

VIP White Paper

Developed by DRMEC & The Howland Group for Very Informed Policymakers

The Energy Independence & Security Act of 2007: American Marine Highways Move into the Limelight

Introduction. In December 2007, President George W. Bush signed into law the Energy Independence and Security Act of 2007 – also known as the “energy bill.”

Among other important energy independence and greenhouse gas-reducing initiatives, the energy bill includes provisions for the U.S. Department of Transportation (DOT) to establish a Short Sea Transportation Program. The goal of this program is to mitigate road and rail congestion, and thereby reduce greenhouse gas emissions, by using waterborne vessels to move cargo between U.S. ports and certain Canadian ports - hence building America’s Marine Highways. The energy bill also includes provisions to designate short sea transportation routes, promote the program’s use, improve vessel design, and encourage new projects through various tax incentives.

In this report, the Delaware River Maritime Enterprise Council (DRMEC):

1. Reviews the definition, historical and global use of short sea shipping;
2. Summarizes the energy bill’s short sea transportation provisions;
3. Explores related opportunities for the Strategic Seaport of Philadelphia and the Delaware Valley Region; and
4. Highlights transportation industry challenges pertaining to the Harbor Maintenance Tax.

Short Sea Shipping Background. Short sea shipping is the movement of cargo along coastal and inland waterways. Main advantages of short sea shipping include alleviating congestion, decreasing air pollution and achieving cost efficiencies. Further, it is believed that moving cargo by ship, rather than rail or truck, is more efficient and cost effective, as one 4,000 dwt vessel is equivalent to 100-200 trucks.

Bulk carriers moving through an established inland waterway system and along U.S. coasts by barge, tanker and freighter currently contribute to a reduction of rail and highway congestion. U.S. short sea shipping, however, has not yet been used to its full potential. Conversely, short sea shipping is at the forefront of the European



Union's transportation policy and it accounts for nearly 40% of all freight moved throughout Europe. As recent growth in world trade has resulted in a four-fold increase in capacity since the 1970's, vessel design shifts and growing international trade have resulted in congestion and logistics problems in and around major U.S. ports.

According to the Short Sea Shipping Cooperative, which includes public and private organizations whose goal is to improve transportation mobility through international and national short sea shipping:

Fifty years ago, the U.S. developed its Interstate Highway System to move goods to market, deploy military assets in time of National Emergency and compliment an established rail system. The development of rail and highway in the U.S. has been the foundation of our domestic intermodal system. These two transportation modes continue to deliver products to the American consumer who is largely responsible for powering the global economy.

Growth in trade has placed a burden on the U.S. transportation infrastructure. Both rail and highway have reached capacity and the cost to expand that capacity is enormous. Logistic companies need an alternative to the current rail and highway system that is capable of complimenting the existing modes and adding needed capacity. The alternative is SHORT SEA SHIPPING.

Energy Bill Highlights. The short sea transportation provision of the energy bill:

- Directs the Secretary of Transportation (the "Secretary") to establish a Short Sea Transportation Program and designate projects to be conducted under the program to mitigate landside congestion.
- Encourages use of the Short Sea Transportation Program through development and expansion of documented vessels, shipper utilization, port and landside infrastructure, and marine transportation strategies by state and local governments.
- Directs the Secretary to enter into Memorandums of Understanding with other federal agencies to move their cargo via short sea shipping, when practical or available.
- Mandates the Secretary to, within a year of the law's passage, submit to specific Congressional committees a report on the established Short Sea Transportation Program.
- Allows short sea transportation activities to be made eligible for support from DOT's Capital Construction fund (CCF), allowing owners and operators to use pre-tax dollars they accumulate in CCF for short sea transportation projects, including construction of new container and roll-on/roll-off ships. The CCF exists to help owners and operators of U.S.-flagged vessels in building, reconstructing or acquiring merchant fleets.

Opportunities. To understand DRMEC's general support of the energy bill's short sea transportation initiatives, it is important to consider our primary goals, including:

- Demonstrating our RAPID System technology and processes to showcase innovation, best practices and technologies for strategic seaports in the post-9/11 environment. To date RAPID System's virtual and agile information-sharing hub, known as RAPID Center, has been utilized in more than 30 ship operations at the Port of Philadelphia and other strategic seaports, including Charleston, S.C., and Savannah, Ga.;
- Reducing DOD deployment timeframes;
- Improving force protection, homeland defense and homeland security;
- Improving the efficiency of existing transportation infrastructure capacity;
- Utilizing secure inland staging areas for storage and maintenance of DOD rail-based equipment and synchronizing the flow forward to the marine terminal;
- Promoting the Strategic Seaport of Philadelphia as the nation's beta site for DOD distribution transformation solutions;
- Leveraging and quickly customizing existing commercial assets and technologies to meet national and homeland security requirements;

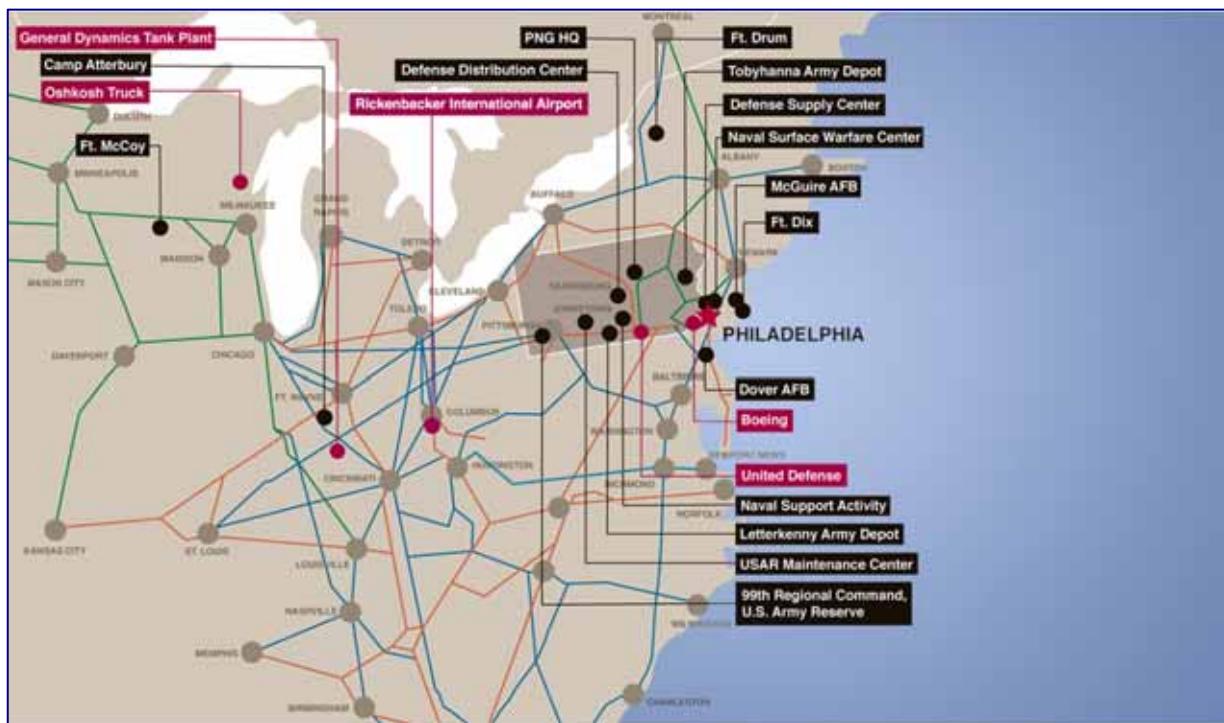
With these goals in mind, DRMEC believes the energy bill's short sea transportation provisions provide many opportunities for the Strategic Seaport of Philadelphia and the Delaware Valley Region, in that the Port of Philadelphia offers short sea transporters:

Capacity. As many U.S. seaports are currently at or exceeding capacity, the Strategic Seaport of Philadelphia offers available capacity and the ability to handle significant future capacity, including that created by the short sea transportation program.

Existing Infrastructure. The Strategic Seaport of Philadelphia has in place modern rail, highway and seaport infrastructure to move cargo between the Port and end destinations. The Port is served by three Class I railroads and offers efficient access to major interstate highways.

Information-Sharing Capabilities. The Strategic Seaport of Philadelphia utilizes RAPID System's innovative information-sharing technology and processes. RAPID System tracks surface shipments, telling customers where shipments are in the system, where they're going, and when they'll get there. It leverages an existing global communication and electronic system that currently serves DOD and the U.S. State Department, and allows for neutral and secure information-sharing between the federal government and trusted partners.

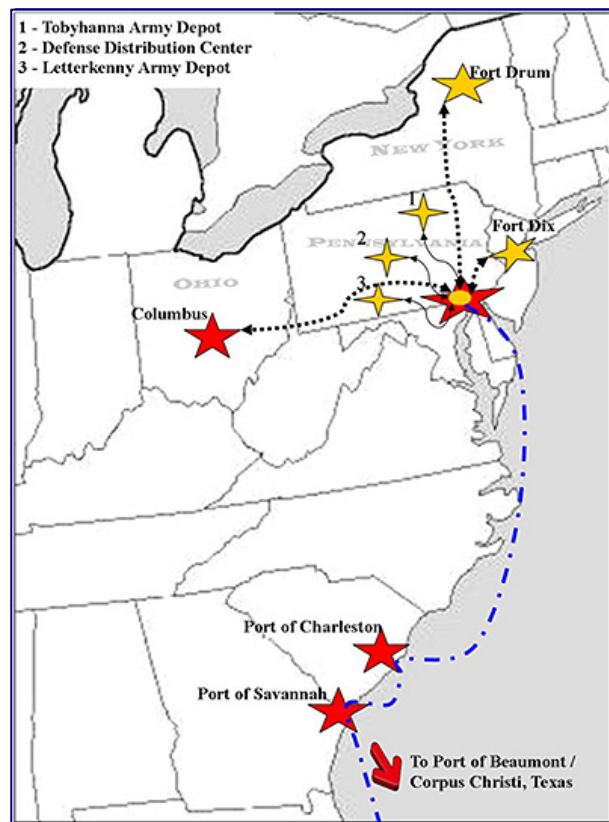
Close Proximity to Major Markets. Pennsylvania is the Keystone State – centrally located on the eastern seaboard and closely situated among many major transportation corridors. As such, Strategic Seaport of Philadelphia is also ideally located - in close proximity to numerous military installations and major commercial markets, including: Fort Drum, Tobyhanna Army Depot, Defense Supply Center Susquehanna, Defense Distribution Center Philadelphia, Letterkenny Army Depot, McGuire Air Force Base, Dover Air Force Base, and Fort Dix.



Highly Qualified Workforce. The Port of Philadelphia’s ILA workforce is trained for the loading and unloading of heavy military equipment, which requires special handling. This training has proven to be invaluable as U.S. Army deployment, redeployment and RESET cargo moves through the Philadelphia Seaport.

Delaware River Dredging Plans. In May 2007, Pennsylvania Governor Ed Rendell announced an agreement between Pennsylvania and New Jersey to allow for dredging of the Delaware River from 40 to 45 feet. The entire project comprises more than 100 miles of waterway and is expected to be completed by approximately 2010. The deeper channel is expected to have a significant economic impact, as it brings potential for additional private sector investment on the Delaware River, including the possibility of a new state-of-the-art container terminal. Deepening of the Delaware River will also work to accommodate increased short sea transportation vessels.

The Ben Franklin Corridor. In an overall effort to create a safer and more fully-integrated transportation system in Pennsylvania and surrounding areas, DRMEC and its partners are coordinating efforts to have DOT designate a new Corridor of Regional and National Significance known as the Ben Franklin Corridor. The corridor includes port, rail and highway transportation assets and intermodal connectors between the Port of Philadelphia and key commercial and military inland distribution hubs in the eastern U.S., including those in Pennsylvania, Ohio, New Jersey and New York. **The Ben Franklin Corridor also includes an American Marine Corridor between the Port of Philadelphia and the East Coast Ports of Charleston, S.C., and Savannah, Ga., and the Gulf Coast Ports of Beaumont and Corpus Christi, Tx.**



Designation of the Ben Franklin Corridor is aligned with the Port of Philadelphia's significant role in supporting DOD deployments and redeployments; supporting the 56th Stryker Brigade Combat Team stationed in 31 locations through Pennsylvania; supporting rapid deployments of Army Combat Brigades strategically located throughout the corridor; providing a key transportation mode for equipment into and out of two of the nation's five Army Materiel Command repair depots; and supporting major DOD vendors and contractors located in Pennsylvania and throughout the Midwest and Northeast, including Boeing, United Defense, General Dynamics, BAE, Lockheed Martin and Oshkosh Truck.

The energy bill's short sea transportation provisions pertaining to road and rail infrastructure improvements will ensure that the Ben Franklin Corridor is safer and more reliable for rapid movement of high-value goods and for civilian use. Moreover, the movement of cargo from the roads and rails to water vessels will reduce congestion and greenhouse gas emissions throughout this heavily utilized transportation corridor.

Challenges. Numerous transportation industry stakeholders, including DRMEC, agree that the Harbor Maintenance Tax (HMT) is an onerous road block to the energy bill's short sea transportation provisions. The HMT imposes an additional tax on trucking companies that move their cargo from roads and rails to water vessels – essentially a double tax not levied on cargoes that move by truck and rail. So when history tells us that freight will move at the most cost effective method available, the HMT presents reasons for transportation companies to keep their cargo on congested railways and roadways.

Efforts are underway to urge Congress to waive the HMT for short sea transporters. DRMEC believes an HMT waiver would indicate that Congress is serious about both our environment and national road/rail congestion issues. In addition, it would finally present truck and rail companies with a truly viable alternative.

Conclusion. DRMEC has a positive outlook for short sea transportation and development of America's Marine Highways. In addition to creating opportunities for Port workers and communities throughout the U.S., we anticipate that the energy bill's initiatives will create many opportunities for the Strategic Port of Philadelphia and the entire Delaware Valley Region.

In addition to the opportunities we expect the Short Sea Transportation Program to create, we believe it can have an overall positive impact on reducing greenhouse gas emissions, alleviating road and rail congestion, and creating a safer and more efficient national transportation system.

We are hopeful that Congress will address HMT issues in a timely manner in order to present those who will be most effected by moving their cargo from roads to ships with reasonable incentives for doing so.

HIGHLIGHTS

- In December 2007, President Bush signed into law the Energy Independence and Security Act of 2007—also known as the “energy bill.” Among other important energy independence and greenhouse gas-reducing initiatives, the energy bill includes provisions for the U.S. Department of Transportation to establish a Short Sea Transportation Program. The goal of this program is to mitigate road and rail congestion, and thereby reduce greenhouse gas emissions. (p. 1)
- The short sea transportation provision of the energy bill: (1) calls on the Secretary of Transportation to establish a Short Sea Transportation Program and designate projects to be conducted under the program to mitigate congestion; (2) encourages use of the Program through development and expansion of documented vessels, shipper utilization, port and landside infrastructure, and marine transportation strategies by state and local governments; (3) directs federal agencies to move their cargo via short sea shipping, when practical or available; and (4) provides ship owners and operators with tax incentives for short sea transportation projects. (p. 2)
- DRMEC believes the energy bill’s short sea transportation components provide many opportunities for the Strategic Seaport of Philadelphia and the Delaware Valley Region as they offer capacity, existing infrastructure, information-sharing capabilities, close proximity to major markets and a highly qualified workforce. In addition, the Delaware River is currently being dredged from 40 to 45 feet, which will accommodate increased short sea transportation vessels. (p. 3–4)
- DRMEC and its partners are coordinating efforts to have DOT designate a new Corridor of Regional and National Significance known as the Ben Franklin Corridor. The corridor includes port, rail and highway transportation assets and intermodal connectors between the Port of Philadelphia and key commercial and military inland distribution hubs in the eastern U.S. The Ben Franklin Corridor also includes an American Marine Highway Corridor between the Port of Philadelphia and the East Coast Ports of Charleston, S.C., and Savannah, Ga., and the Gulf Coast Ports of Beaumont and Corpus Christi, Tx. (p. 4–5)
- Stakeholders agree that the Harbor Maintenance Tax is an onerous road block to the energy bill’s short sea transportation provisions, as it imposes an additional tax on trucking companies that move their cargo from roads and rails to water vessels. (p. 6)
- Pending a resolution to the Harbor Maintenance Tax issue, DRMEC has a positive outlook for short sea transportation and development of America’s Marine Highways. (p. 6)

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