



2012 Annual Report of Lake Carriers' Association



The U.S.-flag Great Lakes fleet grew by two vessels in 2012 that will be able to serve the needs of commerce for decades to come. The tug/barge unit KEN BOOTHE SR./LAKES CONTENDER (above) was built in Erie, Pennsylvania, and made her maiden voyage in May. Her first port of call was Silver Bay, Minnesota, where she loaded 36,130 tons of iron ore for delivery to Cleveland, Ohio. Then in October, the tug/barge unit DEFIANCE/ASHTABULA (below) began her Great Lakes career by loading 20,053 tons of sand in Brevort, Michigan, for delivery to Buffalo, New York. The tug/barge unit had previously worked the Gulf Coast, but was modified for Lakes service in Sturgeon Bay, Wisconsin. Photos courtesy Paul Magyar (above) and Brian Wroblewski (below).



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Dear Friend of Great Lakes Shipping:

2012 was another year of hard work yielding satisfying results for Lake Carriers' Association and its members. While we did not end the dredging crisis, the transportation bill, which was passed by Congress in June, made a clear statement that was music to our ears: *"It is the sense of Congress that –*

- (1) the Administration should request full use of the Harbor Maintenance Trust Fund for operating and maintaining the navigation channels of the United States; and*
- (2) the amounts in the Harbor Maintenance Trust Fund should be fully expended to operate and maintain the navigation channels of the United States...."*

Equally gratifying was the support we received from the Great Lakes delegation in Washington. One hundred ninety-six members of the House of Representatives, of which 40 were from Great Lakes districts, co-sponsored legislation requiring the HMTF to spend what it takes in each year. Thirty-seven members of the Senate, 12 from Great Lakes states, co-sponsored the companion bill. Most of these legislators have returned to Washington in 2013, so we begin the 113th Congress in our strongest position ever.

The timing is critical. The drought has pushed water levels on Lakes Michigan and Huron to record lows.

The water level in the St. Marys River also declined as 2012 wore on; by year's end ships were loading to less than 26 feet. In 1997, the last period of high water, ships routinely locked through the Soo drafting 28 feet or more. That loss of draft cost some ships more than 10,000 tons of cargo on their final voyages of 2012.

The dredging crisis did not materialize overnight and it won't disappear in the blink of an eye, either. However, the long hours and countless meetings have rallied our supporters. The day is drawing nearer when the Great Lakes dredging budget will once again reflect the system's role in America's economic well-being and provide adequate funds for maintaining ports and waterways. When that happens, full loads will again be the rule and not the exception.

The industry also appreciated that the U.S. Coast Guard's long-awaited Final Rule on ballast water reflected the reality that no systems exist that can handle our operational requirements. Our members still must strictly follow a number of Best Management Practices aimed at minimizing the chance their ballast could spread a non-indigenous species introduced by an oceangoing vessel. Some individual members of LCA voluntarily institute additional measures such as raising seachests. We must always remember, however, that the Great Lakes are interconnected and exotics, once rooted, migrate freely, independent of commercial navigation. Any requirement that lakers treat their ballast would be superfluous and in no way would prevent the introduction or spread of aquatic nuisance species.

It is certainly disappointing – but not surprising - that cargo movement remained below pre-recession levels. Canada's decision to phase out coal for power generation has reduced demand for that cargo. Sluggishness in the construction industry continued to curb aggregate shipments, but iron ore was more or less on par with recent years.

Besides dredging and ballast water, we will continue to work to permanently assign another U.S. Coast Guard icebreaker to the Lakes, correct the flawed benefit/cost ratio for the second Poe-sized lock at Sault Ste. Marie, Michigan, and keep the Jones Act the foundation of America's domestic maritime policy.

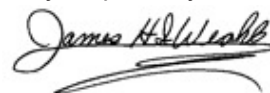
Our members' commitment to this industry and its future was borne out in several meaningful ways in 2012. First, during the winter of 2011/2012, they spent more than \$75 million maintaining and modernizing their vessels. Then during the season, as illustrated on the cover, two vessels joined the fleet. With the Lakes being freshwater, there is no reason these vessels can't operate for 60 years or more.

LCA's radar screen will be full of blips again in 2013. Besides dredging and ballast water, we will continue to work to permanently assign another U.S. Coast Guard icebreaker to the Lakes, correct the flawed benefit/cost ratio for the second Poe-sized lock at Sault Ste. Marie, Michigan, and keep the Jones Act the foundation of America's domestic maritime policy.

For those who have sailed, a busy radar screen can be cause for concern. For us on the shore, it's a reminder that this industry's challenges are many. Still, with so many resources and talented individuals "signed on articles" at our members, LCA will succeed and keep shipping on these waters great in every sense of the word.

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Very respectfully,



James H.I. Weakley
President

How Best to Foster Great Lakes Shipping in 2013 and Beyond

Dredging Great Lakes Ports and Waterways

- More than 17 million cubic yards of sediment clog Great Lakes ports and waterways. As a result, vessels cannot carry full loads and that impacts efficiency and, equally important, system capacity. The problem has been exacerbated by the drought that has seen Lakes Michigan and Huron plunge to record lows as 2013 begins.
- Depending on the vessel, each inch of lost draft reduces payload by anywhere from 50 to 270 tons of cargo.
- The Federal government taxes cargo to pay for dredging, but since it only spends one of every two dredging dollars on dredging, the Harbor Maintenance Trust Fund ("HMTF") has a surplus of \$7 billion. LCA supports legislation requiring the HMTF to spend what it takes in for dredging on dredging. The Great Lakes Navigation System can be restored for \$200 million, or just 2 percent of the HMTF surplus.

Uniform Federal Regulations Governing Ballast Water

- Both the U.S. Coast Guard and U.S. EPA 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 patchwork of differing requirements on the Great Lakes.
- The rate at which lakers pump ballast (as high as 80,000 gallons per minute), cold water temperatures, and the freshwater environment present engineering challenges for which there are no solutions now or in the immediate future.
- If states must co-regulate ballast water, those regulations must mirror the Federal statutes and recognize that since lakers never leave the system and so have never introduced a non-indigenous species, the focus must be on preventing new introductions via the ballast on vessels entering from the oceans. The Lakes are interconnected, so once a non-indigenous species has taken root, it will expand its range independent of commercial navigation.
- Clearly then, there is no need for lakers to treat their ballast.

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

- The "Soo" Locks connect Lake Superior to the Lower Lakes and typically handle more than 80 million tons of cargo per year.
- U.S.-flag lakers whose length and/or beam restrict them to the Poe Lock 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 1986 and then in 2007 approved the project at full Federal funding, but until a flawed benefit/cost analysis is corrected, the Administration cannot include the project in its budget.
- At the behest of Senator Debbie Stabenow (D-MI) a new assessment of the replacement lock has been launched and LCA is fully participating in the analysis.
- Construction of the lock would not only ensure the continued free flow of cargo, but also generate 1.5 million manhours for construction workers in an area still plagued by high unemployment and bolster the regional economy as well.

Adequate 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.
- Canada has trimmed its icebreaking fleet from seven to two vessels, even though there actually are more Canadian lakers than U.S.
- The U.S. should permanently assign another icebreaker to the Lakes and build a twin of the heavy icebreaker MACKINAW launched in 2006.
- Canada should assess the adequacy of its icebreaking fleet.

Jones Act

- The 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.
- Since its enactment in 1920, every Administration has supported the Jones Act. The Navy considers the Jones Act indispensable. Very simply, without the Jones Act, America would be less secure. We would not have the shipyards to build our naval and Coast Guard vessels nor the skilled mariners to crew the ships that supply our troops overseas.



The KAYE E. BARKER was outfitted with new diesel engines in 2012 that have made the vessel more fuel efficient and reduced emissions to state-of-the-art levels. Photo courtesy Rod Burdick.



It's been a long time since the car ferry BADGER carried railroad cars, the cargo for which she was built, but now her cavernous hull is ideally suited for wind turbine parts. Photo courtesy Lake Michigan Carferry Service.



The cement carrier ALPENA (left) marked its 70th year of operation in 2012. Launched in 1942 as the ore carrier LEON FRASER, the ship was converted to haul cement in 1991. The Lakes' freshwater environment means a well-maintained hull can last almost indefinitely and, with adequate Coast Guard icebreaking resources, operate from early March until mid-January. Photo courtesy Travis Chadwick.

The U.S.-flag laker GREAT REPUBLIC (right) was a frequent visitor to the Welland Canal and St. Lawrence Seaway in 2012. The vessel carried a number of iron ore cargos from Duluth/Superior to Québec City. The iron ore was then loaded into oceangoing vessels for shipment overseas. Another U.S.-flag laker, the H. LEE WHITE, also participated in the transshipments to Québec City. Photo courtesy Roger LeLievre.



Dredging Crisis Not Just About Lightloading; It's About The Environment

It is a mistake to view the dredging crisis as solely an issue of vessels carrying less than full loads. Of course, when vessels "lightload," there's an economic impact. Vessel operators are paid to carry cargo. Fewer tons mean less revenue. And when vessels can't operate at their peak efficiency, customers are denied the savings the system was designed to provide. The U.S. Army Corps of Engineers has estimated that Great Lakes shipping annually saves its customers \$3.6 billion in freight costs compared to the next least costly mode of transportation (rail and, in certain trades, trucks).

In periods of peak demand, lightloading could impede the industry's ability to meet its customers' raw materials requirements.

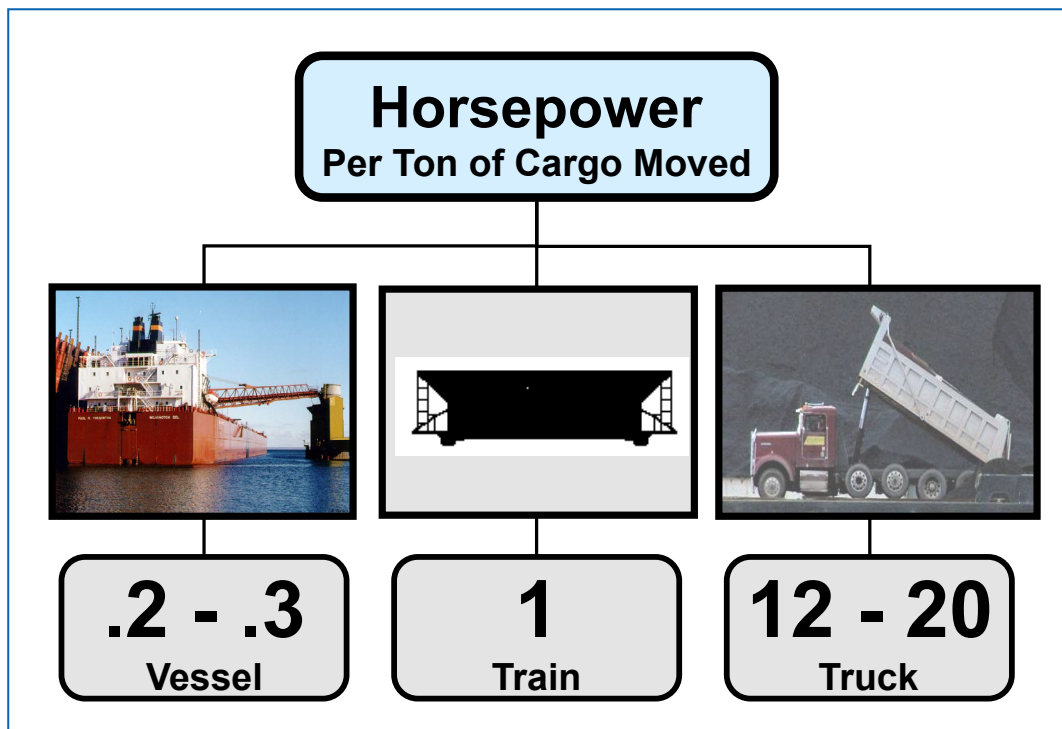
But it's the environment that's the biggest loser. Waterborne commerce is the greenest form of transportation. Vessels use less fuel to move a ton of cargo than the land-based modes of transportation and in the process produce fewer emissions than trains or trucks. It's simple physics: Since there's less friction as an object moves through water, it just doesn't take as much power. If the horsepower per ton moved ratio was the same for trucks as it is for ships, a semi could be powered with a lawnmower engine!

The U.S. Army Corps of Engineers has found that a Great Lakes carrier travels 607 miles on one gallon of fuel per ton of cargo. A freight train goes only 202 miles on a gallon of fuel per ton of cargo, and a truck travels a mere 59 miles per ton of cargo.

The comparisons are equally impressive in terms of emissions. A cargo of 1,000 tons transported by a Great Lakes freighter produces 90 percent less carbon dioxide as compared to the same cargo transported by truck and 70 percent less than the same cargo transported by rail.

Remember too that it takes seven 100-car unit trains or 2,800 trucks to equal the amount of cargo the largest lakers carry in just one trip if they can load to their designed draft.

So in the final analysis, ending the dredging crisis will not only be good for the nation's economy, it will be good for the nation's environment!





**U.S.-Flag Dry-Bulk Cargo Movement on the Great Lakes
Calendar Years 2007-2012 and 5-Year Average
(net tons)**

Commodity	2007	2008	2009	2010	2011	2012	Average 2007-2011
Iron Ore	47,206,383	47,223,494	24,031,087	42,028,418	47,224,743	45,189,027	41,542,825
Coal	25,170,629	24,971,623	20,674,888	21,539,866	20,239,327	17,579,948	22,519,267
Limestone	25,966,057	23,632,070	17,067,232	20,410,266	21,434,839	21,794,394	21,702,093
Cement	3,602,488	3,294,071	2,865,323	2,782,259	2,817,846	3,183,388	3,072,397
Salt	1,241,297	1,224,769	1,260,901	1,391,239	1,452,134	1,020,157	1,314,068
Sand	449,474	359,191	262,805	225,593	332,172	336,316	325,847
Grain	404,923	247,597	304,507	306,872	283,200	371,406	309,410
Total	104,041,251	100,952,815	66,466,743	88,684,513	93,784,261	89,474,636	90,785,907

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
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 VANENKEVORT TUG & BARGE INC.

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