18 p.m. EST January 10, 2002

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Gregg Ward, Detroit /Windsor Ferry: "I think the public takes the assumption the law is enforced. So they assume that they're safely crossing these facilities."

In our three-month investigation, defender cameras catch truckers carrying over illegal loads. On this day, a fuel truck crosses the bridge. A flammable sign warns of dangerous cargo. But no one stops the truck, a clear violation of the law.

Gary Percy, Windsor Fire Department: "As far as a fuel vehicle, I don't even want to think about it, but we would have a real problem." If a situation did occur, Windsor firefighters would be one of several agencies to respond. That's why Assistant Fire Chief Gary Percy supports regulations prohibiting hazardous materials crossing the bridge. Percy: "There is no water supply on the bridge. If it actually burst into flame, I'd have a real problem and concern with the actual structure of the bridge."

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Fries: "They maintain there is an underlying agreement that they don't have to comply with those regulations. We maintain that they do."

Drew: "Now the bridge companies tells me that they will continue to hand out those letters giving truck drivers permission to cross with their illegal loads. Michigan State Police says they were just alerted to this problem. They are going to start to crack down on these illegal drivers. They have already handed out three tickets. One went to a fuel truck who was crossing the bridge with his load of fuel."

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THE ONLINE EDITION WINDSOR STAR

Bridge barricade draws fire; Hazardous shipment exemptions put on shelf

'What they're proposing is radical, it's extreme,' mayor says

By Doug Schmidt Star Staff Reporter

With Michigan state troopers staring them down at the American end, the owners of the Ambassador Bridge have suspended their practice of issuing permits allowing some commercial carriers to truck dangerous goods across the international span.

A consultant has been hired to "look over the situation," says Dave Jolly, general manager of the Detroit International Bridge Company and a report is expected by the end of this month. Meanwhile, all trucks sporting dangerous goods placards have been banished.

"The Michigan State Police are defining it as an illegal route ... the problem is, it's our bridge -- how can a state entity say what can or cannot cross private property?" says Jolly. Company permits were issued primarily to carriers of explosive charges used by the automotive sector for air-bag and seat belt devices.

After the years-old practice was brought to light in recent reports by The Star and other media, Michigan was advised by federal transportation authorities that the U.S. highways leading to the American side of the bridge were identified decades ago as restricted routes forbidding the carrying of a number of categories of dangerous cargo.

'Not legal'

"They maintain the bridge is private and should not be restricted ... that's their position. It's not legal for a load of explosives, flammables, corrosives or radioactive materials to cross that bridge -- that's a violation," says Sgt. Susan Fries of the hazardous materials unit of the Michigan State Police motor carrier division.

Officers from Fries's unit were stationed on the Detroit side of the bridge to help U.S. Customs identify and intercept such shipments.

Carrying restricted dangerous goods on Michigan highways is a federal violation subject to a fine of up to $500 US.

Dangerous goods continue to cross the Ambassador Bridge in commercial trucks that aren't required to carry hazard placards.

"I think it's a very dangerous situation, I really think it's a serious problem going up and down our highways," says David Hawkes, a Richmond Hill firefighter whose five-days-on/five-days-off shifts allow him to work part-time as a commercial trucker.

Most people don't realize, he says, that there are few restrictions on transporting dangerous goods packaged as consumer products for household use.

"Here I was crossing the Ambassador Bridge with 40,000 pounds of highly flammable, combustible barbecue lighter fluid and I didn't even need to be placarded," says Hawkes, who worries the practice could some day put his firefighting colleagues in a dangerous situation.

Private individuals are similarly not bound by dangerous-goods restrictions. On top of that, a recent Ministry of Transportation Ontario study estimated about 9,000 illegal truckloads of hazardous cargo cross the Ambassador Bridge annually.

"It's very wide open now ... you or I can rent a truck, load it up with explosives (and drive on to the bridge) -- it always has been a concern of ours," says Windsor Fire Chief Dave Fields.

Doug Schmidt can be reached at 255-5777, ext. 586.

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Gmail by Google BETA

Gregg Ward <ward.gregg@gmail.com>

Inspectors: Security lags when traffic jams

1 message

GREGGWARD@aol.com <GREGGWARD@aol.com> Wed, Mar 29, 2006 at 8:02 AM
To: greggward@truckferry.com

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Inspectors: Security lags when traffic jams

SPECIAL REPORT: Bridge operator pushes to keep border travel moving. Government officials deny cutting corners.

BY TAMARA AUDI
FREE PRESS STAFF WRITER

March 29, 2006

On a weekend night earlier this month, 12 big rigs from Detroit were lined up on the Canadian side of the Ambassador Bridge, waiting to be searched by inspectors who were on the lookout for a produce truck thought to be carrying drugs.

Traffic crosses the Ambassador Bridge earlier this month. Amid heightened terror concerns, about 9.4 million vehicles crossed the bridge in 2005, bridge officials said. (KATHLEEN GALLIGAN/Detroit Free Press)

But before the Canadians could scan the trucks, their supervisor received a call from the U.S. company that owns the bridge. The trucks were snarling traffic. And the bridge's owner wanted traffic cleared quickly, an inspector working that night said.

What happened next, according to customs inspectors and security experts, is what routinely happens on the U.S.-Canadian border when security clashes with commerce: Commerce wins.

"We stopped the inspection," a Canadian inspector said, and let the trucks pass.

Despite fears of terrorism and other security concerns at U.S. ports and border crossings since Sept. 11, 2001, U.S. and Canadian inspectors on the Ambassador Bridge and elsewhere say they are routinely told by supervisors to wave vehicles through checkpoints without scrutiny to satisfy commercial interests.

Though government officials in the United States and Canada deny safety is compromised, inspectors say security lapses are a particular problem at the Ambassador Bridge -- the busiest northern border crossing, and one of only two along the U.S.-Canadian border that are privately owned.

In one practice known as lane flushing, inspectors at the bridge -- owned by the Detroit International Bridge Co. -- say supervisors force them to wave through long lines of cars and trucks to ease congestion, without asking even cursory questions of drivers or passengers.

"When the traffic backs up to a certain point, you know the call is going to come" from the bridge company, one bridge inspector told the Free Press. "Then management jumps like lapdogs."

Robert Perez, port director of Detroit for U.S. Customs and Border Protection, an agency of the Department of Homeland Security, denied lane flushing takes place. Perez said his office tries to cooperate with bridge and tunnel operators, and that inspectors might view that cooperation as caving in to commercial interests.

"The people in the community, both in Detroit and Windsor, should feel good about the fact that their border crossings are safer than ever before," Perez said.

The Free Press interviewed more than a dozen inspectors, former inspectors, Homeland Security officials, customs supervisors, politicians and border security experts -- including six inspectors assigned to the Detroit-Windsor border. All but one of the inspectors -- a Canadian union leader -- spoke on condition of anonymity, noting agency restrictions on media interviews and saying they feared job reprisals if named.

The allegations come as U.S. border security has faced its closest scrutiny since the 2001 terrorist attacks.

Congressional opposition recently scuttled a plan to have a Dubai-owned firm manage six U.S. ports. And Tuesday, as Congress debated tougher border security as part of an immigration package, a Senate subcommittee was investigating how undercover agents drove into the United States from Canada and Mexico with nuclear material.

Technology touted

U.S. and Canadian customs officials, and representatives from the bridge company -- owned by trucking magnate Manuel (Matty) Moroun -- insist security is never compromised for commerce and say, in fact, the reverse is true: Better technology, improved facilities and better cooperation between business and government make the border more secure and efficient.

Perez noted that the bridge and Detroit-Windsor Tunnel now feature high-tech surveillance -- invisible to travelers -- such as radiation detectors and electronic prescreening programs. And customs agents in Detroit seized more than 5,000 pounds of drugs last year, an eightfold increase over the previous year, he said.

Dan Stamper, president of the bridge company, said it has spent millions to expand facilities since 9/11 and would never ask inspectors to "give up any of their security initiatives to move traffic faster."

Bridge inspectors concede that, even under the best of circumstances, they could not fully inspect every vehicle entering the United States without crippling trade. Thus, they say, it is not unusual for drivers to pass inspection with only a few questions asked.

What they object to, they say, are orders from supervisors to wave through long lines of cars and trucks with no questioning at all. Sometimes, inspectors say, they have been told to stop inspecting a particular vehicle to open more booths when traffic backs up.

"They call and say, 'You're holding us up too much.' And they always win that argument," said Charles Showalter, national president of one of the two unions representing U.S. Customs and Border Protection officers. He said when inspectors or the union object, Homeland Security officials "call it 'acceptable risk.' It's 'Hurry up, hurry up, hurry up, hurry up.' Nobody wants to slow down commerce."

Bridge inspectors say this can happen once a week or more at the Ambassador Bridge -- one of two privately owned crossings on the U.S.-Canadian border. The other is a bridge in International Falls, Minn. However, they also say that inspectors are also pressured to speed traffic at government-owned crossings that are run by private companies.

The Detroit-Windsor Tunnel, for example, is run by a private company but owned by the City of Detroit on one

side and Windsor on the other. Toll profits are shared with the cities.

Tolls collected at the Ambassador Bridge go to the bridge company, owned by Moroun of Grosse Pointe Shores.

Keeping the wait down

Since 9/11, traffic has declined about 30% at Detroit's border crossings.

To counter memories of long delays in the months after Sept. 11, the Detroit-Windsor Tunnel tries to keep waits under 20 minutes. Both the tunnel and bridge post wait times on their Web sites. During rush hour on an evening this week, bridge travel to and from Canada was under 15 minutes. The tunnel wait was under 6 minutes.

Neal Belitsky, executive vice president of the Detroit & Canada Tunnel Corp., which operates the tunnel, said he considers a 20-minute wait as "the outer limits for acceptability" for the roughly 29,000 vehicles that pass through daily.

"When we see traffic getting to that threshold, we will start calling customs and saying we need more lanes," he said. "That's a standard part of the business and we all do it."

He added there are times when customs denies his request and he backs off.

Danny Yen, spokesman for the Canadian Border Services Agency in Windsor, said, "We've had our challenges" with the bridge company, but "we never compromise security for trade. It's a balance."

Haste makes risk, some say

But inspectors say the rush to speed traffic has spawned practices -- such as lane flushing -- that put security at risk.

"Lane flushing happens all over the place, at every crossing," Showalter said. "The traffic backs up. The supervisor gets a call" from private border businesses. "They run an officer with a canine through the line of cars, and the officers on the primary inspection lanes are told not to ask questions."

About 9.4 million vehicles crossed the Ambassador in 2005, according to bridge officials. Collectively, the bridge, tunnel and a commercial train tunnel account for nearly a quarter of all U.S. trade with Canada, the bulk of it by trucks crossing the bridge. When trade is delayed at the border, Michigan's automobile-reliant economy suffers most, a recent Ontario Chamber of Commerce study shows. Automakers use a "just-in-time" delivery system that depends on parts crossing promptly. A delay of even a few hours can cost millions.

A difficult balance

Perez, the Detroit port director, said changes intended to balance trade and security issues mean that some vehicles don't have to be checked as frequently. The government's so-called trusted traveler programs, for instance, allow prescreened businesses to cross faster and with fewer inspections, though critics say terrorists could exploit such efforts.

Colleen Kelley, president of the National Treasury Employees Union, a union representing 150,000 federal workers, including inspectors, said that pressure to speed trade means "something's got to give." What usually gives, she said, is thorough inspection work.

"The balance of trade and security became a battle that we really lost to trade years ago," said Joseph King, a professor and terrorism expert at John Jay College of Criminal Justice in New York who worked for U.S. Customs for 37 years. "Customs has become an honor system where the industry controls it, and periodically

the government comes in and monitors."

And yet, ask Moroun -- whose company gets a reported $60 million annually in bridge revenue and spent $645,000 on lobbying and consulting over the past nine years -- about inspectors and he says, "They're very independent."

On the other side of the river, Marie-Claire Coupal, a Canadian customs inspector and local union leader, said she doesn't feel very independent lately. Of Moroun, she says, "He calls the shots around here."

The bridge company's Stamper responds that his firm has a duty to keep trade moving. And he notes that a recent study rated the Ambassador's travel times "clearly superior" to six other crossings.

Sept. 11, Stamper said, was a wake-up call for him, too. After the attacks, heightened security led to 14-hour bridge delays. Choking the economy was, after all, a major goal of the terrorists, he said.

So the main threat Stamper sees is not a dirty bomb, or suicide bombers. "Our biggest threat is our own government's reaction to the border."

*Contact **TAMARA AUDI** at 313-222-6582 or audi@freepress.com.*

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http://www.freep.com/apps/pbcs.dll/article?AID=/20060329/0449&template=printart

Bridge OKs risky cargo
Letter of permission given to chemical company

Doug Schmidt
Windsor Star

Wednesday, April 12, 2006

The Ambassador Bridge is telling its toll collectors to wave through trucks carrying hazardous cargo in violation of a U.S. ban, according to a document obtained by The Star.

A copy of a permission letter, signed Dec. 6 by Detroit International Bridge Company general manager Dave Jolly, advises bridge employees that trucks carrying a corrosive material for General Chemical Corp. were free to cross the international link seven days per week.

The letter informs the bridge's toll collectors that "the bearer of this letter ... has permission to transport the commodity 'Alum' across The Ambassador Bridge."

'MILD' CORROSIVE

The letter advises bridge employees that "this is a 'mild' corrosive and the truck will be placarded as such." Jolly's letter states passage is permitted seven days per week until March 1, 2006, "when an updated letter must be obtained."

Bridge spokesman Skip McMahon claimed last week he was unaware of any such shipments.

But a representative of another firm, Harold Marcus Ltd., a Bothwell-based transportation company, said it uses the crossing almost daily to import alum. The representative said the company did so with the bridge's blessing and said other companies are also granted permission to haul hazardous cargo across the bridge.

Windsor West MP Brian Masse is calling on federal Public Safety Minister Stockwell Day to investigate the reports that restricted hazardous materials are being permitted to cross the privately owned span.

"Should an accident occur it will have grave consequences to people, the environment, and trade. It is without doubt the status quo is completely unacceptable," Masse wrote in a letter demanding Ottawa investigate "this urgent matter."

Messages left Monday and Tuesday with spokesmen for the bridge were not returned. Likewise, Day's office did not respond to requests for comment.

Masse said Tuesday he spoke with Day in the House of Commons on Monday and that the minister said he would look into the matter.

The driver of a Harold Marcus tanker truckload of alum delivered Tuesday to Windsor's Lou Romano Water Reclamation Plant wouldn't say how he crossed the border. As part of a $1-million 2006 city contract with the Cambridge-based Kissner Group, such loads are sourced in the U.S.

Kit Woods, the city's environmental services executive director, said last week he would investigate how those loads to two sewage treatment plants are being delivered. The

approved area border crossings for hazardous materials are the Windsor-Detroit truck barge or Sarnia's Blue Water Bridge.

"The plant manager here got in touch with the (Kissner) sales rep and reminded him we expect them to comply with all appropriate legislation. They said they understood -- we left it at that," Woods said Tuesday.

General Chemical had the city contract to supply alum in 2005.

Masse said he's heard from truckers who simply remove their hazardous materials placards in order to cross the Ambassador, which is quicker and cheaper than the truck barge or Blue Water Bridge. In the past, the owners of the bridge have argued they can determine what should or shouldn't cross over their private property.

"It's pretty scary stuff. Some trucks can sneak by, and there's nothing Customs can do -- we can't enforce that law," said Marie-Claire Coupal, Windsor branch president for the Customs Excise Union.

Hazardous goods shipments on local roads are the responsibility of the Ontario Ministry of Transportation (MTO), but deciding what's allowed onto the bridge from the Canadian side is left to the bridge's owners.

"Although it is not an offence to transport dangerous goods across the bridge, the bridge authority prohibits access to trucks carrying hazardous material," MTO spokeswoman Emna Dhahak stated in an e-mailed response to questions by The Star.

Masse said it's "complete hypocrisy" for Canada not to have the same safety regulations in place as the American authorities have on their side of the Ambassador. Allowing the bridge company to issue special permission to some carriers of hazardous materials "shows how lax we are ... it's why I'm asking for a full investigation."

An interim report issued last summer in Ottawa by the Senate Security and Defence Committee sounded an ominous warning of how fragile the most important commercial border link is between Canada and the U.S.

"If somebody really wanted to tear into Canada's political and economic future and wound the Americans at the same time, an optimal target might well be the Ambassador Bridge in Windsor," stated the report, entitled Borderline Insecure.

The senators said that disabling that cross-border link between Windsor and Detroit "would have a devastating and long-lasting effect on Canada's economy."

BANNED GOODS

Corrosives, explosives, flammables and radioactive goods are all banned from the Ambassador Bridge under the U.S. federal government's national hazardous materials route registry. Alum, or aluminum sulfate, is a corrosive which can form sulfuric acid when mixed with water.

Michigan state police are generally banned from bridge property but enforce the rules on Detroit access streets.

Ran with fact box "Banned Goods" which has been appended tothe story.

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Testimony of:

Mark Yonge, Managing Member
Maritime Transport & Logistics Advisors, LLC
("Maritime Advisors")

Before the:

Subcommittee on Coast Guard and Maritime Transportation
Committee on Transportation and Infrastructure Committee
U.S. House of Representatives

"The Development of Short Sea Shipping in the United States"

Washington, D.C. - February 15, 2007

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INTRODUCTION

My career in the maritime industry has provided me with over forty years of broad based experience including: ship agency; stevedore and terminal management; longshore and shipboard labor relations; ship chartering, ship operating; owning and operating U.S. Flag Vessels including liner and intermodal operations. I am presently the founder and Managing Member of Maritime Transport & Logistics Advisors, LLC ("Maritime Advisors") – a transportation consulting company that is recognized by industry and media as specialist on matters pertaining to the development of Short Sea Shipping.

"Maritime Advisors" is a group of well known experienced affiliate consultants in the maritime transportation and logistics industries. "Maritime Advisors" has followed and participated in the MARAD Short Sea Shipping initiative since its inception and has produced Short Sea Shipping research and analysis studies for private industry clients and government agencies; as well as white papers and numerous presentations at conferences, seminars, public meetings, and industry coalition and cooperative meetings. "Maritime Advisors" is an active member of the Coastwise Coalition, the Short Sea Shipping Cooperative (SCOOP) and many other transportation industry organizations.

The following testimony is based on nearly four years of research and analysis for studies done for clients and for internal use for publications, presentations, meetings and overall interest in this very important transportation capacity alternative. I will attempt to provide the subcommittee with background information, issues, findings and suggestions that are taken from our work to date.

BACKGROUND TO SHORT SEA SHIPPING IN THE U.S.

In the United States, as in much of the world, the use of waterborne transportation has been supplanted by other modes as the advent of motorized surface transportation vehicles shifted commerce from water to land. Tremendous infrastructures to support vehicular use emerged, such as the National Highway System in the United States and extensive rail networks. Populations grew significantly in the last century and increased demand has been placed on surface transportation networks, has caused congestion in major metropolitan areas and on highway and rail systems. Coupled with forecasts for enormous increases in global and U.S. domestic trade, this congestion and the negative impact that it can have on the nation's economic sustainability, has caused renewed examination of the use of the water to compliment and expand the capacity of the surface system.

The specific study of Short Sea Shipping is newer still. Started in the United States by the U.S. Maritime Administration in 2002, the Short Sea Shipping Initiative is shining a light on the potential contribution that waterborne domestic inland, coastal, Great Lakes, and nearby international services can offer.

Over the years there have been numerous Short Sea Shipping studies commissioned by government agencies including MARAD and DOT; public/private cooperatives such as SCOOP – a cooperative organized by MARAD and a private sector steering committee; the I-95 Coalition and many others.

MARAD has held three well attended and effective Short Sea Shipping Conferences. Today the Journal of Commerce sponsors annual Short Sea Shipping conferences – the 4th Annual conference being scheduled April, 2007.

SCOOP, being formed to promote Short Sea Shipping, composed of public & private sector companies/executives, has attended many transportation events in their promotion effort.

The Coastwise Coalition has also been very effective in bringing together the maritime industry in an independent forum for the development of Coastal and/or Short Sea Shipping in the United States.

Ongoing research including interviews conducted with ship operating companies, shippers, logistics providers, truckers and ports in the U.S. indicate there is a widespread opinion that new and expanded Short Sea Shipping markets clearly exist and that these services are necessary. The time frame for expansion is an issue that garners differing opinions, and for good reason. Some see Short Sea Shipping as a system, at least in some markets, that needs government assistance to attract private sector funding. Some disregard government assistance as necessary, and believe that business opportunities will drive Short Sea Shipping. Nearly all agree, however, that government initiatives, such as that at MARAD, serve business well by heightening the awareness of transportation related problems, issues and alternatives.

WHAT IS SHORT SEA SHIPPING?

As a term used in European Union (E.U.), it is defined as the shipping of cargo or goods for relatively "short" distances or to nearby coastal ports. Typically, Short Sea Shipping vessels follow a coastline, cross a channel or landlocked geography, e.g., inland body of water. The E.U. also refers to Short Sea Shipping as – "Short Sea" and references "Short Sea" as "The Dynamic Choice Complementing the Sustainable Transport Chain" Short Sea in the E.U. is also frequently called "Motorways of the Sea" interchangeably

Transport Canada's definition is: "In the North American context, "shortsea shipping" refers to a multi-modal concept involving the marine transportation of passengers and goods that does not cross oceans and takes place within and among Canada, the United States and Mexico".

The U.S. Maritime Administration (MARAD) has defined Short Sea Shipping as: "*...commercial waterborne transportation that does not transit an ocean. It is an alternative form of commercial transportation that utilizes inland and coastal waterways to move commercial freight from major domestic ports to its destination.*" (MARAD 2005).

Common References here in the U.S:

"Coastwise Shipping"," Coastal Transport","Water 95","Highway H2O", "Marine Highways"

"Maritime Advisors" has found that referring to Short Sea Shipping as an "Intermodal Marine Alternative" is a more receptive terminology to shippers, logistics providers and trucking companies – the ultimate "users" of this new developing intermodal transportation alternative.

Short Sea Shipping as an "Intermodal or Multi-modal Alternative" is not new in the E.U., Canada or the U.S.

Quoting from *Honorable Norman Y. Mineta, Secretary of Transportation - Speech at US Chamber of Commerce Conference 6/12/03:

> **"One intermodal alternative is the development of a robust short sea shipping system that would aid in the reduction of growing freight congestion on our nation's rail and highway systems."***

The following is a quick recap of the many applications and terminology relative to Short Sea Shipping:

- **Intermodal cargo** moves between transport modes where the equipment is compatible. Examples are a shipping container moving from ship to truck or a truck rolling on and off a vessel for one leg of a long haul. For purposes of Short Sea Shipping the modes might include a vessel, truck, train or airplane. Intermodal transportation, cargo and passenger, has grown because of its inherent efficiencies and Short Sea Shipping is poised to become a growth aspect of intermodalism in the United States.

- **Containers or Trailers** are the instruments of choice for transport of non-bulk or non-break-bulk dry goods. The advent of containerization has facilitated expediency, safety, reliance, and overall cost reductions. Types of services and routes for container and trailer traffic most often used are: transshipments, feeder, coastwise and bridge.

- **Door-to-Door** is the concept of carrying freight from the "door" of the factory or shipper to the "door" of the consignee or receiving factory. Door-to-door services or express traffic is a large component of international and domestic trade. Customs clearance services are handled turnkey and seamlessly on all international shipments.

- **Floating Stock** consists of large volumes of goods that are shipped regularly over long distances within the U.S. This may be a suitable use for short sea vessels, in that, the shipper/consignee has large quantities of floating stock thus reducing the requirements for space in land-based warehouses or stock, e.g. tank farms.

- **Inter-Regional Cargo** has increased significantly with the establishment of the North American Free Trade Agreement (NAFTA), which eliminated many trade barriers. As a result, short sea vessels are serving an increased number of destinations throughout the region. Additionally, the liberalization of trade barriers under the central theme of globalization has heightened the utility of this transportation mode, particularly since many plants and suppliers have found themselves physically far from their markets. The low cost of water transportation has had dramatic effects on the economic landscape. The global supply chain is continuously striving to achieve overall economies of scale where the costs are lower and the transportation is becoming faster, ultimately leading to cost savings and added value for the total supply chain.

- **An Intermodal Alternative for Trucking** is imperative in many countries, especially in Europe and North America. Short sea service is not as much an alternative to trucking as it is an intermodal alternative for trucking. It is an alternative to excessive traffic jams and congestion on the interstates. This is primarily due to ever-growing, large and dense populations and increasing roadway cargo tonnage. Many roads and highways have more than exceeded their maximum capacity levels as a result of this ever-increasing road traffic. Congestion and environmental issues have heightened the need for alternatives. Short sea service also offers flexibility to trucking companies in managing the driver workforce, especially with limitations on hours of service and the shortage of available and qualified drivers.

- **Border Crossings,** international freight, immigration and customs clearance are often an integral part of Short Sea Shipping, especially between the US and Canada where high frequency ferry services are operating as a "bridge", an alternative means of extending the highway across the waterways. Trucks and trailers can be carried on Ro/Ro ships while their drivers can travel on the same vessel and take advantage of onboard passenger accommodations for rest and amenities for relaxation. Some routes also carry cars and walk-on/off passengers.

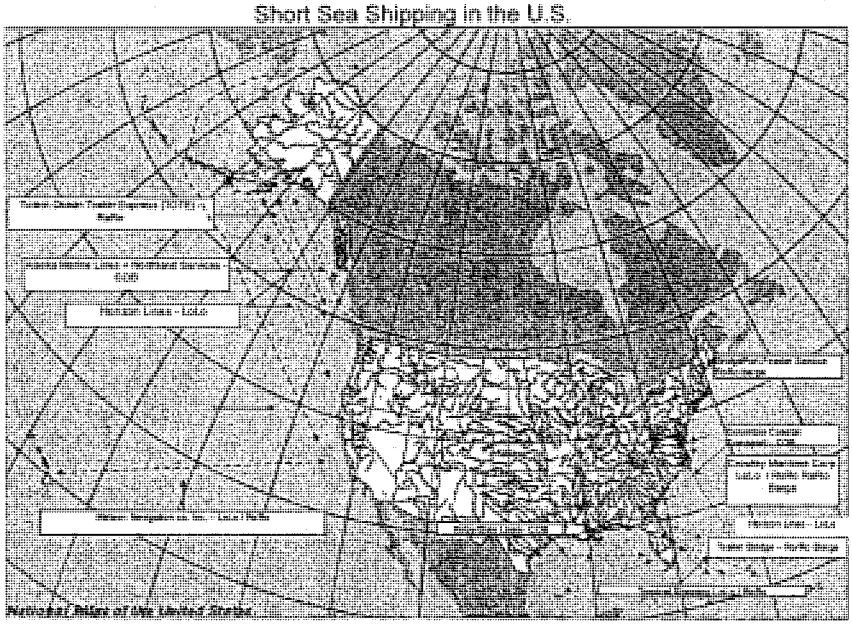
- **Feedering** is "used for local or coastal transport (for carriage of cargo and/or containers) to and from ports not scheduled to be called by the main (ocean) vessel, connecting these ports to the main (ocean) vessel" (P&O/Nedlloyd 2005) and is a part of Short Sea Shipping.

- **Transshipment**, "to transfer goods from one transportation line to another or from one ship to another" (MARAD 2005), is frequently used interchangeably with the term "**feedering**". In addition, transshipment may involve change in mode of transport, typically on a through-bill of lading, e.g., the case of APL utilizing double-stack trains to connect with ports on both the coasts.

- **The Hub and Spoke Networks** (and related feeder connections) are being fueled by the increase in vessel size and has caused ocean carriers to reduce the number of ports directly served. It shall also be noted that the trucking industry uses the same "hub" model for its terminal networks across the country. Hubs enable lines to effectively serve regional markets where volumes do not warrant direct calls.

"Coastal, Great Lakes, and inland waterways trade has existed in the United States for many years. The majority of cargos carried have been bulk commodities that travel through an established inland waterway system and along the U.S. coasts by barge, tanker and freighter. The existence of these bulk carriers already contributes to a reduction of rail and highway congestion. Without these coastal movements the cargo would require transport by rail or truck." (Source: SCOOP web site with emphasis added)

Examples of Short Sea Shipping Services in the U.S. (Partial)



FACTORS THAT SUPPORT OR IMPEDE SHORT SEA SHIPPING

Quoting from remarks from the honorable Norman Y. Mineta, Secretary of Transportation – NASDAQ Opening Bell, New York, NY – May 23, 2006:

"... there is a looming threat to our economic prosperity in the form of transportation congestion. Goods stalled at overwhelmed seaports, airplanes circling crowded airports, and delivery trucks stuck in traffic cost America an estimated $200 billion each year. Traffic jams alone waste 2.3 billion gallons of gasoline and 3.7 billion hours..."

- "The U. S. Highway system has experienced nearly a doubling of vehicle miles traveled in the past 20 years while the total highway mileage has increased only by 1 percent." (Note: See FHWA Freight Flow Maps and Congestion Maps– Exhibit no. 1-4))
- "One of the Nation's biggest challenges, and a critical focus of USDOT, is closing the gap between the demand for transportation services and infrastructure capacity." (FHWA FAF)
- A freight capacity crunch of unprecedented dimensions is predicted for the next decade and just building more roads or expanding rail capacity to meet projected demand are simply not viable options, even if they were possible.
- In many areas of the U.S. today, highway, rail and port facilities are nearing and/or exceeding capacity.
- The U.S. transportation system carried over 15 billion tons of freight valued at over $9 trillion in 1998.* (Exhibit 5)
- By 2020, the U.S. transportation system is expected to handle cargo valued at nearly $30 trillion.*
- By 2020, Domestic freight volumes will grow by more than 65 percent, increasing from 13.5 billion tons in to 22.5 billion tons (Exhibit 5)
- By 2020, U.S. highways, railways and ports will be expected to move 70% more freight than they did in 1998.*
- An annual expenditure of $75.9 billion (2000 dollars) will be needed for the 2001-2020 period just to maintain the physical highway infrastructure, as it existed in 2000. (USDOT FHWA 2002c).

*(source: FHWA FAF)

Most recently the FHWA has posted a new statement and projections dated December 21, 2006:

> "The U.S. transportation system in 2002 moved, on average, 53 million tons of freight worth $36 billion each day. Trucks moved about 60 percent of freight by weight, the same proportion expected in 2035. However, over this period tons transported overall are expected to almost double with international shipments growing somewhat faster than domestic shipments. Trucks transported two-thirds of freight by value."

Source: U.S. Department of Transportation, Federal Highway Administration, Office of Freight Management and Operations, Freight Analysis Framework, 2006.

Note: Although the above statements by FHWA mentions international shipments growing somewhat faster that domestic shipments – when reviewing Exhibit 6, particular attention must be given to the total volumes – domestic volumes are nearly ten (10) times international volumes.

In other words the FHWA indicates that the trend line of highway transportation freight growth is projected to continue through 2035. (Exhibit 6)

Adding or increasing highway capacity is costly, and is time challenged with environmental issues, land availability, budget and time constraints:

According the FHWA February 8, 2007 - the capital cost of constructing a new interstate highway varies significantly from one location to another and from one type of scenario to another. These numbers are national average and the exact cost varies widely depending on the specific conditions.

	Adding lane to	
	new alignment	existing alignment
Rural Interstate	2002 dollars per lane-mile with unit of thousands (000's)	
flat terrain	2,106	1,519
rolling terrain	2,665	1,647
mountainous terrain	6,003	5,128
Urban Interstate		
population<50,000	3,360	2,493
population: 50,000-200,000	4,529	2,724
population: 200,000-1,000,000	6,643	4,559
population > 1, 000, 000	14,889	11,336

For emphasis: Using the above "new alignment" (New highway) numbers adding a new four lane highway capacity has an estimated cost between $8,424,000 per mile and $59,556,000 per mile

- **About 12 miles of new highway cost would build a new $100,000,000 Short Sea Shipping vessel with a potential to remove 30-60,000 trucks off the road per year <u>or</u> provide MARAD Title XI leveraging capability to build approximately ten (10) new Short Sea Shipping Vessels.**
- **Short Sea Shipping "Water Highways" are generally in place ready for use now.**

Highway capacity and congestion are not the only driving forces to support Short Sea Shipping ("Alternative Intermodal Capability"_:

A recent interview with a major trucking company revealed additional driving forces:

" A Perfect Storm is forming" (for the Trucking industry)

- Highway Congestion
- Rail & Highway Capacity inadequate to handle future freight projections
- Long Haul Driver Shortages – Quality of life a priority
- Ultra Low Sulfur Fuels required Oct. 2006
- New environmental regulations – Fleet replacement cost high
- New Hours of Service regulations
- New Immigration laws/License requirements
- Aging truck fleet
- Trucks are expected to move over 75 percent more tons in 2020

No different than land transportation modes, in general, the following conditions have to be met to increase the attractiveness of Short Sea Shipping as an intermodal alternative:

Frequency Reliability Quality of service Cost-efficiency Service Speed

"Just in time" supply chain requirements and length of route – short haul or long haul - will be a determining factor as to whether slower vessels such as barges and/or 18/24 knot vessels are suitable or if newer technology 30/40 high speed vessels will be needed.

Some advantages of Short Sea Shipping in comparison with road transport are:

- Increased national transportation capacity
- Lower energy consumption per ton of freight transported and better environmental performance in terms of pollution and safety
- Reduction of road congestion
- General availability of space capacity in Short Sea Shipping sea lanes and the possibility to extend it further with few infrastructure costs

Economic and infrastructure Advantages:

- Potential positive contribution to the development of coastal regions of the U.S., especially in underutilized ports – new infrastructure, new jobs, additional and/or new "economic engines" to surrounding communities
- Positive effect on the development of related US maritime sectors such shipboard and landside labor – new jobs, new and more efficient vessel design, and a boost to the shipbuilding industry including improvement of its capacity and expertise that can make U.S. yards more competitive.
- Expansion of the nation's sealift capacity in time of national emergencies and/or national defense
- Jobs created to maintain and increase well trained maritime labor forces
- Preservation of present and future U.S. Flag, U.S. Crewed, U.S. controlled vessels
- New technology vessels for the future and the environment

However, there are several structural obstacles to the development of efficient and "robust" Short Sea Shipping services on a significant scale, which are:

- Harbor Maintenance Tax (HMT) - Truck and rail movements by truck and rail are not subject to the HMT but freight moving by water is subject to this tax. Harbor Maintenance Tax collected on an average container of cargo can be as substantial as $100 or more. **Shippers and/or logistics providers are not willing to pay this additional charge to use Intermodal Marine Services**
- Financing - the private capital funding sectors have indicated that new services must have freight commitments before the financial sector will provide funding – the proverbial "chicken before the egg".
- Availability of existing U.S. Flag, Jones Act vessels is limited. Additional vessels are needed including new technology high speed vessels that can meet supply chain needs and expectations as well as anticipate tightening restrictions on emissions.
- Cost to build and operate U.S. Flag Jones Act Vessels. (Note: The Jones Act, restricts the carriage of goods between United States ports to U.S. Flag, U.S. built, U.S. owned, U.S. crewed vessels)
- Lack of statistical data which make accurate analysis of trade flows between ports and regions difficult
- Shippers and logistics providers are reluctant to make long term commitments to carriers until Short Sea Services are in place.

RECOMMENDED ACTIONS TO STIMULATE SHORT SEA SHIPPING/INTERMODAL MARINE ALTERNATIVES

The actions listed below are provided as a result of research and input from many sectors of transportation "users" and "providers", coalitions, cooperatives, conferences, seminars, etc.:

The most important actions indicated are:

1. Elimination of the Harbor Maintenance Tax as it applies to intermodal cargo moved in the domestic trade and perhaps between Canada and the U.S. on the Great Lakes by container or on wheeled vehicles. In some ways not eliminating this tax encourages shippers to continue using highways and bridges – adding to congestion and capacity problems. As it stands today, the HMT is a significant disincentive for shippers to use Short Sea Shipping.
2. MARAD Title XI loan guarantees; use of Capital Construction (CCF) Fund Deposits.

   Note: MARAD's Title XI program, initiated in 1938, has a proven record of effective vessel finance and a stimulus for building U.S. Flag/U.S. Build vessels. Over the years, the Title XI program has been a profitable program for the U.S. government and overall has resulted in the goals of promoting a U.S. Flag fleet. The vessel owners in the recent Lake Express (Milwaukee to Muskegon, Lake Michigan)(Kenneth Szallai, President of Lake Express and the current Hawaii Superferry (former Secretary of the Navy - John Lehman) projects have publicly stated that these projects could not have been done without Title XI and have praised its availability.
3. Stimulation of new Short Sea Shipping services and/or maritime transport technologies through Federal and State incentives and/or technology development programs.
4. Stimulation of integration into multimodal transport chains or networks through Federal and/or State tax incentives or infrastructure programs, as an example – tax credits to shippers (Wal-Mart, Target, etc.) as incentives to use Short Sea Shipping to ease the pressure on land routes.
5. Encouraging states to consider interstate water transportation options, especially where surface system capacity expansion options are limited.
6. Creation of reliable market data on existing land transportation that could be used with decision making on North American Short Sea Shipping
7. Improving understanding and awareness of Short Sea Shipping, which is often overlooked by the public, public officials and transportation planners alike i.e.: Establishment of a staffed Short Sea Shipping promotional coalition/cooperative with full time focus similar to the I-95 Coalition, The National Waterways Conference, etc.
8. Integration of border crossing systems
9. Improvement of transparency in ports, related to tariffs and state aids

WHERE IS SHORT SEA SHIPPING TODAY?

As noted earlier in this testimony there are also a number of contiguous and non-contiguous Short Sea Shipping services existing today, including Ro/Ro and Lo/Lo container services between the U.S. with Alaska and Puerto Rico, Great Lakes services, and waterway services – the majority of cargoes carried being bulk commodities .

Recently two new services have been instituted with the assistance of MARAD Title XI loan guarantees - Lake Express (Milwaukee to Muskegon, Lake Michigan) and the Hawaii Superferry projects.

A number of new technology ventures are in various stages of development with varying service ideas and ship designs. To name a few:

- Articulated Ro/Ro Barges utilizing innovative freight handling equipment
- Hovercraft Ferries for passengers and freight
- 30 knot Ro/Ro Monohull vessels utilizing innovative cargo handling ramps & freight handling equipment
- 40+ knot Pentamaran Ro/Pax vessels providing both truck/trailer Ro/Ro service along with passenger and passenger car capability

Many if not all Companies contemplating new Short Sea Services are held back from going forward because of some of the disadvantages listed in the previous section. Notably the major issues are the domestic Harbor Maintenance Tax and the availability of funding and/or loan guarantees, followed by shipper incentives and awareness.

CONCLUSION AND DISCUSSION

From the business or industry perspective, the majority of the transportation users and providers respond with a positive interest in short sea shipping. This is a major change from where the Short Sea Shipping initiative commenced four (4) years ago. In the beginning, the trucking companies considered Short Sea Shipping a competitor. Today Short Sea Shipping is viewed as a potential "Intermodal Alternative' as are the rail systems today – both serving the trucking industry..

From the policy perspective, there has been limited focus on Short Sea Shipping at national and state levels. An awareness campaign focused by the U.S. Department of Transportation and other political decision makers would be beneficial.

- The continuing industry business, policy analysis and recommendations assist in reducing the impediments to increasing the use of Short Sea Shipping services in the United States. For example, the American Association of Port Authorities, along with over 35 national transportation and business associations and ports, recently adopted a position for the repeal of the domestic Harbor Maintenance Tax (http://www.aapa-ports.org/govrelations/hmt_repeal_paper.htm). An action necessary to remove this "significant disincentive to coastwise waterborne trade, which could help alleviate surface transportation congestion in the future". This significant national policy perspective demonstrates the growing concern that this nation cannot build its way out of the current and impending transportation capacity crisis without utilization of a Short Sea Shipping network.

Time is of the essence - Transportation capacity and Economic Sustainability go hand in hand

Surface transportation capacity has not kept pace with transportation demand. Highway capacity coupled with driver shortages and other trucking "Perfect Storm" problems compound the issue. Increasing rail capacity is limited and does little to address the impending transportation capacity crisis.

Short Sea Shipping has the potential to provide our nation with almost immediate, cost effective additional surface transportation capacity that will assist in securing our nations economic sustainability. While much attention has been paid in recent years to the increasing flood of imports to this country and the additional burden it is placing on our transportation system, significant growth is also occurring in domestic freight in greater volumes. It is the transport of goods in domestic service where Short Sea Shipping can potentially make a major contribution to the nation's transportation system.

The Coastal seaways, Great Lakes, rivers and waterways are generally available now as water highways. While there are a few existing vessels still available for Jones Act Short Sea Shipping, strong consideration needs to be given that it takes 2-3 years or more to design and build new vessel's that can provide new "intermodal alternatives" to our fast growing transportation demands.

Action is needed now to energize Short Sea Shipping – to unleash new transportation capacity that will help sustain our growing population, transportation needs and provide adequate sustainability to our nation's economy.

Acknowledgements:

We wish to thank the efforts of the following:

Mr. Tianjia Tang, Ph.D., PE, U.S. Department of Transportation, Federal Highway Administration who provide up todate FHWA data for the content of this testimony

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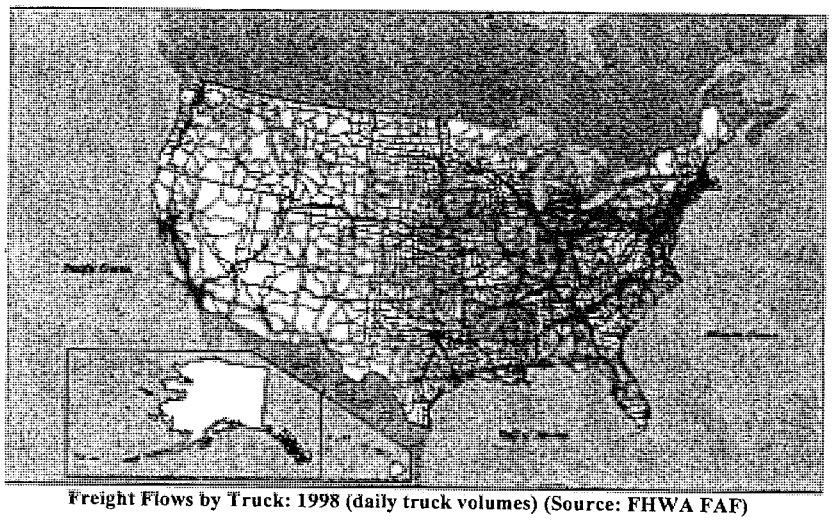
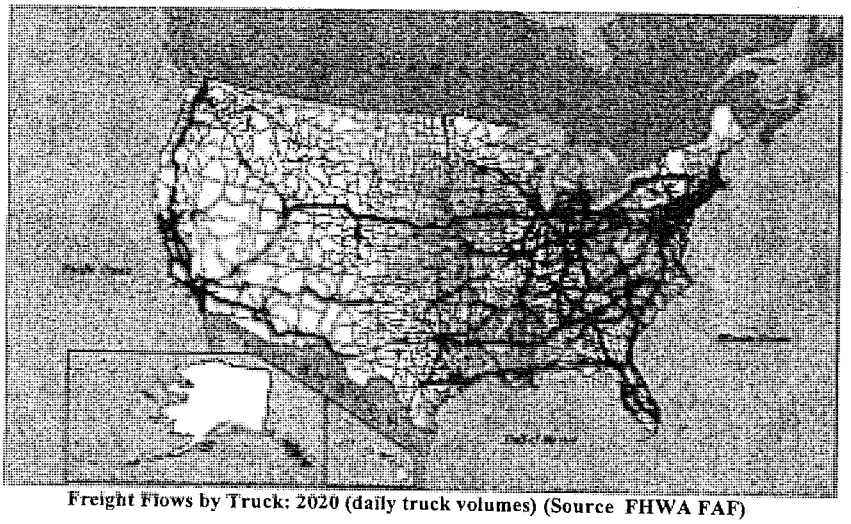
Exhibit No. 1



Freight Flows by Truck: 1998 (daily truck volumes) (Source: FHWA FAF)

Exhibit No. 2



Freight Flows by Truck: 2020 (daily truck volumes) (Source FHWA FAF)

MARITIME ADVISORS

Exhibit No. 3

Highway Congestion (Covering Both Passenger and Truck Travel) in 1998

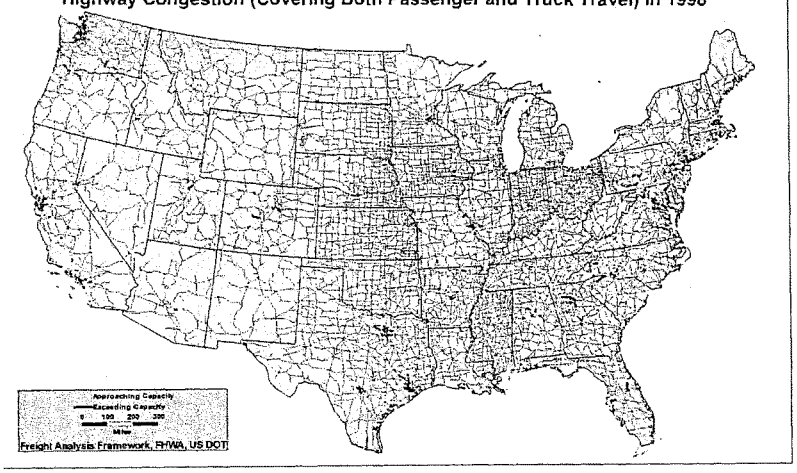


Exhibit No. 4

Projected Highway Congestion (Covering Both Passenger and Truck Travel) in 2020

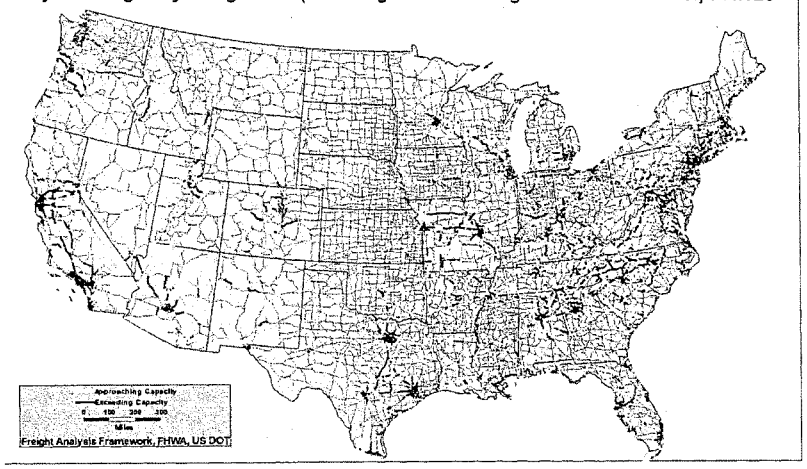


Exhibit 5

FAF[1] National Summary: 1998, 2010, 2020

Table 1. U.S. Freight Shipments by Tons and Value

Mode	Tons (millions)			Value (billions $)		
	1998	2010	2020	1998	2010	2020
Total	15,271	21,376	25,848	9,312	18,339	29,954
Domestic						
Air	9	18	26	545	1,308	2,246
Highway	10,439	14,930	18,130	6,656	12,746	20,241
Rail	1,954	2,528	2,894	530	848	1,230
Water	1,082	1,345	1,487	146	250	358
Total, Domestic	13,484	18,820	22,537	7,876	15,152	24,075
International						
Air	9	16	24	530	1,182	2,259
Highway	419	733	1,069	772	1,724	3,131
Rail	358	518	699	116	248	432
Water	136	199	260	17	34	57
Other [a]	864	1,090	1,259	NA	NA	NA
Total, International	1,787	2,556	3,311	1,436	3,187	5,879

Note: Modal numbers may not add to totals due to rounding. NA = Not Available.
*The "Other" category includes international shipments that moved via pipeline or by an unspecified mode.

(Source: FHWA FAF, updated April, 2006)

Table 2-1 and 2-1M:. Shipments by Mode and Weight: 2002 and 2035 (Millions of Tons)

International trade is growing rapidly and is placing pressure on the domestic transportation network and the different modes. International shipments by truck include the inland portion of intermodal shipments through ports and truck movements across land borders with Canada and Mexico.

Table 2-1 (standard units)

	2002 Total	2002 Domestic	2002 Exports[3]	2002 Imports[3]	2035 Total	2035 Domestic	2035 Exports[3]	2035 Imports[3]
Total	(P) 19,326	17,670	(P) 524	(P) 1,133	(P) 37,178	33,668	(P) 1,105	(P) 2,404
Truck	11,539	11,336	106	97	22,814	22,231	262	320
Rail	1,879	1,769	32	78	3,525	3,292	57	176
Water	701	595	62	44	1,041	874	114	54
Air, air & truck	(P) 10	3	(P) 3	(P) 4	(P) 27	10	(P) 7	(P) 10
Intermodal[1]	1,292	196	317	780	2,598	334	660	1,604
Pipeline & unknown[2]	3,905	3,772	4	130	7,172	6,926	5	240

Key: P = preliminary

[1]Intermodal includes U.S. Postal Service and courier shipments and all intermodal combinations, except air and truck.
[2]Pipeline and unknown shipments are combined because data on region-to-region flows by pipeline are statistically uncertain.
[3]Data do not include imports and exports that pass through the United States from a foreign origin to a foreign destination by any mode.

Notes: Numbers may not add to total due to rounding.

Source: U.S. Department of Transportation, Federal Highway Administration, Office of Freight Management and Operations, Freight Analysis Framework, 2006.

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Entered into Record by Unanimous Consent

Shipbuilders Council of America

February 14, 2007

The Honorable Steven C. LaTourette
Ranking
Subcommittee on Coast Guard and Maritime Transportation
2453 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. LaTourette:

The Shipbuilders Council of America (SCA) believes strongly that expansion of Short Sea Shipping (S3) is the most efficient and economic method available to alleviate America's crowded transportation system. We respectfully request that this letter be added to the record of "Development of Short Sea Shipping in the United States" hearing scheduled for February 15, 2007.

S3 has been addressed for several years by both government agencies and transportation related businesses. Most of the business cases have been evaluated through studies by universities, businesses and government agencies. The need to take traffic off of the major North/South corridors on the East and West Coasts and the East West corridor along the southern tier of the United States is well understood. The traffic congestion at several locations on these corridors causes gridlock and is a deterrent to commerce and transportation.

Europe has addressed this problem of road traffic congestion by the use of its internal and external waterways. The United States will have to find a way to solve this problem. The key ingredient absent from most of these studies to date is the shipbuilding and ship design aspect including how "Virtual Shipbuilding" technology and processes can be used to produce ships that will make S3 competitive with conventional cargo movement.

It is necessary to identify the requirements using the expertise of all segments of the S3 family to propose solutions for making S3 a reality. Risk reduction is an important parameter for developing and building ships for S3. Risk reduction may be accomplished by evaluating build strategies, scheduling intervals, and cost containment and by having several shipyards evaluate cost and schedule requirements and risk rather than having one builder face these risks alone.

With estimates for additional highway miles costing $32 million per mile per lane (not including the cost of interchanges and bridges), an expanded highway system to meet the requirements that S3 could provide would cost hundreds of billions of dollars. Means to evaluate and quantify the costs for providing alternatives to moving cargo that would otherwise require additional highway lanes should be given high priority by the Congress.

The issue of comparative costs of vessels built in quantity was addressed by the National Shipbuilding Research Project in a project entitled "Cost and Price Competitiveness of US Commercial Shipbuilding," which included several U.S. mid tier shipyard participants and was conducted by FMI, a British maritime firm with extensive experience in benchmarking shipyard processes, costs and technologies throughout the worldwide shipbuilding community. This study concluded that where vessels are built in sufficient quantities, the cost and price of US yards are comparable to European yards, which provide vessels for their short sea shipping operations.

A business case is needed, to provide incentives for US companies and the financial markets that serve them to obtain the necessary investments required to build ships for S3. It is anticipated that several ship designs will be required to satisfy the varying markets, routes and cargoes that presently move by road.

While S3 will cost hundreds of billions of dollars less than the cost of building new highways to alleviate the road congestion expected by increasing populations and commerce, it will still require billions of dollars in new investment in ports, ships and other infrastructure. Some estimate that more than 100 new ships will be required for this market. We believe Congress should consider conducting a study to determine the design and number of ships required for S3 and the most likely routes to serve. If only 25 ships are eventually built for S3, at an average price of $100 million, the shipbuilding market alone would be $2.5 billion.

Such a market would help ensure the continued viability of the Jones Act. If this issue is not addressed soon, there may not be sufficient US shipbuilding capability to build the required number of ships because the markets for new ships, except for Navy requirements, continue to shrink. The pressure would then come to obtain these vessels overseas, decreasing the capability of US shipyards to support the nations' defense requirements. This is the primary justification for the Jones Act. Advantages to the US Navy and the entire defense of our country would be realized by the building of large numbers of ships for S3.

TRANSCOM would be one of beneficiaries of expanded Jones Act shipping by the reduced costs for moving its goods and by providing multiple transportation modes to reduce vulnerability to terrorist and manmade disruptions. The number of seamen that are necessary for transportation of military cargoes would be enhanced. The yards that do both Navy and commercial business would be able to afford additional facilities to build both Navy and commercial ships. This also allows mid-tier shipyards to develop additional facilities and capabilities to build larger ships for both the commercial and

Navy requirements through the use of Virtual Shipbuilding. A thorough evaluation of the use of Virtual Shipbuilding is necessary, as it is used in other parts of the world, to build large ships economically. The Navy will recognize a reduction in overhead on the ships it has built in yards that also build commercial ships. Communities experiencing intense highway usage will benefit from improvements in highway safety, a reduction in highway congestion and lower exhaust emissions.

At this stage, many of the expected benefits of coastwise shipping are difficult to quantify, except in broad terms. We believe it should be the goal of the Congress to ensure that the economic justification and business cases are fully explored. The cost of these studies and evaluations will be recovered many times over through the benefits of expanded Short Sea Shipping.

Thank you for your consideration. America's commercial shipyards look forward to working with you to create a vibrant Short Sea Shipping alternative to land-based transportation systems.

Sincerely,

Allen Walker

Allen Walker
President, SCA

cc: John Rayfield

Feasibility Assessment of Short Sea Shipping to Service the Pacific Coast

Prepared for

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Task 10.5 – Final Report Deliverable 10.5

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December 2006

1 PROJECT OVERVIEW

The objective of the study "*Feasibility Assessment of Short Sea Shipping to Service the Pacific Coast*" is to demonstrate the preliminary market, economic, and technical feasibility of a commercial short sea service on the Pacific Coast that handles domestic and international (feeder) freight moving between major transportation hubs and population centers. The effort also addresses the potential emissions of Short Sea Shipping compared to traditional trucking and the military applications of short sea service and vessels including their scope for contributing to military deployment requirements.

The overall approach was to apply commercial market requirements to determine the feasibility of short sea service along the Pacific Coast. Commercial requirements include costs and service standards (transit time, frequency, on-time reliability, etc.) that are competitive with today's modes (road and rail). Commercial requirements were determined through surveys of shippers and service providers. Market sizing was derived from assessment of current cargo flows and creation of a diversion model to quantify the cargo available to short-sea service. Vessel requirements were derived on the basis of assessments of port constraints and required vessel speed based on simulation modeling of a door to door model. Economic analysis of SSS compared to traditional trucking in three routes, Northern California to Southern California, Northern California to the Pacific Northwest, and Southern California to the Pacific Northwest was performed to determine the economic feasibility of SSS on the West Coast. Finally, an estimate of SSS emissions was developed and compared to traditional trucking in these three routes using two different propulsion plants and grades of fuel.

Any opinions, findings and conclusions or recommendations expressed in this material are those of the authors and do not necessarily reflect the views of the Center for the Commercial Deployment of Transportation Technologies (CCDoTT) at California State University, Long Beach.

Cargo Flows and Trade Lane Analysis

The Cargo Flows and Trade Lane Analysis identified 5,663 truck and rail county traffic lanes, grouped according to a very broad definition of the potential market for west coast short sea service: 107 Business Economic Areas (BEAs)[1] that had at least minimal potential to be suitable for cargo diversion into the coastwise service. Northbound and southbound Pacific Coast shipments in general, with sufficient length of haul or origin/destination pairs that do not fall within a single port area were generally identified as being eligible. Truck cargo was analyzed at the county level in the US. All counties within the states of California, Oregon and Washington were included, and the truck traffic data provided was split into three types, common carrier truckload and less-than-truckload (LTL), and private truckload. US rail cargo, both intermodal and carload[2], was analyzed at the BEA level. This is the most detailed level that can be provided without special permission from the Surface

[1] There are 172 defined Business Economic Areas in the US, see Appendix A for a definitional map
[2] Carload refers to all other types of rail cars other than trailers or containers moving by intermodal car

Transportation Board. Each origin / destination pair included traffic mode (truck or rail), length of haul, and commodity type.

Table 1-1: 2004 Estimated "Filtered" Truckload (000's) Flows by Origin / Destination BEA

	Origin BEA								
Destination BEA	Los Angeles, CA	San Francisco, CA	San Diego, CA	Seattle, WA	Sacramento, CA	Portland, OR	Richland, WA	Other	Total
Boise, City, ID	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Eugene, OR	35.5	9.1	2.0	203.5	4.3	61.5	1.5	1.1	318.5
Fresno, CA	0.0	0.0	12.6	25.2	0.0	19.4	93.9	18.4	169.6
Los Angeles, CA	146.5	**7,160.0**	1,382.9	444.6	1,355.8	416.6	110.8	439.5	11,456.7
Pendleton, OR	89.5	1.8	0.2	0.0	0.5	0.0	0.0	0.5	92.4
Portland, OR	102.4	143.3	8.3	396.8	23.2	0.0	0.0	136.7	810.7
Redding, CA	218.2	0.0	21.7	40.1	0.0	3.6	0.0	0.0	283.6
Reno, NV	17.5	0.0	6.9	0.4	0.0	0.6	0.0	0.0	25.5
Richland, WA	17.6	17.7	0.6	0.0	2.6	0.0	0.0	6.8	45.3
Sacramento, CA	1,327.9	0.0	142.7	29.6	0.0	25.4	17.8	17.5	1,560.8
San Diego, CA	1,020.8	734.6	0.0	29.6	126.2	26.4	4.5	46.4	1,988.6
San Francisco, CA	**7,218.4**	0.0	799.1	240.3	0.0	132.2	266.1	109.9	8,765.9
Seattle, WA	238.8	97.9	10.3	252.0	27.7	233.0	0.0	96.1	955.7
Spokane, WA	33.5	9.8	0.7	0.0	2.7	0.0	0.0	2.5	49.2
Grand Total	10,467.5	8,174.3	2,388.1	1,662.3	1,542.8	918.7	494.5	875.3	26,523.5

Source: Global Insight, Reebie Transearch Database, 2004, Manalytics International

Cargo Diversion Shipper Survey

The Cargo Diversion Shipper Survey results are based on a relatively small sample and should be viewed as preliminary, subject to analysis in subsequent subtasks of this project, which may include additional survey research with shippers, consignees and transportation companies. In addition, because these results are based on a test of a new transportation concept, where the respondents have no direct experience, respondents' estimates of the likelihood of use, and extent of use if receptive, are likely to be biased downward. Nevertheless, these results provide quantitative parameters that can be used in developing preliminary, lower-bound estimates of the magnitude and key aspects of the potential demand for coastal shipping service. This information can be used to help determine whether the service is feasible and, if so, the type of vessel deployment (vessel size and speed, port rotation, call frequency, number of vessels required, etc.) that would be most appropriate.

To summarize, the principal quantitative results of the survey were:

- About 43 percent of the respondents indicated that they would consider using coastal shipping service as an alternative to their current modes of transportation for North-South shipments along the West Coast.

- Statistical analysis suggests that respondents' (1) average length of haul for eligible shipments, and (2) the percentage of their eligible freight that moves via rail both positively affect the likelihood that they would consider the coastal shipping alternative.

- The main reason for lack of interest in the coastal shipping service was skepticism about the service's ability to provide adequate transit time and reliability, particularly for those respondents with shipments involving a high degree of circuity (if they were to utilize a short sea shipping service) or perishability.

- Among those respondents that did express an interest in coastal shipping service, statistical analysis indicates that (1) the total transit time relative to truck service and (2) the all-in price relative to truck service both had significant negative effects on percentage diversion to coastal shipping from current transport modes. The estimated impact of the reliability of coastal shipping service relative to truck was not significant. Furthermore, these statistical results suggest implicit tradeoffs made by shippers between the transit time and price of coastal shipping service.

- The majority, 57 percent, of those shippers that are receptive to coastal shipping service requires at least twice-weekly service, and 32 percent require at least daily service. There is moderate seasonality of demand—relatively heavy in the Summer and Fall, and relatively light in Winter.

High Capacity Ro-Ro Vessels of Required Speed Technically Feasible

Four notional point designs for large commercial roll-on/roll off vessels with speed capabilities covering the speed range of interest (24 to 32 knots) given potential port locations, and 24, 48, and 72 hour service goals for Northern California to Southern California, Northern California to the Pacific Northwest, and Southern California to the Pacific Northwest respectively were developed using CDI Marine's design synthesis models. These point designs are summarized in Table 1-1, and served as input to vessel construction cost estimates, as well as operating and support cost estimates.

Table 1-2 summarizes the potential locations that were assessed in this study. In addition to surveying potential terminal locations, and assessing their associated impacts on vessel requirements and required speed, a discrete event simulation was developed to explore infrastructure requirements. This simulation model included activities from the time a vessel was ready to unload, to the time that all loads had been delivered to receivers, all loads had been loaded onto the vessel for the return trip, and all loads that would be staged for the next vessel were staged.

Table 1-2: Potential West Coast SSS Terminal Locations

Terminal	Restricted Channel (NM)	VTS Regulated (NM)	Constraints	Navigational Draft (MLLW)	Comments
Richmond CA	3	20		35' In Channel	Preferred terminal for Northern CA
Pittsburg CA	23	26	Air Draft 132'	35' In Channel	Alternative terminal for Northern CA
Stockton CA	60	26	Air Draft5 132' – Largest vessel to call on Port has been 796'	35' In Channel	Alternative terminal for Northern CA
Sacramento CA	64	26	Air Draft 132' – 5 Berths each 600' long	30' In Channel 35' Alongside	Alternative terminal for Northern CA
LA/LB CA	9*	0**		45'+ In Harbor	Primary terminal for Southern CA
Seattle WA	0	176		50' Most Terminals	Alternative terminal for Pacific Northwest
Tacoma WA	0	198		51' In Channel	Assumed terminal for Pacific Northwest

Speed ranges required for each of the three primary routes considered are:

- 27 to 35 knots for Northern to Southern California
- 24 to 27 knots for Northern California to the Pacific Northwest
- 20 to 22 knots for Southern California to the Pacific Northwest

Short Sea Shipping Economically Feasible Assuming Market Volume Exists

Tables 1-3 provide a comparison of estimated SSS costs, door to door, to prevailing truck rates in the three primary markets considered assuming a minimum of two 700 trailer capacity vessel sailings per day from each terminal. This table provides low and high estimates associated with lower and higher required vessel speeds, and also a lower and higher per-load terminal cost. In the Northern California to Southern California route, SSS costs compared to prevailing truck rates range from 70% to 100% depending on the assumed scenario (with our without favorable negotiated terminal costs, and with a 27 knot cruising speed or 32 knot cruising speed). In the Northern California to Pacific Northwest route, SSS costs range from 67% to 95% of prevailing truck rates depending on the scenario. In the Southern California to Pacific Northwest route, SSS costs range from 36% to 47% of the prevailing truck rates.

Table 1-3: Total SSS Costs Per Load

	Baseline Vessel Costs			Higher Vessel Costs		
	NC - SC	NC - PNW	SC - PNW	NC - SC	NC - PNW	SC - PNW
Vessel:	$236	$780	$487	$297	$1,068	$546
Trailers:	$21	$26	$31	$21	$26	$31
Yard Tractors:	$21	$21	$21	$21	$21	$21
Truck Drayage:	$270	$270	$270	$270	$270	$270
Terminals:	$28	$28	$28	$28	$28	$28
TOTAL/LOAD:	$576	$1,124	$836	$636	$1,412	$895
W/ HMT:	$651	$1,199	$911	$711	$1,487	$970
Northbound Truck Rate:	$945	$2,375	$3,265	$945	$2,375	$3,265
Southbound Truck Rate:	$693	$963	$1,325	$693	$963	$1,325
Notional Average Truck Rate:	$819	$1,669	$2,295	$819	$1,669	$2,295
SSS/Trucking:	70%	67%	36%	78%	85%	39%
SSS/Trucking with HMT:	79%	72%	40%	87%	89%	42%

These estimates should be considered preliminary, rather than the basis for a final business plan. Some key variables that should be the focus of future efforts include:

- Fuel consumption is the primary factor in costs per load for the SSS operation. Therefore, special attention should be paid to fuel consumption during vessel design development. This should include trade studies of alternative hullforms, as well as improved propulsion plant efficiency.

- Vessel construction costs are the 2nd largest vessel cost contributor next to fuel. Subsequent efforts should involve shipbuilder participation to develop highly producible designs at the least cost possible. The impact of long production runs on the average cost per vessel should be further explored.

- Truck drayage costs are a significant portion of the total costs per load, equal to vessel costs (including construction and fuel) in the case of the shorter Northern to Southern California route, and second to vessel costs for the longer routes. Truck drayage costs are therefore an area worthy of additional special attention as business models are developed.

- Detailed discussions with port authorities and terminal operators are needed to develop an accurate estimate of terminal costs, which at the time of this writing appeared to be highly variable. If priced as a per-load rate based on a percentage of prevailing container lift-on/lift-off rates it is anticipated that terminal costs will be highly inflated compared to current revenues based on the utilization anticipated from SSS operations. A more favorable rate, negotiated on the basis of replicating current revenue should be pursued.

- Simulation results of shipboard trailer maneuvering for specific designs and trailer arrangements to confirm potential throughput rates and required vessel speed should be conducted.

- Collection of maintenance cost data for commercial vessels in similar routes to reduce the conservatism of the maintenance cost estimates.

- Development of a minimum crewing plan consistent with a specific maintenance philosophy and coast guard requirements.

- More accurate assessments of the HMT based on projections of cargo values specific to given routes and markets, and continued efforts to eliminate the HMT.

- In developing a detailed business model the costs of financing, not included in the estimate, must be considered.

Submission of Horizon Lines, Inc.

to the

Subcommittee on Coast Guard and Maritime Transportation
Committee on Transportation and Infrastructure
United States House of Representatives

Supporting Legislation to Facilitate Short Sea Shipping in the United States

Washington, D.C.

March 8, 2007

Horizon Lines, Inc. believes that the development of coastwise shipping between U.S. ports (sometimes referred to as "short sea shipping") will serve the national interest and commends the subcommittee for holding a hearing on this issue on February 15, 2007. We respectfully request that this submission be included in the record of that Subcommittee hearing.

Horizon Lines is the nation's leading Jones Act container shipping and integrated logistics company, operating 16 U.S.-flag vessels on routes linking the continental United States with Alaska, Hawaii, Guam, and Puerto Rico. All Horizon Lines vessels are U.S. citizen owned and crewed.

As set forth below, we have two recommendations that would facilitate companies such as Horizon Lines being able to implement short sea shipping programs: relief from the Harbor Maintenance Tax and modernization of one aspect of the Capital Construction Fund program. First, however, we will briefly explain why promotion of short sea shipping between U.S. ports will serve the national interest.

Short Sea Shipping Can Ease Surface Transportation Congestion
While Advancing the U.S. Maritime Economy

Examples of short sea shipping include vessel movements between Seattle and Los Angeles and between Norfolk and New York. The development of short sea shipping services that move goods between two U.S. ports is a coastwise movement subject to the Jones Act. That, of course, means that the service must be provided by U.S.-flag vessels, crewed by U.S. citizens, owned by U.S. citizens, and built in the United States. The favorable economic impact to the United States and its citizens from a Jones Act vessel's short sea voyage is well understood by this Committee and the Congress.

Second, we see short sea shipping between U.S. ports on the east and west coasts as having potential to relieve surface transportation congestion. If barriers are cleared, short sea shipping could provide shippers with competitive alternatives to truck and rail

movements on increasingly congested corridors, such as I-95 and I-5, as well as the local road systems that feed these main corridors. In addition, short sea shipping has the potential to provide an efficient and cost effective alternative to moving containers on an increasingly overburdened rail system.

From a fiscal perspective, short sea shipping presents a dual benefit by providing an alternative to extremely expensive highway expansion projects and expensive and politically challenging rail expansion projects. Perhaps more important are the environmental benefits of short sea shipping. By shifting commercial transportation out of highly congested areas and off of highways and rail systems, short sea shipping can achieve significant fuel conservation and substantial reduction of greenhouse gas emissions. Since containerized trade volumes continue to grow substantially, it is increasingly important to remove barriers that could prevent the realization of these benefits.

We turn now to legislative recommendations that would remove obstacles to short sea shipping between U.S. ports.

Harbor Maintenance Tax Exemption

We support an amendment to the harbor maintenance tax (HMT) so that, at least, it would not apply to short sea shipping of cargo that has already paid the HMT when it entered the country by sea.

A particular opportunity for the development of short sea shipping may involve combining on a vessel domestic cargo and cargo originating overseas. The international containership industry has been using larger and larger vessels. Vessels with capacities of eight, nine and ten thousand plus TEU are no longer a dream, but are sailing the seas today, with more under construction. The operators of these vessels do not seek to tie them up in a series of port calls in this country before returning to Asia or Europe. The cargo volume on such vessels could provide base volume for a short sea service, especially when combined with some domestic origin cargo. The cargo volumes on these large vessels can also be a source of highway congestion, congestion that would be mitigated if some of the cargo were moved up or down the coast by sea, rather than by highway.

Yet, under current law, if cargo were to enter a U.S. port from overseas and be transferred to a smaller, shallower draft vessel for an onward voyage to another U.S. port, it would be assessed the harbor maintenance tax twice – once on arrival in the U.S. before transfer to the smaller vessel and a second time upon completion of the short sea voyage. This double taxation under the HMT creates a competitive disadvantage for Jones Act operations compared to truck and rail movements of cargo that follow the arrival of cargo in this country by sea.

Beyond the tax disadvantage there is a customer convenience and administrative burden problem as well. Shippers have long looked to containership operators to provide an all-

inclusive intermodal service (including land transportation at the ends of the ocean voyages) for a total fee. The HMT, however, as a governmental tax, is not packaged into the freight rate and is a separate charge for the shipper. So, a second HMT assessment stands out to the customer and becomes an obstacle to the use of short sea shipping, reducing the prospects of obtaining congestion relief.

There are already provisions in the HMT statute that provide exemptions from assessment, so an exemption from a second HMT charge would not be unprecedented. Further, we are confident that the second vessel will be smaller and of shallower draft. So, the HMT would be assessed with respect to the cargo's use of the deeper draft international vessel that truly necessitates the maintenance dredging. It should not be assessed on that cargo again.

In addition, since little or no domestic short sea shipping of containers is occurring now, little or no HMT is collected from such moves. So, there should be no budget impact from enacting such HMT relief.

Additional Relief

To the extent that a vessel engaged in U.S. domestic short sea shipping was financed pursuant to the capital construction fund statute, the provision of the short sea service could require payment of liquidated damages. This discouragement of short sea shipping could be alleviated by directing the waiver or reduction of damages for contiguous movements by a CCF vessel. Such a waiver or reduction is warranted by the public benefits it provides. Congestion relief is an important transportation policy factor that simply was not in view, much less prominently in view, when the CCF was first fashioned decades ago. So, we recommend legislation to fine-tune the CCF to reflect the changed times.

Conclusion. Horizon Lines believes that short sea shipping between coastwise points would create jobs for U.S. citizen crews, enhance the U.S. maritime economy and the economy generally, and would mitigate congestion in crowded corridors. Accordingly, Horizon Lines looks forward to working with the Congress in support of legislation to facilitate short sea shipping in this country.

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Congressional Subcommittee on Coast Guard and
Maritime transportation of the House Transportation and
Infrastructure committee.

Testimony by: Ronald J. Silva, Westar Transport,
Selma, Ca.

Short Sea Shipping is a new mode of transportation for most coastal areas in the United States. Short Sea Shipping is now working in niche markets in the U.S. and over sea's in Europe.
Short Sea Shipping is a diversion of truck trailers from highway's along coastal states to ship and barges. Short Sea Shipping offers many social benefits with out effecting the movements of goods.

Here is a list of those social benefits:

1. Reduce Pollution:

Diesel trucks are responsible for large amounts of NOx and PM. Removal of the trucks from the highways between major metropolitan hubs reduces pollution in these areas and along routes between the metropolitan hubs. Attached is the pollution reduction for various regions in California for a West Coast SSS modal.

2. Reduce Highway Maintenance:

Reducing truck traffic for long distances between port service areas. Lowers the cost of maintaining the highway's and reduces the need for highway expansions.

3. Improve Highway Safety:

By reducing truck traffic, there will be fewer truck related accidents resulting in injury and deaths. Highway safety will be further improved because the truck drivers working out of a common terminal will go home after their shift. This eliminates drivers working over hours, tired and unalert. This will improve the quality of life for the truck driver and promote quality family time. The trucks needed for local operations will be smaller day cab type tractors that can be coupled with spread axle trailers. This will provide a shorter, lighter truck and trailer providing better visibility and 3 to 5 thousand pounds more weight capacity eliminating one truck load out of every 10 on heavy loads shipped. SSS will save hundreds of lives each year.

4. Homeland Security:

Having roll-off (ro-ro) ships and barges available along the US coastal areas people or goods could be moved in or out of areas effected by Natural Disasters, Terrorists attacks or foreign evasion.

5. National Defense:

Ro-Ro ships and barges could be used in peacetime and in "Times of need "to move goods and personnel for our military. US Trancom has stated they would use Jones Act vessels to move goods if they were available.

6. Reduces Green House Gases:

SSS can reduce over all Green House Gases from goods movement. It will be largely determined by the fuel ships and tugs burn due to operating costs and if the models include modernizing the truck fleet at start up. Trucks produce the largest amount of emissions in a SSS system.

7. Safety at Sea:

With multiple ships cruising US coast lines with qualified US maritime crews in times of emergency could provide assistance as needed to the Coast Guard.

8. Save money for the taxpayers:

SSS over time will reduce the expense to the taxpayers in relation to reduced congestion, pollution, and highway maintenance and highway safety. It is estimated a government loan for 3 to 5 billion would build a complete SSS system on the West Coast. SSS would pay back the loan and save the government billions in social benefits costs. The ROI (return on investment) to the government on the start up loan will be an estimated 6 to 10 times the loan amount

9. Lower cost for ships:

SSS will require 14 ships, 16 large Ro-Ro barges, and 8 to 10 tugs just for the start up. Once the most economical vessels are determined threw the study and multiple vessels are being built, ship yards will find efficiencies eventually lower ship build costs to both commercial operators and the US Military. SSS will need to expand each year to grow to capture more market and meet growing freight demands. This need for more vessels will lower the acquisition cost to SSS operators and the Department of Defense, mostly the Navy.

10. Expandable to meet future freight demands:

SSS built properly with a truck over flow system will have the ability to easily expand to meet future freight demands. When the over flow volume reaches ship or barge capacity

you simple add the vessels and take the trucks off the highways. The over flow sytem will have drop yards every 250 miles (give or take). This will allow the line haul drivers to return to there home terminal by the end of the shift. Freight will still deliver on schedule.

11. Can reshape our National transportation policy:

SSS has virtually no growth or capacity constraints, it could re-shape transportation policies along coastal states in the US. SSS combined with existing over the road truck operations could fill all goods movements' capacity requirements along coastal states. Rail could conceivable designate more locomotives and rail cars to interior US states providing additional capacity where SSS cannot. Rail has stated they prefer the longer routes. Dedicated truck and rail routes to move goods from Southern California to the Texas coast could be established to allow goods destine for the East Coast to be loaded on ships and diverted off the highways. Economics still have to be accessed.

12. Removing trucks during peak commute hours:

SSS will create hub and spoke terminal systems in major metropolitan markets along coasts. This allows the truck drayage drivers to work day and night while still returning home after each shift. If shippers and receivers of goods would agree to stay open at night more trucks could deliver goods in off peak commute hours. This cannot be done today because long haul and regional drivers would be sleeping in day time hours and working at night. This provides no home time or quality family time for the drivers. This is the biggest problem with hiring truck drivers today. We cannot get them home each night.

The following is a list of hurdles and do not do's as we build Short Sea Shipping.

#1 hurdle, Secure Funding:
Secure funding for the on-goings feasible study. I have currently spent 3 years and much of my own money collecting information and educating Citizens and Government agencies of SSS benefits. We must finish the study as soon as possible. The study will determine the costs, social benefits, and the required participation of government.

#2 hurdle "Ports"
"Ports" especially in California must be willing to set aside dedicated terminal space (approx. 160 acres) and charge reasonable rates for SSS to exist and be profitable. Terminals must be dedicated because once SSS takes thousands of trucks off the highways we cannot risk losing the terminal threw bidding and put the trucks back on the highway. It would be comparable to bidding out part of I-5 or the I-95. Terminal costs will be a major component of SSS operating costs. SSS will always compete with trucks and rail. SSS must be competitive or the shippers and truckers will not use the service. The most cost competitive SSS model will prove to be a door-to-door modal where by the ships, barges, tugs, terminals and trucks are all controlled by one operator. Separately all operations cannot be profitable and still compete. A door-to-door operation can make a profit and still compete while providing the social benefits.

#3 hurdle, Start up Funding:
Because of the large start-up investment and marginal returns SSS will likely not attract private funding. Investment bankers typically expect 15 to 20% ROI (return on investment) SSS will likely not produce these ROI in the short term. SSS will show financial performances similar to trucking. Due to the social benefits a SSS system will justify the State and/or Federal governments to extend start up loans to qualified operators. The interest on the start up loan could prove to be a cost barrier for SSS.

 # 4 hurdle, Labor Costs:
It is anticipated the reduction of rates for Ro-Ro labor contracts with the Long Shoreman Union will be necessary for SSS to be competive and provide a reasonable equal pay structure across the door to door operation. Currently truck drivers make 30 to 60 thousand per year compared to union yard tractor operators that make 160 thousand per year. A door-to-door SSS system should have comparable labor rates for both the on-road drivers and workers loading RO/RO ships and barges. The skill factors are very similar and the highway drivers have much more challenges and liability. It should also be noted as SSS is built and expanded to capture an estimated 40 to 60 percent of the freight that runs on the coastal highways today we must be concerned of the economic impact of one union controlling the labor for all the International cargo and half the Domestic cargos. In the case of a strike the West, East or Gulf coasts could be crippled. Another concern is future contract negations, If SSS is started and later union labor rates escalate, SSS could be put into a non-competive situation.

#5 hurdle, Modify HMT (Harbor maintenance Tax)
Congressman Nunez and Congressman Costa support the Congressional Bill 3319 Weldon. The passing of this bill is necessary for SSS to be cost competitive.

The following is a list of Do not do's while building a Short Sea Shipping System

#1 Do not do, Unfair Competition
We must not build SSS with over subsidized public funds that would lower an operations costs to the point of providing unfair competition to existing modes (re: trucking and rail) SSS will eliminate trucks on the highway. It will also put truckers out of business at start up. Truck driver's jobs will not be lost due to a National truck driver's shortage. They will be quickly absorbed into the industry. For each 2 ships or barges brought into service 2/3 of the trucks hauling the freight today will not be needed. It has been argued that with growing freight capacity the trucks could find other work. This could take months and could bankrupt many carriers. Each ship carries 700 trailers and each barge 500 trailers. This equates to 668 and 934 trucks being not needed the day the 2 vessels come on line. In my proposed door-to-door SSS modal as part of the start up costs we will buy out or build a consortium of carriers. SSS will need the trucks, trailers and drivers and customers to secure the needed business. This door-to-door model will protect the existing modes of transportation while providing the social benefits and the lowest operating costs.

Do not:
Build a SSS system and not make it as clean (reduced pollution) and efficient as possible. We are embarking on a new transportation mode, a missing link in the supply chain. We have one chance to build it right the first time.

Do not:
Build a SSS system or any other hub and spoke transportation system and don't include the trucking component. It is critical to emissions reductions, highway safety, and quality of life to the truck drivers that any system includes modernizing the truck and trailer fleet. It must also provide good salaries and benefits to all workers in the system. Especially the truck drivers.

Do not:
Build a pieced together SSS operation. Where it is applicable like in Northern and Southern California, barge feeder operations moving containerized cargo from all terminals in a major port to a dedicated RO/RO terminal where containers on chassis will be loaded onto barges then moved closer to there final destination. In the case of Southern California containers would move from the ports of Los Angeles and Long Beach to Port Hueneme and San Diego where freight would be delivered and pick-up. This systems type approach will speed through put at the major ports and fully utilize the RO/RO terminal. Also as in the case of Northern California a barge or ferry system built only to service the port of Oakland to the ports of Sacramento and port of Stockton will not provide a mechanism to move Southern California bound containers out of the port of Oakland to the port of Richmond where the coastal ships moving the domestic trailers will be birthed. This pieced together approach will raise costs and force containers onto the road that could be diverted.

Do not:
Build a SSS system where the operator intends to move the driver and his truck tractor along with the trailer and cargo on the vessels. SSS operations need only to move the trailer on the ships and barges. This provides the most efficient truck operations out of each port terminal working trucks day and night with two drivers working two shifts. Putting drivers on the ships to take sleep breaks would not be efficient and would promote less safe trucking operations. Drivers that can't sleep due to seasickness or rough voyages would still have to drive after unloading to make the schedule delivery. This type of operation does not help with the ever-growing National Truck Driver Shortage and ties up high value assets unnecessary. The more personal you have on the ships or barges the more public facilities you will need and you increase liability in the case of an at sea disaster.

What can Congress do to help build Short Sea Shipping?

1. Provide funding to finish feasibility study. The on going feasibility study must be complete before operating costs, social benefits and government involvement can be determined. In the first phase of the SSS study funded by CCDOTT determined there is adequate volume and substantial public benefits while being cost effective enough to compete with today's trucking rates (based on the assumptions in the study).
The second phase of the SSS study will look deeper into cost cutting measures, pollution & green house gas reduction, cost savings to governments based on social benefits and the profitability and ability to service the debt on the start-up capital while maintaining a profit margin.

2. Pass HMT Bill HR3319 Weldon. Short Sea Shipping has little to no chance to being cost competitive if the Harbor Maintenance tax (HMT) is not modified to exempt domestic cargo's.

3. Work with ports and states. Securing cost effective and dedicated port terminal space for SSS operations will be one of the largest hurdles to over come, especially in California. Port terminals must be cost effective so SSS operations can compete with trucking rates and provide the social benefits. Port terminals must be dedicated and never put up for bid. If SSS lost its terminal in a bid process all the trucks being taken off the highway would have to go back on the highway. SSS must be viewed as part of the National Transportation Policy. Like our highways and rail lines SSS must stay in place after it's built forever or until a better sytem is introduced.

4. Provide necessary grants and loans. To build a SSS system as clean and efficient as possible the first time it is anticipated State and/or Federal Government low or no interest loans and grants will be required to allow SSS to be profitable. Any SSS operator should agree to devote 90% of bottom line profits back to growth to keep up with growing freight demands. An operator should not be over subsidized as to create an unfair competition situation with trucks and rail. It is reasonable the government should bare some of the start up costs of SSS in trade for the social benefits.

5. Make Government Owned Ship & Barge inventories available. Ships and/or barges now in the reduced operating status (ROS) held by the Navy or Marad should be made available for bare boat charters if the vessels will fit the required service. These ships sitting idle could promote the immediate start of certain SSS routes. The faster we can get trucks off the highways, the faster we can realize the social benefits.

6. Act as quickly as possible. With the quickly growing population and freight demand SSS needs to be studied and built as quickly as possible. We do not have the time or money or land to expand the highways to meet the coming demands. SSS will not fix all the problems we face but it will prove to be a vital component of the transportation solution.

WESTAR TRANSPORT
A TRANSPORTATION CORPORATION
9220 E. South Avenue • Selma, California 93662

February 1, 2007

Short Sea Shipping

Estimated annual emissions reductions of the start up modal.

North to South California Modal :
8 ships total: 4 sailing North, 4 sailing South daily
5,600 trailers moved daily at 700 trailers per ship.
For the best results- Ships will have gas turbine engines or slow speed diesels. The tugs will be 2010 marine diesel. All the trucks being used in the system will be 2010 truck diesel standard or L.N.G.

San Joaquin Valley- Stockton to Gorman Air Quality:
11,570 Tons of NOX air emission reduction per year, 46 tons per work day.
221 Ton of particulate matter air emission reduction per year, .004 tons per work day.

Southern California- Gorman to Los Angeles Air Quality:
8,200 Tons of NOX air emission reduction per year
20 Tons of particulate matter air emission reduction per year

Southern California barge feeder operation:
1 barge sent round trip daily from the Port of Los Angeles to Port of San Diego, and Port Hueneme.
1035 Tons of NOX air emission reduction per year
25 Tons of particulate matter air emission reduction per year
2000 trucks less, daily, between ports

Northern California barge feeder operation:
1 barge sent round trip daily from the Port of Oakland to Port of Sacramento, and the Port of Stockton.
1120 Tons of NOX air emission reduction per year
30 Tons of particulate matter air emission reduction per year
2000 trucks less, daily, between ports

Continued on back page...

Bus. 559•834•3551 • Fax 559•834•3133 • e-mail: Westartransport@westartransport.com

Emission reductions will be seen state wide, at start-up, showing 21,925 tons of NOX and 296 tons of particulate matter in air emission reductions per year. These reductions could be achieved within 5 years if we started building the system today! Ninety six hundred trucks will be taken off the highway daily, between the port service areas. The feasibility study will determine how large the start up modal could be. We are currently estimating 15% of the total trucks taken off the highways, when the results of the study are completed we may be able to grow the modal to take 40% to 60% of the daily truck traffic off the highways.

Short Sea Shipping will cost approximately 5 billion dollars to build for a 40 year modal. Based on current economic data, in the on going study, it is anticipated that an operator could pay a no interest government loan back over 25 years. This amount at an 8% interest rate would create a cost to the government (and the public) of 450 million dollars. The cost per ton of NOX reduction would approximately be $500 per ton. Billions of tax dollars will be saved through reduced road maintenance, highway expansions, and hundreds of saved lives from fewer truck related accidents. These social benefits add savings to the total cost per ton of reduced NOX, and it will then be zero. The public would gain billions of dollars if Short Sea Shipping were built.

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