

# Lake Carriers' Association 2011 Annual Report



Photo by Gary R. Clark



Dear Friend of Great Lakes Shipping:

The recovery of U.S.-flag shipping on the Great Lakes took significant strides last year. U.S.-flag lakers carried 93.8 million tons of dry-bulk cargo in 2011, an increase of 5.75 percent compared to 2010. The 2011 "float" was also just about on par with the fleet's 5-year average.

Iron ore cargos for the steel industry registered the largest increase. Shipments rose 12.4 percent to 47.2 million tons.

Limestone cargos increased 5 percent to 21.4 million tons. The resurgence reflects both increased demand for fluxstone from the steel industry and some strengthening in demand for aggregate from the construction industry.

The drop in coal – 6 percent – was inevitable given that Ontario is moving closer and closer to its January 1, 2014 ban on the use of fossil fuels for power generation, but the trade still topped 20 million tons.

Cargos of cement, salt, sand and grain were generally in line with previous years and collectively totaled almost 5 million tons.

I won't pretend our industry has completely shaken off the effects of the recession. As this century began, the iron ore trade for LCA members topped 60 million tons. But when you realize our 2009 iron ore total was the lowest since 1938, it's clear we are coming back.

Something else that is heartening is that unlike previous downturns and recessions, there has not been a major contraction in the industries we serve. Back in the late 1990s when foreign steel flooded our country, we saw giants like Bethlehem Steel and LTV Steel file for bankruptcy. A massive iron ore mine on Minnesota's Mesabi Range that had been an industry pacesetter for 40-plus years permanently shuttered its operations.

The recession of the early and mid-1980s forced the scrapping of tens of U.S.-flag lakers. During our most recent downturn, our members' fleet sizes remained stable. A 1929-hull finally reached the end of its productive life, but, during the winters of 2009/2010 and 2010/2011, our members spent more than \$100 million maintaining and modernizing their vessels in American shipyards. Included in those projects were a number of repowerings that further reduced the industry's already small carbon footprint.

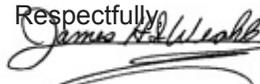
Although this report is a review of 2011, I must note that 2012 will see members' fleets grow by two large vessels that, combined, will add nearly 4 million tons of seasonal carrying capacity to our industry.

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Perhaps the most important development of 2011 was release of a comprehensive study on the economic impacts of the Great Lakes-St. Lawrence Seaway System. The study, performed by the highly respected firm of Martin Associates, was funded by a number of organizations, LCA included. The results are the most compelling argument for Great Lakes shipping ever advanced. Even though the base year selected for the study – 2010 – was far from a record setter, the analysis determined waterborne commerce on the Great Lakes generates nearly 227,000 jobs in the eight Great Lakes states and Ontario and Quebec. The cargo LCA members carried sustained 103,000 jobs between Duluth/Superior and Buffalo. The average wage those jobs produced is nearly \$50,000.

A poignant moment came on May 24 when an LCA member renamed one of its vessels to honor long-time legislator James L. Oberstar. He represented Minnesota's 8th District (which includes Duluth and the iron range) with distinction for 36 years. His accomplishments could fill pages. He championed a second Poe-sized lock at the Soo for decades and saved the icebreaker MACKINAW until a replacement was built, to mention just a few.

Our industry still faces challenges, with the major impacts reviewed on the next page. But if there's one message you take with you when you've finished reading this report, I hope it's that Great Lakes shipping remains a cornerstone of our economy and is dedicated to ever improving the services it provides to industrial America, all the while respecting the environment.

Respectfully,  


James H.I. Weakley  
President

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## Focus in 2012

### Uniform Federal Regulations Governing Ballast Water

- Both the U.S. Coast Guard and U.S. Environmental Protection Agency have regulations governing the discharge of ballast in U.S. waters. However, since states can add their own provisions to the EPA's Vessel General Permit, there is a patch work of differing requirements on the Great Lakes.
- The volume and rate at which lakers pump ballast, cold water temperatures, and the freshwater environment present engineering challenges for which there are no solutions right now.

### Preservation of the Jones Act

- Jones Act requires cargo moving between U.S. ports be carried in vessels that are U.S.-crewed, U.S.-built, and U.S.-owned.
- This level playing field promotes competition and on the Lakes has produced the world's largest fleet of self-unloading vessels.
- Every Administration since enactment has supported the Jones Act. The Navy considers the Jones Act indispensable. Very simply, without the Jones Act, America would be less secure.

### Dredging Great Lakes Ports and Waterways

- More than 16 million cubic yards of sediment clog the Great Lakes navigation system. Vessels cannot carry full loads, which impacts efficiency and system capacity.
- LCA supports legislation requiring the Harbor Maintenance Trust Fund to spend what it takes in for dredging on dredging.

### Second Poe-Sized Lock at Sault Ste. Marie, Michigan

- The "Soo" Locks connect Lake Superior to the Lower Lakes and Seaway and typically handle more than 80 million tons of cargo per year.
- U.S.-flag lakers whose length and/or beam restrict them to that chamber represent nearly 70 percent of carrying capacity. A closure of the Poe Lock would bring U.S.-flag shipping to a virtual standstill.
- Congress authorized a second Poe-sized lock in 2007, but has yet to fully fund construction.
- Construction of the lock would not only ensure the continued free flow of cargo, but also generate 1.5 million manhours for construction workers and bolster the regional economy.

### Coast Guard Icebreaking Resources

- Cargo movement during the ice season that begins in early December and stretches into April can top 20 million tons, or 15 percent of the annual total.
- Five of the U.S. Coast Guard's eight icebreakers were built in the 1970s and are in need of either modernization or replacement.
- To meet the needs of commerce, the U.S. Coast Guard has transferred an East Coast icebreaker to the Lakes for each of the past three winters.

## Lack of Dredging Took Heavy Toll Again in 2011

Lack of adequate dredging continued to limit the amount of cargo U.S.-flag lakers could carry each trip. For example, the largest iron ore cargo ever to transit the Soo Locks is 72,300 tons. That cargo was carried by the 1,000-foot-long BURNS HARBOR in 1997, a period when very high water levels allowed vessels to load to or very near to their maximum draft. Yet in 2011 the top load for the same vessel in the same trade was 66,181 tons, a decrease of 6,119 tons, or 8.5 percent of the vessel's potential capacity.

The full impact of the dredging crisis must be calculated on a season basis. Most 1,000-footers in the Head-of-the-Lakes trade typically make about 50 trips per year. Assuming the vessel forfeited 6,100 tons each trip, lack of dredging resulted in about 300,000 less tons of iron ore in 2011.

The economic ramifications are significant. Vessel operators are paid to carry cargo. Less tons mean less revenue that can be reinvested in vessels. And less tons per trip makes it more difficult to meet customers' needs. The shipping season, especially through the Soo Locks, is finite.

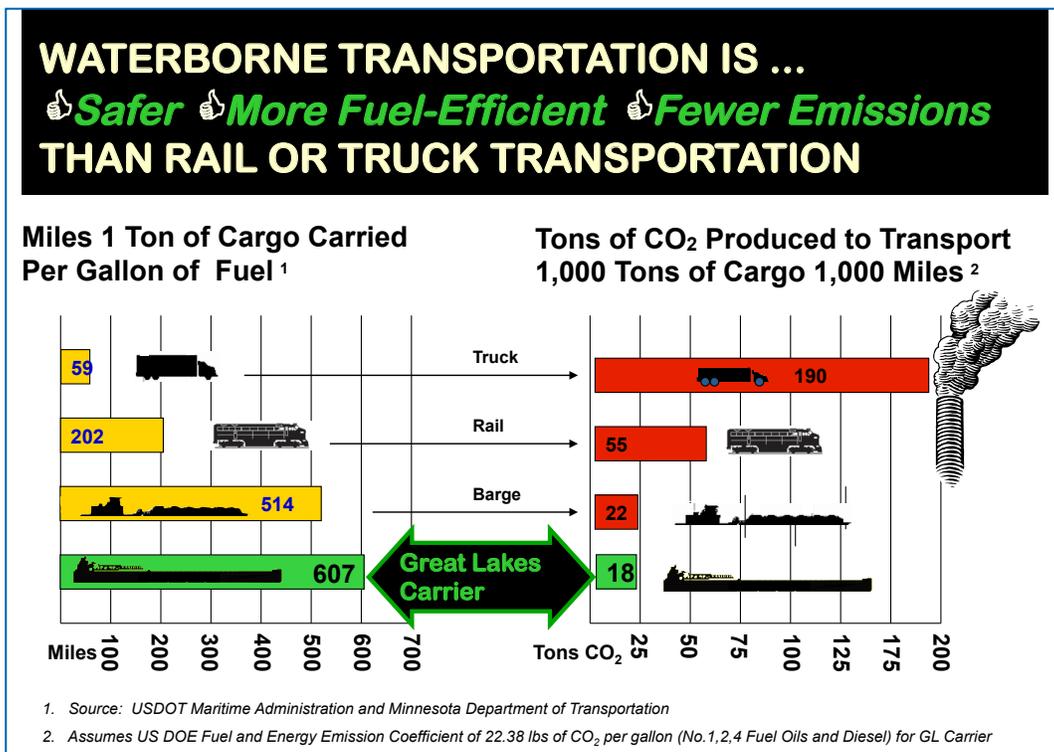
But transportation is only part of the equation. One of the iron ore mines on Minnesota's Mesabi Range produces about 8,400 tons per day, so 300,000 tons represents well over a month's work for the mine's 290 employees.

Charge blast furnaces with 300,000 tons of iron ore and out comes 200,000 tons of steel, 10 days production at a large mill employing 4,000, and enough product to build 250,000 cars. The leading auto plants make between 600 and 800 cars per day, so that iron ore that got left in Minnesota or Michigan represents more than a year's worth of employment for American autoworkers.

Every vessel and every commodity is feeling the impacts of the dredging crisis. Ships able to carry more than 70,000 tons of coal per trip are leaving the dock with less than 67,000 tons in their holds. Boats capable of loading 28,000 tons of limestone are forfeiting 1,200 tons or more when serving some under-dredged ports. A tug/barge unit dedicated to moving cement has had to shed nine percent of its capacity.

The environment is also significantly impacted. Waterborne commerce is the greenest form of transportation. A Corps of Engineers report found that a Great Lakes freighter travels 607 miles on one gallon of fuel per ton of cargo. A gallon of fuel moves a train 202 miles per ton of cargo. A gallon powers a truck for just 59 miles.

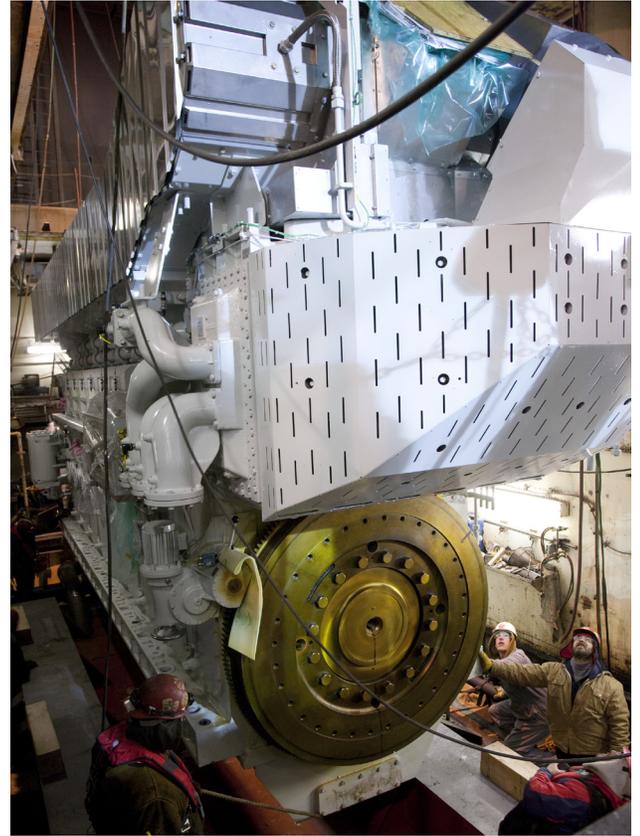
There's no reason Great Lakes ports and waterways can't be dredged to project dimensions. The Harbor Maintenance Trust Fund (HMTF) has a surplus approaching \$7 billion. The U.S. Army Corps of Engineers estimates \$200 million or so would restore the Great Lakes navigation system to project dimensions. We and our members will look to influence Congress to pass legislation that requires the HMTF to spend what it takes in for dredging on dredging.



Graphic courtesy U.S. Army Corps of Engineers, Detroit District



*It was fitting that the HON. JAMES L. OBERSTAR was christened in Duluth, Minnesota, as its namesake represented that city and the Mesabi Iron Range in Congress for 36 years. Another bond is that iron ore is the vessel's primary cargo.*



*Shipyard workers in Sturgeon Bay, Wisconsin, carefully guide a new diesel engine into the EDWIN H. GOTT. The repowering not only increased the vessel's fuel efficiency, it further reduced its already small carbon footprint. A U.S. Army Corps of Engineers report notes that Great Lakes freighters produce 90 percent less CO<sub>2</sub> than trucks and 70 percent less than locomotives.*



*Former Congressman James L. Oberstar (D-MN) was the Dean of Great Lakes legislators and it is fitting that a U.S.-flag laker now proudly carries his name.*



Photo by Todd Shorkey

*During World War II the U.S. Maritime Commission built 16 lakers to ensure the nation's steel mills got enough iron ore to make all the steel the U.S. needed to win a two-front war. One of those ships, the MANISTEE, is still proudly flying the American flag on the Great Lakes and earning her keep. In 2011, the 1943-vintage vessel carried more than 130 cargos that totaled more than 1.8 million tons. Although built for the ore trade, the MANISTEE now primarily hauls limestone and coal.*



# U.S.-Flag Cargo Movement on the Great Lakes 2006-2011 and 5-Year Average

(net tons)

| Commodity               | 2006               | 2007               | 2008               | 2009              | 2010              | 2011              | Average<br>2006-2010 |
|-------------------------|--------------------|--------------------|--------------------|-------------------|-------------------|-------------------|----------------------|
| <b>Iron Ore</b>         |                    |                    |                    |                   |                   |                   |                      |
| Direct Shipments        | 45,850,298         | 45,049,721         | 45,329,607         | 23,271,702        | 39,663,547        | 44,443,975        | 39,832,975           |
| Transshipments          | 3,121,814          | 2,156,662          | 1,893,887          | 759,385           | 2,364,871         | 2,780,768         | 2,059,324            |
| <b>Total - Iron Ore</b> | <b>48,972,112</b>  | <b>47,206,383</b>  | <b>47,223,494</b>  | <b>24,031,087</b> | <b>42,028,418</b> | <b>47,224,743</b> | <b>41,892,299</b>    |
| <b>Coal</b>             |                    |                    |                    |                   |                   |                   | 0                    |
| Lake Superior           | 17,180,114         | 16,692,347         | 17,962,580         | 15,427,708        | 15,847,574        | 12,954,188        | 16,622,065           |
| Lake Michigan           | 3,134,804          | 2,718,874          | 3,253,001          | 1,996,793         | 2,017,395         | 3,166,372         | 2,624,173            |
| Lake Erie               | 5,018,195          | 5,759,408          | 3,756,042          | 3,250,387         | 3,674,897         | 4,118,767         | 4,291,786            |
| <b>Total - Coal</b>     | <b>25,333,113</b>  | <b>25,170,629</b>  | <b>24,971,623</b>  | <b>20,674,888</b> | <b>21,539,866</b> | <b>20,239,327</b> | <b>23,538,024</b>    |
| Limestone               | 29,489,410         | 25,966,057         | 23,632,070         | 17,067,232        | 20,410,266        | 21,434,839        | 23,313,007           |
| Cement                  | 4,024,703          | 3,602,488          | 3,294,071          | 2,865,323         | 2,782,259         | 2,817,846         | 3,313,769            |
| Salt                    | 1,126,862          | 1,241,297          | 1,224,769          | 1,260,901         | 1,391,239         | 1,452,134         | 1,249,014            |
| Sand                    | 429,411            | 449,474            | 359,191            | 262,805           | 225,593           | 332,172           | 345,295              |
| Grain                   | 357,143            | 404,873            | 247,597            | 304,507           | 306,872           | 283,200           | 324,198              |
| <b>Totals</b>           | <b>109,732,754</b> | <b>104,041,201</b> | <b>100,952,815</b> | <b>66,466,743</b> | <b>88,684,513</b> | <b>93,784,261</b> | <b>93,975,605</b>    |

Source: LCA survey of member carriers.

## MEMBER COMPANIES

AMERICAN STEAMSHIP COMPANY • ANDRIE, INC.  
 ARMSTRONG STEAMSHIP COMPANY • BELL STEAMSHIP COMPANY  
 CENTRAL MARINE LOGISTICS, INC. • GRAND RIVER NAVIGATION COMPANY, INC.  
 GREAT LAKES FLEET / KEY LAKES, INC. • INLAND LAKES MANAGEMENT, INC.  
 THE INTERLAKE STEAMSHIP COMPANY • LAKE MICHIGAN CARFERRY SERVICE  
 LAKES SHIPPING COMPANY • PERE MARQUETTE SHIPPING COMPANY  
 PORT CITY MARINE SERVICES • PORT CITY STEAMSHIP COMPANY  
 SOO MARINE SUPPLY, INC. • UPPER LAKES TOWING COMPANY, INC.  
 VANENKEVORT TUG & BARGE INC.

## STAFF

**James H. I. Weakley**  
*President*

440-333-9995 • weakley@lcaships.com

**Glen G. Nekvasil**  
*Vice President*

440-333-9996 • nekvasil@lcaships.com

**Katie Gumeny**

*Administrative Assistant*

440-333-9997 • gumeny@lcaships.com

**20325 Center Ridge Road, Ste. 720**  
**Rocky River, Ohio 44116-3508**  
**www.lcaships.com • info@lcaships.com**