

From:

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1) Is there potential for a Marine Highway Program in the United States?

The obvious answer is yes. However, the real answer is considerably more complicated.

First of all, there ALREADY are marine highways in the US today if, by that one means the movement of passengers or freight by water. The Alaska Marine Highway System (www.dot.state.ak.us/amhs), Washington State Ferries (www.wsdot.wa.gov/ferries) and North Carolina DOT Ferry Division (www.ncdot.org/transit/ferry) are examples of state run ferry systems that offer extensive passenger and car services.

There are major inland, Great Lakes, and blue water barge companies (*e.g.*, Ingram Barge, Kirby Corp., Moran Towing Corporation, and Columbia Coastal Transport, LLC) and major blue water shipping companies (*e.g.*, Horizon Lines, Totem Ocean Trailer Express, Inc., Crowley Marine Corp., Sea Star Line, LLC and Matson Navigation Company, Inc.) that move millions of tons of cargo each year in a broad spectrum of US Jones Act trades. The companies listed form only a part of the marine services industry that plays an active role in the US transportation system today.

However, domestic bulk commodities and international containers, which comprise the largest majority of the freight moved by existing US marine operators, are not the primary cause of highway and railway congestion along the coastal corridors that marine highway projects are expected to relieve. It is beyond argument that congestion on these systems is created overwhelmingly by domestic freight moving by highways in 53' trailers and by railway in 53' domestic containers. The current economic recession has reduced transportation demand, but the long term trend lines are set toward greater and greater congestion which will get worse as the economy improves.

Thus, when you ask about "potential" in connection with a "Marine Highway Program", you must be referring to services which do not yet exist. Indeed, the Short Sea Transportation Initiative described in Section 1121 of the Energy Independence and Security Act of 2007 (PL 110-140) ("EISA") was enacted with a view to expanding marine freight and passenger services beyond those that already exist. The stated objective of EISA is to increase the ability of our coastal, lake and inland water systems to reduce congestion on the existing rail and highway systems. Indeed, Secretary of

Transportation LaHood's answer to this same question indicates the Department's desire to expand marine highways, which clearly indicates that DOT is not satisfied with the current level of use of our coastal, lake and inland waterways to move passengers and freight.

The Maritime Administration has been promoting short sea shipping since 2001 and, to its credit, has worked hard to gain traction for the idea within various constituencies within the domestic maritime industry. Yet, to date, not one new marine highway operation has been launched by an established domestic maritime operator. Indeed, all of the new short sea or marine highway services launched since 2000 have been by start-ups: Osprey Lines in 2000, Lake Express, LLC in 2004, and 64 Express and SeaBridge Freight, Inc. both in December 2008.

Osprey Line (www.ospreyline.com), which is now owned by Kirby Corporation, was a privately funded startup that offered (and continues to provide) container on barge service on a scheduled basis between Houston and New Orleans and up the Mississippi River. Lake Express, LLC (www.lake-express.com), privately owned and financed with Title XI assistance, is in its sixth year offering a seasonal passenger and car ferry service across Lake Michigan in a new vessel built in the United States. 64 Express (www.64express.com), a public-private partnership funded primarily with CMAQ funds, offers a weekly barge service moving international containers between the Ports of Richmond and Hampton Roads in Virginia. SeaBridge Freight, Inc. (www.seabridgefreight.com), a privately owned and financed tug and barge operation, offers scheduled service between Port Manatee, Florida and Brownsville, Texas.

Eco Transport (www.eco-transport.com), which has yet to commence operation, is being funded and developed by the Broe Group (www.broe.com).

Thus, on the evidence, it appears that the established US domestic maritime companies have yet to see much "potential" in marine highways or see too many obstacles to financial reward to risk their own capital starting one. With only four new marine highway operations created since 2000, each quite small and limited in scope, it is hard to argue that the "potential" has been realized by others either.

That is why I started my response as I did. Personally, I believe strongly that US coastal waters offer opportunities to attract significant volumes of cargo and passengers from existing highways and railways. However, unlocking this "potential" in a meaningful way is going to require considerably more good, old fashioned American ingenuity, imagination and risk taking than has been evident to date.

This great country built canals to open up the hinterlands of the East Coast, railroads to reach into the West and eventually bridge the continent, and highways to create a network that is still for all its congestion the envy of the world. Each of these endeavors required technological innovation, inventiveness AND government support.

Look at high speed rail. Unlocking its potential in the United States has already attracted more than \$10 BILLION in funding because someone in this Administration recognizes that it's one thing to have innovative technologies that can be used to create high speed rail facilities, and a far different thing to have sufficient funding to turn those technologies into viable operating services.

The pending DOD authorization bill is set to provide \$15 million in annual funding for 5 years to support MarAd's Marine Highway Program. That is about 0.75% of the initial funding provided for high speed rail. What does this say about the relative "potential" Congress sees in these transportation initiatives? Without the kind of stout Congressional and Administration champions that enabled high speed rail to garner significant funding, marine highways will remain mostly unrealized "potential".

2) What are some of the barriers to making MH a reality on a larger scale?

There are many, but I want to focus on the three that I think are most critical: vision, imagination and funding. Many of the others will disappear in time (e.g., HMT), but even when they are gone, the barriers discussed below will continue to limit marine highway growth.

Vision. To make any appreciable difference in the congestion on highways and railways, we have to see what is possible, not just what exists. Several speakers at the August 5th, 2009 Propeller Club Breakfast panel in Washington, DC argued that an incremental approach is needed for marine highways to be "real". The implication was the established marine operators know what will work and, if they do not believe an idea will work, it will not. Inexperienced newcomers with "fancy" ideas should be avoided because they will fail and discredit the marine highway concept. Better to start small, set up a "test service", and expand from there. If past is prologue, the wisdom of this argument has already been demonstrated.

There are at least two problems with this approach. First, to "start small" one must use existing marine assets. Two, it limits what is possible to what already exists.

Will the US create a high speed rail network using existing locomotives and track? Did we create the railroads by converting canals? Is the airplane an incrementally better car? The fact is technology created new possibilities that were then applied in innovative ways to create new transportation services. The steam engine made rail locomotives possible. Lighter internal combustion engines made airplanes possible. However, it took the US federal government's strong financial support to take these possibilities and turn them into the rail and air services that we now take for granted.

Without vision there is no progress. And vision requires a "leap of faith" to see what can be, not just what is. The canals, railroads, highways and air transport systems were created on a "build it and they will come" basis. Did shippers commit freight to railroads that existed only on paper in order to persuade Lincoln to provide funding for them? History has taught us that better connections between markets will draw traffic. Creation

of railroads moved freight from canals, the expanding highway network narrowed the transportation market for passenger and freight railroads, and airplanes created new markets for freight and passenger transport, drawing passengers and freight from rail and highway.

If marine highways are going to have a meaningful impact on congestion in coastal markets, they have to draw significant traffic from railways and highways, just like railroads drew traffic from the canal system, truckers drew traffic from railroads, and airplanes drew traffic from the passenger rail system. A new alternative has to be more attractive to users than their existing options. That is the challenge for those who want a robust marine highway system – offer services that are more attractive to users than the highway and rail options they have today.

Imagination. “The power to form new ideas by a synthesis of separate elements of experience, and the ability to define new ideas.” Webster’s Dictionary of the English Language, Encyclopedic Edition (1989). We will not move forward looking in a rear view mirror. Technological progress makes the heretofore unknown, known. We experience it every day as processing chips and software advances allow business to be done in ways unimaginable just twenty years ago. Remember when the fax machine was cutting edge? Remember 10 megabyte hard drives? Remember intermodal before JB Hunt transformed it? Yet, the powers that be in the industry argue for an incremental approach to potential of marine highways. Fixed firmly on the primacy of freight, they ignore the fact that over 70 million (yes, million!) people travelled to Florida for vacation in 2005, and most of them went by highway in their cars.

Without some imagination in applying known technologies and design improvements which make new ships capable of performing in ways that existing ships cannot, the marine highway will remain circumscribed by the possibilities of existing marine assets.

In accepting an award – I don’t remember now what it was for – at MarAd’s 3rd Short Sea Shipping Conference in New York, the President of Totem Ocean Trailer Express, said that his company, after introducing two state of the art ro/ro vessels to its established Alaska trade, studied the possibility of employing its now redundant ro/ro tonnage along the US East Coast. The company concluded that frequency and reliability of service were paramount to success. In its judgment, a successful service would require at least five ro/ro’s offering daily departures to be competitive to what was available then by highway. The company has obviously concluded that the investment required to launch such a service is not warranted.

What does that mean? That ro/ro service along the East Coast is not feasible? Coastal Connect (www.coastal-connect.com) clearly believes there is potential in freight only service along the East Coast. SeaBridge USA, Inc. believes a combined freight and passenger ferry service can succeed. In both cases, new vessels are needed; vessels which are not now part of the American merchant marine fleet. The fact is that existing vessels will have a hard time competing against the combination of intermodal railroad and highway service even in coastal corridors.

The refrain repeated endlessly by the US maritime industry is that one needs committed freight to justify investment in marine assets. But, how does one get committed freight for an operation that does not exist? It is one thing to sign a five year time charter for a defined type of container ship and then use that charter to finance construction of the vessel. It is a far different challenge to raise capital to create a service based on an analysis of the market and the transportation offer necessary to attract the customers. The reality is America's marine highways will have to be built "on spec" just like the railroad, air transport and interstate highway systems were.

Funding. Secretary LaHood refers to marine highways as "critical" in his response to your question 3. However, EISA provided no funds to support the program that it created and, even now, almost two years later, there is only the prospect of \$75 million in funding over the next five years. The plain fact is that, unless DOT believes that tug and barge operations are going to dramatically reduce congestion in coastal markets, this level of funding will not produce any meaningful additions to the marine highway.

Furthermore, it pales in comparison to the billions provided to high speed rail, the potential of which will require more time and much more money than a marine highway program might and may well produce a smaller transportation impact than successful marine highways. As important, the high speed railroad will need to be built "on spec", assuming that travelers will use it once it is in place – an approach considered anathema to prospective marine highways. The truth is we can measure the seriousness of a government program by the resources it provides to support it. \$75 million is a rounding error in the high-speed rail funding account. And that tells us something about the government's commitment to marine highways.

Part of the funding problem is the balkanized way in which funding is to flow. It is one thing for major railroads to obtain hundreds of millions of taxpayer dollars to upgrade their rail capacity. These are major corporations that have ample staff and resources to seek money from the government, and existing operations to finance the search for capital from private and government sources. Make no mistake the money taxpayers are giving to the railroads to improve track, bridges, switches among other parts of their systems would otherwise come from working capital or profits. Once invested in the railroad, the assets belong to the railroad and its shareholders, unlike money spent on the highway system.

This should not be read as an objection to the government's role in financing increased rail intermodal capacity. It is simply to point out that taxpayer dollars are going to benefit private companies **IN THE PUBLIC INTEREST**. It is also intended to point out that forcing startup companies like SeaBridge USA, to seek funding through the plethora of municipal, regional, state and multi-state agencies and entities involved in the allocation of infrastructure dollars, like the railroads do to create projects like the Heartland Corridor, is a substantial barrier to success.

As importantly, the very public agencies, which would-be marine highway operators are directed to approach, have already said they are not in a position to judge the relative merits of competing proposals – a “Catch-22” situation, if ever there was one. Essentially, the favored policy tilts the playing field in favor of existing operators who have the resources to pursue funding or it limits new entrants to marine highway projects that require existing marine assets.

In a nutshell, the amount of funding available to date and the approach to distributing that funding explains why there have been so few start ups to date. The amount that may become available to MarAd if the DOD authorization passes is so small as to preclude any change in the rate of growth demonstrated over the past ten years. The distribution method being contemplated for the even limited funds that may be available is certain to restrict the growth of marine highways to start ups using existing marine assets or existing operators. This is not an encouraging prospect for the success of a “critical” part of the National Transportation System.

3) Is MH a part of a National Transportation System?

Yes, albeit a limited one. See answer to question 1.

Stephen’s bio:

Mr. Flott, one of the founders of SeaBridge, started his career in transportation in 1971 while at law school when he joined the Ontario Trucking Association (OTA) in Toronto as special assistant to the Executive Vice President and General Manager. Upon graduation from York University’s Osgoode Hall Law School in 1973, he joined the Toronto law firm of Weir & Foulds. Mr. Flott was called to the Bar in Ontario with honors in 1975. While at Weir & Foulds, he practiced business law with an emphasis on transportation, representing motor carriers in a variety of business and regulatory matters.

In 1978 he was appointed President of the Ontario Trucking Association, which was then one the largest trucking associations in North America. For the next five years, Mr. Flott ran OTA’s business and political activities domestically and internationally. In 1983 he left OTA and started a management, strategic planning and public policy consulting firm, which he later merged into The Trade & Transportation Group Limited (TTG), which had offices in Ottawa, Toronto & Washington, DC. TTG conducted a wide range of projects for major motor carriers in Canada and the U.S., the Governments of Canada and several Canadian provinces and major associations.

In 1986, Mr. Flott resumed his legal career. After four years with two US law firms, he opened his own practice, specializing in transportation, business, cross-border activities, and the US taxation of international transportation. Today Flott & Co. PC represents foreign ship-owners and motor carriers doing business in the US.

In addition to his law degree, Mr. Flott holds an honors degree in History and Economics from St. Jerome’s University (1967), a Masters Degree in History from the University of

Waterloo in Ontario (1968), and a Masters Degree in law from the George Washington University in Washington, DC. (1987). He is a member of the bars of the District of Columbia, the State of Maryland and the Commonwealth of Virginia. Mr. Flott and his family live in Arlington, Virginia.