

Lake Carriers' Association



The Greatest Ships on the Great Lakes

2007 ANNUAL REPORT[®]



Because of the dredging crisis U.S.-Flag Lakers left port with their cargo holds less than full thousands of times in 2007.



Lake Carriers' Association

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Dear Friend of Great Lakes Shipping:

The expression "in a nick of time" comes to mind when assessing 2007. The dredging crisis had reached epidemic proportions. U.S.-Flag Lakers were typically using less than 90 percent of their carrying capacity because of inadequate water depth in either the connecting channels or ports. In fact, as water levels fell at year's end, some vessels were forfeiting 15 percent of their hauling power. Something had to give, or Great Lakes shipping was on the brink of becoming economically unviable.

Thanks to the Great Lakes delegation in Washington, something did happen that points to a brighter future. The Great Lakes received their first significant increase in their dredging appropriation in decades. In FY08, the U.S. Army Corps of Engineers will have nearly \$140 million for operation and maintenance dredging on the Lakes. That sum is an increase of more than \$45 million over the amount allocated to the Lakes in recent years.

The additional funds will allow the Corps to begin to clear the backlog of dredging projects. However, this is no time for proclamations of victory. The situation reminds me of Winston Churchill's reaction to the United States entering World War Two: "This is not the beginning of the end [for the Axis], but it is perhaps the end of the beginning." Yes, we have started to take back the Lakes, but the campaign ahead of us will be long and challenging.

The task facing us is truly daunting. It is estimated the Corps will need \$230 million to clear the backlog. That \$230 million is on top of the \$140 million the Corps needs each year to just maintain the current condition of ports and waterways. We will need to battle for our fair share of dredging dollars for a number of years to come.

I am optimistic about winning more Federal dollars in the future because of the way the Lakes maritime community has rallied behind this issue. I think one can safely say that never in the history of Great Lakes shipping have more diverse interests come together to achieve a common goal. Great Lakes Maritime Task Force, the coalition leading the dredging effort (I serve as an Officer of GLMTF) has grown so much that it soon will be impossible to include all members' names on its letterhead!

While dredging is the top priority for Lake Carriers' Association, a long-term goal took a tremendous step toward reality in 2007. Congress authorized construction of a second Poe-sized lock at Sault Ste. Marie, Michigan, at full Federal expense. The lock was first authorized in 1986, but it took 21 years for Washington to acknowledge that this one chamber is indeed the single point of failure that will cripple Great Lakes shipping, and its twinning is a Federal responsibility.

I could fill this entire report listing the names of legislators and regulators who have helped Great Lakes shipping in 2007 and previous years. Still, I must acknowledge the role of Congressman James L. Oberstar (D-MN) in winning full Federal funding for the lock. He has been a tireless advocate for the project and his persistence is a model we all should follow.

I wish I could report some positive developments concerning ballast water and the war against non-indigenous species. Unfortunately, legislation that would launch a successful counterattack has been stalled by interests who are bent on employing the Clean Water Act, even though the U.S. EPA admits the law is ill-suited to this purpose. I don't question the commitment of those who favor the Clean Water Act, but when the Federal agency charged with implementing a law warns that it doubts its effectiveness, isn't it time to take a different approach? We could already have a Federal law that sets a standard 100 times more protective of U.S. waters than that set by the International Maritime Organization. I hope we don't miss another opportunity in 2008.

In closing, I want to return to the dredging crisis and thank the countless legislators and regulators who helped us turn the tide in 2007, in particular, Congressmen David R. Obey (D-WI) and Peter J. Visclosky (D-IN), and Senators Carl Levin (D-MI), George V. Voinovich (R-OH), and Herbert H. Kohl (D-WI). Victory is not yet ours. Conditions in some ports may worsen before they get better. Nonetheless, we've proved that by working together we can start to take back the Lakes. I'm excited just thinking about what we can accomplish in 2008.

Respectfully,

James H.I. Weakley
President

LCA OBJECTIVES

2008 And Beyond

Dredging Crisis

Nothing better illustrates the severity of the dredging crisis than the cargos loaded in the closing days of 2007. Even though the largest U.S.-Flag Lakers can carry more than 72,000 tons per trip, the final coal cargos barely topped 60,000 tons. The iron ore trade suffered even more. Several cargos fell below 59,000 tons.

The dredging crisis is sapping the strength from the U.S. economy. The Great Lakes basin is America's industrial heartland. Every time a Great Lakes vessel pulls away from a loading dock with unused carrying capacity, the customer pays a double penalty. First, since the vessel is not fully loaded, there's a shortfall in the delivery that can affect production, both current, and then in the Winter, when the Lakes are closed and operations are supported by stockpiled cargo. Second, since the vessel cannot maximize its carrying capacity, the operator cannot offer the best freight rate. Manufacturing, power generation, and the construction industry are raw materials intensive, so even a tenth of a cent per ton can really add up.

For example, it takes anywhere between 1.3 and 1.5 tons of iron ore to produce a ton of steel, and a major steel mill can gobble up 15,000 tons in a day. A large power plant can burn nearly 30,000 tons of coal every 24 hours. Construction of one mile of 4-lane highway requires 85,000 tons of aggregate (limestone). Such volumes demand the best freight rate possible.

There's hardly a port on the Lakes that isn't suffering from the dredging crisis. At least one, Dunkirk, New York, has closed to commercial navigation because of inadequate depth in the harbor. 500,000 tons of coal that was delivered by ship now further crowds congested rail lines.

The U.S. Army Corps of Engineers estimates it needs approximately \$230 million to clear the backlog of dredging projects on the Lakes. While on the one hand \$230 million is a significant amount of money, it is also a tiny fraction of the surplus in the Harbor Maintenance Trust Fund. The bitter irony of the dredging crisis is that cargo moving on the Lakes (and other waterways) is taxed to pay for dredging, but instead of spending the funds to keep America's waterways efficient, the Harbor Maintenance Trust Fund is amassing a surplus (more than \$3.5 billion as of this writing).

Congress took a major step forward in 2007 by increasing the Lakes dredging appropriation to nearly \$140 million for FY08. Those additional dollars will help remove some of the backlog. However, it will take several years of increased appropriations to fully restore the Great Lakes navigation system to meet the needs of commerce. The FY08 appropriation will allow the Corps of Engineers to start addressing the dredging crisis, but the nation will not be able to capitalize on the efficiencies and advantages of Great Lakes shipping until every port and waterway is returned to project dimensions and then properly maintained.

Ballast Water and Non-Indigenous Species

Ocean-going vessels have introduced a number of non-indigenous species to the Great Lakes since the St. Lawrence Seaway opened in 1959, but the problem is not unique to the Lakes/Seaway system. Every U.S. waterway and port range that participates in global commerce has experienced non-native species taking root.

Contrary to what some proclaim, Congress has tried to address the issue. Two bills introduced in the 113th Congress languished in 2007 because environmental interests would not abandon their ill-advised preference for the Clean Water Act (CWA). Even the U.S. Environmental Protection Agency called H.R. 2830 and S. 1578 "much more stringent" than a regulatory system based on the CWA, and cautioned that using that vehicle to address ballast water would present challenges, such as establishing technological standards, that could take years to overcome.

The Great Lakes lost big when the House and Senate bills stalled. Had they passed, they would have set a standard 100 times more protective than that endorsed by the International Maritime Organization. With a clear-cut standard in place, and consistent application of its requirements mandated by a Federal law, researchers and system designers would this day be developing ballast water treatment systems that would meet that specific standard. Instead, the debate goes on.

Lake Carriers' Association and its members have taken steps to minimize the potential for their ballast operations to spread non-indigenous species introduced by ocean-going vessels. (Lakers never leave the system, so have never introduced an alien.) In fact, LCA had a program in place to address Viral Hemorrhagic Septicemia (VHS) even before the fleet set sail in March 2007.

What will 2008 hold? More jockeying for position? More State initiatives that could force vessel operators to comply with a jumble of differing, perhaps even conflicting regulations? If that is the case, more exotics will take root in the Lakes. The only viable solution is Federal regulation of the ballast water and tanks on ocean-

going vessels entering the Lakes. LCA remains hopeful, but not optimistic, that 2008 will see a ballast water bill pass the House and Senate, so it can be signed into law. It's regrettable that some put legal claims and philosophical principals above the goal of stopping the influx of invasive species. This is a case where we need more regulation and less rhetoric. Let's get this problem behind us!

Second Poe-Sized Lock

The Water Resources Development Act of 2007 directs the U.S. Army Corps of Engineers to build a second Poe-sized lock at Sault Ste. Marie, Michigan, at full Federal expense. Congress now must quickly appropriate the \$341 million needed to build the lock, for every day of delay puts the U.S. economy at risk. The Soo Locks are truly the aorta of Great Lakes shipping, and a blockage will cause a heart attack.

Consider these facts. The two operational Soo Locks typically handle 80 to 85 million tons of cargo per year. Included in that total are 70 percent of the iron ore moving on the Lakes, 52 percent of the coal, and 67 percent of the grain.

The problem is that one lock, the Poe, handles nearly 80 percent of all the traffic. And roughly 70 percent of the U.S.-Flag Great Lakes fleet is restricted to the Poe Lock because of the vessels' length and/or beam. If anything happens to the Poe Lock, the North American steel industry will quickly face raw material shortages. The region's power plants that have switched to clean-burning low sulfur coal will be without fuel. Midwest farmers will be cut off from export markets worldwide.

Construction of a second Poe-sized lock could take 10 years. Therefore, it is imperative that Congress appropriate funds to initiate the project as quickly as possible. Loss of the Poe Lock will cripple the economy and our national defense capabilities.

U.S. Coast Guard Resources

The Ninth Coast Guard District must patrol more than 100 ports, three major connecting channels, and 1,500-plus miles of international border on the Lakes. During periods of ice cover, Coast Guard icebreakers have to keep the shipping lanes open to meet the needs of commerce. These vessels are also responsible for more than 2,500 Aids to Navigation. It is to the credit of Coast Guard personnel that such daunting tasks are accomplished even though the Ninth District lacks the proper number and mix of vessels to accomplish these missions.

However, a number of the icebreaking tugs are at mid-life. As a result, during the 2006-2007 ice season, all but one of the Coast Guard's icebreaking assets suffered some type of casualty, which in some instances resulted in significant downtime. The new *Mackinaw* was the only exception. The U.S.-Flag Great Lakes fleet can move nearly 20 percent of its annual float during periods of ice cover. At a minimum, the District needs another 140-foot-long icebreaking tug to keep the shipping lanes open and then perform other missions during the ice-free months.

The Jones Act

The Jones Act requires cargo moving between U.S. ports be carried on vessels that are U.S.-owned, -built, and -crewed. The same principles govern the movement of passengers and other maritime activities such as towing, dredging, and salvage.

The Jones Act's purpose is so the United States shall have a "merchant marine of the best equipped and most suitable types of vessels to carry ... its commerce and serve as a naval or military auxiliary in time of war or national emergency." The U.S.-Flag domestic fleet numbers more than 39,000 vessels and domestic waterborne commerce routinely tops 1 billion tons. The fleet has grown by nearly 60 percent since 1965, and ranks among the largest in the world in terms of capacity.

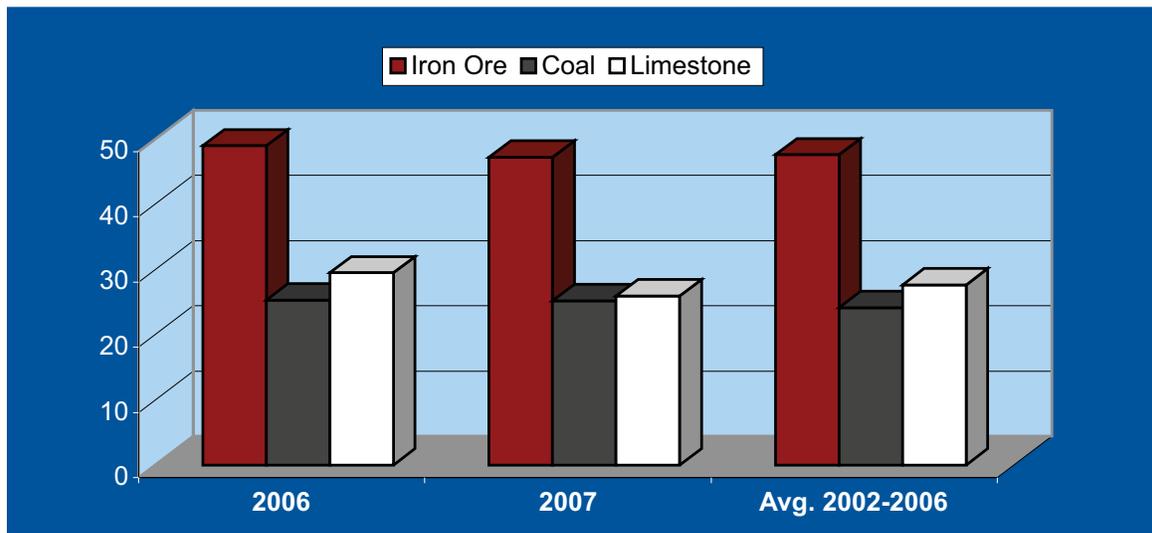
The U.S.-Flag Great Lakes fleet is a pacesetter in many ways. The self-unloading vessel was invented and perfected by U.S.-Flag Lakes operators. Not only are these vessels able to discharge 70,000 tons of cargo in 10 hours or less, they require no shoreside personnel or equipment to be unloaded. The end result is virtually any waterside property can become a working dock with little investment from shoreside enterprises.

There are safety and environmental benefits to the Jones Act. U.S.-Flag vessels are built and operated to the world's highest safety standards. The mariners who crew Jones Act vessels are licensed and documented by the U.S. Coast Guard, and again, the standards to which they are held are without peer.

The Jones Act also plays a critical role in our nation's national defense capabilities by ensuring the U.S. has the ships and mariners to supply our troops worldwide, and the shipyards and related industries to build and maintain that fleet. For these reasons (and many, many more), every Administration and Congress has supported the Jones Act since its enactment in 1920.

U.S.-FLAG SHIPMENTS OF IRON ORE, COAL, AND LIMESTONE

2006-2007 and 5-Year Average
(tons in millions)



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