

**HOW THE MARINE HIGHWAY CAN REBUILD THE U.S. ECONOMY
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TRADING ON THURSDAY, NOVEMBER 6, 2008*:**

ECONOMIC IMPACT OF THE MARINE HIGHWAY

For many years, the United States has faced a lack of investment in transportation, clean air, manufacturing, fuel-efficiency and family wage jobs that today can be addressed by investments such as the marine highway initiative. The marine highway can take thousands of trucks off U.S. roads and on to more fuel efficient American-built ships. These ships can be financed by the U.S. Maritime Administration's Title XI loan guarantee program that requires 5 cents of taxpayer money to guarantee every \$1 dollar loan made to finance new ships. These marine highway guarantees will encourage banks to make more loans for U.S. jobs and economic development.

Within the next two years, the United States can generate thousands of new high-paying jobs at new and existing shipyards in the Great Lakes, Atlantic, Pacific, Gulf and Mississippi river regions as well as cargo-handling jobs at U.S. ports and new jobs for American mariners. Ships require only 25% of the fuel used by trucks to carry the same cargo, so major savings in fuel costs and carbon emissions can be realized. Finally, marine highway ships reduce costs to taxpayers of highway maintenance and repair when they shift truckloads on to ships.

TAKING 40,000 LONG-HAUL TRUCKS OFF U.S. HIGHWAYS SAVES TAXPAYERS MONEY

It is possible to shift the average 20,000 truckloads per day that transit the East Coast I-95 corridor and the 20,000 trucks on the West Coast's I-5 corridor on to new fuel-efficient ships. As a result, truckers can focus on shorter pick-ups and deliveries to and from ports rather than getting stuck in traffic on long-haul trips that are increasingly uneconomical due to intense traffic congestion and high fuel prices. This also improves driver utilization for trucking companies.

The estimated cost of building 66 ships to carry the 40,000 truckloads is \$3.3 billion. This is based on Santa Maria's estimate of \$50 million for a ship carrying 300 fifty three foot containers. The loan loss reserve for the Title XI program would require an allocation of \$165 million to guarantee \$3.3 billion in shipbuilding.

The cost to U.S. taxpayers of one road widening: the 710 freeway serving the ports of Los Angeles/Long Beach is \$5.5 billion - primarily due to harbor trucking. An estimated 15% of that harbor trucking could be shifted on to 8 ships for deliveries to nearby San Diego for loan guarantees costing taxpayers \$10 million. This would finance 8 small coastal ships at a construction cost of \$208 million.

SAVINGS TO THE HAWAII ECONOMY

Another example is the state of Hawaii, where new, U.S.-built ships transporting containers from Southern California to Honolulu can cut existing ocean freight rates for Hawaii shippers and consumers by 10%-20% due to better fuel efficiency. The service can also relieve Honolulu truck congestion by shifting container deliveries to the West Oahu port of Barbers Point, near Hawaii distribution centers.

INCREASED INVESTMENTS AT PORTS AND SHIPYARDS

The increased shipping should not create additional congestion at ports if loan guarantees for improved cargo handling and improved rail access are factored. There will also be a need for new shipyards and improvements to existing ones. So adding \$85 million will create additional guarantees for these improvements that will total \$1.7 billion. In other words, marine highway guarantee of \$5 billion will require \$250 million in Title XI funding.

CHANGES IN THE TITLE XI PROGRAM

The \$250 million authorization for Title XI needs to include some changes in the program to support a mass shipbuilding strategy. Providing insurance against a shipyard failure is important for shipowners, financiers and for shippers and charging applicants a processing fee to ensure against shipyard defaults will provide improved insurance. Second, the approval process needs to be opened to new ship owners by taking into account positive cash flow from long-term shipper contracts rather than debt to equity ratios that favor existing carriers. Shipper contracts should eliminate the need for outside market surveys currently required for Title XI approvals. New guarantees should be added to support ports and terminal operators buying cranes and other cargo-handling equipment to meet the cargo demand from new ships. Finally, the application process needs to be streamlined so as to ensure 3-month approvals or rejections rather than the current system that can take years. To facilitate the credit worthiness issue, shipowner candidates should be recruited from existing trucking companies and shippers, such as J.B Hunt and Wal-Mart, who can demonstrate the marketability of new ships as well as benefit from cost savings and less vehicle emissions.

ADDING U.S-BUILT REQUIREMENT TO U.S. GOVERNMENT CARGO REQUIRING U.S. FLAG VESSELS

Currently 50% of all U.S. government cargoes must move on U.S. flag vessels employing American crews. The proposed marine highway initiative will add a requirement that 50% of these government cargoes must be moved on U.S.-built ships as of 2009. Thus, demand for new ships can be bolstered by taxpayer-financed government cargo programs, such as U.S.military cargoes, that will bolster construction of more U.S.-built ships with less dependence on foreign-built ships.

CUTTING FUEL COSTS AND CARBON EMISSIONS

Modern ships utilize only 25% of the fuel required for a similar size truckload and can be powered by the same ultra-low sulfur diesel fuel used by new clean truck engines. Vessel design is a key element in better speed and lower fuel consumption. So, transport costs and fuel consumption can be cut and carbon and sulfur emission dramatically reduced.

EMPLOYMENT IMPACT

Best of all, coastal ships must be built in the United States by law - the Jones Act - so that shipbuilders and other suppliers in the Great Lakes, the Gulf Coast, as well as those serving the Pacific and Atlantic regions will all benefit.

Santa Maria has projected that building two U.S. coastal ships capable of carrying 300 fifty-three foot containers will directly employ 300 workers. Projections are that shipbuilding creates 300% additional or indirect jobs, according to City of Philadelphia research on the Aker Philadelphia shipyard. In contrast, a shopping mall job in the service industry has a multiplier effect of about 40%. Thus, 300 direct jobs can create as many as 900 support jobs for workers in steel, paint, machinery, electronics, joinery and marine propulsion. A consultant's projection is that 12 new or existing shipyards will be needed to build the 66 ships over a 5 year period and require around 4,000 new shipyard workers. This, multiplied by 300% = 12,000 indirect jobs. Thus, building 66 ships should create 16,000 direct and indirect jobs. The 66 ships, in turn, will require two crews of 12 mariners each or $66 \times 24 = 1,584$ new mariners. In addition several thousand new port-related jobs will be needed to handle and move new container cargo. All of these jobs pay over \$20/hour and include healthcare and other benefits that bring total compensation to around \$30/an hour. This is higher for longshore and harbor workers.

Of course, enacting the 50% U.S. built requirement on U.S government cargo contracts will generate even more ships and jobs.

HOW WORLD WAR II SHIPBUILDING HELPED PULL THE U.S. OUT OF THE DEPRESSION

A good example of the economic development impact of shipbuilding was evident during World War II. Then, shipbuilding helped pull the United States out of the Great Depression when orders for the Liberty ships and other wartime vessels created new jobs and manufacturing. The shipbuilding effort employed over 600,000 Americans in stable, high-paying jobs financed by the U.S. Maritime Commission, now the U.S. Maritime Administration. Under the leadership of Admirals Land and Vickery and with the support of industrialists such as Henry Kaiser, the United States built 5,000 vessels including 2,700 Liberty ships as well as Victory ships. On the West Coast, Kaiser built mass production shipyards within months and was at one point building ships within thirty days. The Liberty ships that Americans produced created a maritime conveyor belt that supported military operations in European and Asian theaters. The shipbuilding mobilization hired women and minorities into the industrial workforce for the first time to work as welders, fitters, plumbers and crane operators. Many new entrants had no previous shipbuilding experience and had to be trained from scratch. Shipyard incomes made during the war helped finance the post-World War II prosperity of the 1950s and 1960s, because higher wages stimulated increased growth and consumption.

The federally financed American shipbuilding innovations in welding, modular construction and mass-production were copied by Japan after World War II to modernize its economy, followed by Korea and today by China.

CONCLUSION

The \$250 million taxpayer investment in the marine highway will generate \$5 billion in loan guarantees that can build 66 new American-built ships and create thousands of new high-paying jobs as well as support for:

- *Banks making loans for U.S. jobs and economic development
- *New cargo-handling and trucking jobs at ports
- *New sea-going jobs for mariners
- *New community college training for shipyard workers
- *Fuel savings for American shippers
- *Less foreign oil imports
- *Less carbon emission so as to fight global warming
- *Less taxpayer spending on highway maintenance where ships can replace trucks

The carbon emission reduction is made possible by replacing fuel inefficient trucks with fuel efficient ships. Incidentally, new solar and wind technologies means that ships and cargo-handling equipment can be powered by renewable energy at ports creating the potential for zero carbon emission freight corridors within the next few years (please see greenships.org for a more detailed report).

The investment in the marine highway represents an important step in rebuilding the United States economy and re-engineering it toward global competitiveness.

*Thursday, November 6, 2008, at 11 am at the law offices of Flynn, Delich & Wise, Committee on America's Marine Highway and the Committee on Inland Waters and Towing, One World Trade Center, Suite 1800, Long Beach CA 90831-1800 Telephone 562-435-2626.