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REVIEW OF THE ADMINISTRATION'S FISCAL YEAR 2012 BUDGET REQUESTS FOR THE U.S. COAST GUARD, FEDERAL MARITIME COMMISSION, AND FEDERAL MARITIME ADMINISTRATION; FINDING WAYS TO DO MORE WITH LESS

(112–11)

HEARING

BEFORE THE

SUBCOMMITTEE ON
COAST GUARD AND MARITIME TRANSPORTATION

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

MARCH 1, 2011

Printed for the use of the
Committee on Transportation and Infrastructure

Available online at: http://www.fdsys.gov/

U.S. GOVERNMENT PRINTING OFFICE

65–483 PDF WASHINGTON : 2011

For sale by the Superintendent of Documents, U.S. Government Printing Office
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U.S. House of Representatives
Committee on Transportation and Infrastructure
Washington, DC 20515

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February 25, 2011

MEMORANDUM

TO: Members, Subcommittee on Coast Guard and Maritime Transportation

FROM: Staff, Subcommittee on Coast Guard and Maritime Transportation

RE: Hearing on "A Review of the Administration's Fiscal Year 2012 Budget Requests for the U.S. Coast Guard, Federal Maritime Commission, and Federal Maritime Administration: Finding Ways To Do More with Less."

PURPOSE

The Subcommittee on Coast Guard and Maritime Transportation the will hold a hearing to examine the fiscal year (FY) 2012 budget requests for the Coast Guard, Federal Maritime Commission, and Maritime Administration on Tuesday, March 1st at 10:00 a.m. in room 2167 Rayburn House Office Building.

BACKGROUND

Coast Guard

The United States Coast Guard was established on January 28, 1915, through the consolidation of the Revenue Cutter Service (established in 1790) and the Lifesaving Service (established in 1848). The Coast Guard later assumed the duties of three other agencies: the Lighthouse Service (established in 1789), the Steamboat Inspection Service (established in 1838), and the Bureau of Navigation (established in 1884).

The Coast Guard remained a part of the Department of the Treasury until 1967, when it was transferred to the newly created Department of Transportation. Under the Homeland Security Act of 2002, (P.L. 107-296), the Coast Guard was transferred to the Department of Homeland Security on March 1, 2003.

Under Section 2 of Title 14, United States Code, the Coast Guard has primary responsibility to enforce or assist in the enforcement of all applicable Federal laws on, under, and over the high seas and waters subject to the jurisdiction of the United States; to ensure safety of life and property at sea; to carry out domestic and international icebreaking activities; and, as the fifth armed force of the United States, to maintain defense readiness to operate as a specialized service in the Navy upon the declaration of war or when the President directs.

The Coast Guard is directed by a Commandant, who is appointed by the President with the advice and consent of the Senate for a four-year term. In 2010, President Obama appointed Admiral Robert J. Papp, Jr. as Commandant of the Coast Guard.

(in millions)

Program	FY2011 CR	FY2012 Authorized	FY2012 President's Budget	Diff. of FY2012 Pres. Budget and FY2011 CR	
				$	%
Operating Expenses	6,563.9	None	6,819.5	255.6	3.9%
Overseas Contingency Operations	241.5		258.3	16.8	6.9%
Environmental Compliance & Restoration	13.2	None	16.7	3.5	26.5%
Reserve Training	133.6	None	136.8	3.1	2.4%
Acquisition, Construction & Improvements	1,536.3	None	1,421.9	-114.4	-7.4%
Alteration of Bridges	4.0	None	0.0	-4.0	-100.0%
Research, Development, Test & Evaluation	24.7	None	19.8	-5.0	-20.1%
Medicare-Eligible Retiree Health Care Fund Contribution	265.3	None	261.9	-3.5	-1.3%
Subtotal, Discretionary *(not including OCO)*	**8,541.1**		**8,676.6**	**135.5**	**1.6%**
Subtotal, Discretionary *(including OCO)*	8,782.6		8,934.8	152.3	1.7%
Retired Pay	1,400.7	None	1,440.2	39.5	2.8%
State Boating Safety Grants	117.7	None	120.8	3.1	2.6%
Oil Spill Liability Trust Fund Claims (estimate)	92.0	None	101.0	9.0	9.8%
Subtotal, Mandatory	**1,610.4**		**1,661.9**	**51.5**	**3.2%**

Total *(not including OCO)*	10,151.5		10,338.5	187.0	1.8%
Total *(including OCO)*	10,393.0		10,596.7	203.8	2.0%

FY 2012 Coast Guard Budget Request: The President requests $9.85 billion in FY 2012 for Coast Guard activities, an increase of $178 million (or 1.8 percent) above the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. For purposes of this memo, amounts included in the Continuing Resolution are expressed as full year numbers. This amount does not include $258.3 million for Overseas Contingency Operations, which the administration proposes to appropriate to the Department of Defense (DoD) in FY2012 and then make available to the Coast Guard.

Operating Expenses: The budget request for Coast Guard Operating Expenses (OE) in FY2012 is approximately $6.82 billion, an increase of $255.6 million (or 3.9 percent) above the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. The OE account supports the day to day activities of the Coast Guard including administrative expenses, support costs, travel, lease payments, and the operation and maintenance of infrastructure and assets. The OE account also funds personnel compensation and benefits for the Service's approximately 42,000 active duty military members, 7,000 reservists, and 8,000 civilian employees.

The FY 2012 request proposes to increase the size of Coast Guard's military workforce by approximately 20 positions while increasing the number of civilian personnel by nearly 700 positions. These are net increases which account for a decline in positions from decommissioning certain assets, as well as increases due to the conversion of positions from military to civilian, the transfer of the polar icebreaking program and certain intelligence personnel back to the Coast Guard for accounting purposes, and the creation of nearly 200 positions to support additional vessel inspection and marine environmental response activities.

The request includes $66 million to cover the cost of the 1.6 percent pay raise for military personnel in 2012, as well as increases in military benefits to maintain parity with benefits received by DoD servicemembers. The budget does not request funding for a civilian pay increase in 2012.

Other increases in the OE budget request are attributable to follow on costs for the operation and maintenance of new assets and technology acquired in FY 2011, increased sustainment costs for aging assets, and increases in other administrative expenses. These increases are offset by $162.2 million in cuts derived through the decommissioning of certain assets (see below), consolidation of technical services and reductions in travel, support, and other administrative costs.

The budget proposes to decommission the following assets:

- *High Endurance Cutter:* The Coast Guard proposes to decommission one High Endurance Cutter (WHEC) in FY 2012. The 378' WHEC fleet has an average age of 43 years and the cutters are failing at increased rates resulting in lost operational days and increased maintenance costs. The Coast Guard estimates saving $6.7 million in FY 2012 through decommissioning one WHEC. The Coast Guard is decommissioning two WHECs in FY 2011. The WHEC fleet is being replaced by the National Security Cutter (NSC). Two NSCs have been delivered to date and the Service expects to take delivery of a third NSC in FY 2011.

- *PC-179s:* The Coast Guard currently has a Memorandum of Agreement with the Navy to crew, operate, and maintain three Navy built 179 foot Patrol Coastal (PC) vessels. The MOA with the Navy expires at the end of FY 2011. The Coast Guard does not propose to extend the MOA. The Coast Guard estimates saving $16.3 million in FY 2012 by no longer operating and maintaining these vessels. The Coast Guard first entered into a MOA with the Navy for these vessels in 2004 to mitigate a shortfall in patrol boat hours due to the failure of aging assets. The Coast Guard expects to fill the lost patrol boat hours from the expiration of the MOA on the PC-179s through the acquisition of the Fast Response Cutter (FRC). The Coast Guard anticipates taking delivery of the first FRC in 2011.

- *USCGC POLAR SEA:* The Coast Guard operates the nation's only Class I polar icebreakers. The Service proposes to decommission the POLAR SEA in FY 2011, one of the two icebreakers. Built in the mid-1970's, the POLAR SEA and its sister ship, the POLAR STAR have suffered numerous breakdowns in recent years. The POLAR STAR is currently undergoing a service life extension project and will not be operational until 2013. The POLAR SEA suffered a significant engine failure and has not been operational since June, 2010. The Coast Guard proposes to complete the rebuilding of the engine on the POLAR SEA before decommissioning it.

Environmental Compliance and Restoration: The President requests $16.7 million for the Environmental Compliance and Restoration (EC&R) account in FY 2012, a $3.5 million (or 26.5 percent) increase over the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. The EC&R account provides for the clean-up and restoration of contaminated Coast Guard facilities, as well as for the remediation of Coast Guard assets to ensure they operate or are decommissioned in compliance with environmental laws.

The Coast Guard plans to use the $16.7 million requested for EC&R to pay for the environmental remediation and restoration of Coast Guard facilities in Alaska and North Carolina, several Long Range Aids to Navigation (LORAN) stations throughout the country, as well as several cutters scheduled for decommissioning in FY 2012. The Coast Guard currently has a backlog of 459 EC&R projects with an estimated combined cost of $338 million.

Reserve Training: The President requests $136.8 million for the Reserve Training account in FY 2012, a $3.1 million (or 2.4 percent) increase over the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. The Reserve Training account funds the costs of training members of the Coast Guard Reserve and the administration of the Reserve program.

Coast Guard Reservists maintain readiness through regular training and exercises. Reservists can be mobilized by the Secretary of Homeland Security to support the response to a national emergency or disaster, and the Secretary of Defense to support national security operations worldwide. In the last year, Coast Guard Reservists were mobilized to support Haiti earthquake relief operations, the response to the BP DEEPWATER HORIZON oil spill, and to conduct port security activities in Iraq in support of Operation Enduring Freedom.

Acquisitions, Construction, and Improvements: The President requests $1.42 billion for the Acquisitions, Construction, and Improvements (AC&I) account in FY 2012, a reduction of $114.3 million (or -7.4 percent) below the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. The AC&I account funds the acquisition, construction, and physical improvements of Coast Guard owned and operated vessels, aircraft, facilities, aids to navigation, information management systems and related equipment.

The budget request includes approximately $971 million for the acquisition of aircraft, vessels, and communications systems formerly known as considered the Integrated Deepwater System. This represents a reduction of $298 million (or -23.5 percent) below the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. The budget request includes:

- $77 million to complete construction of the fifth NSC;
- $25 million to continue the development of the Offshore Patrol Cutter (OPC);
- $358 million to construct FRCs 9 through 14;
- $129.5 million to acquire two HC-144A Marine Patrol Aircraft and five mission systems pallets for previously acquired aircraft;
- $56.1 million for the modernization/sustainment of the HH-60 Jayhawk helicopter fleet;
- $24 million for the modernization/sustainment of the HH-65 Dolphin helicopter fleet;
- $62 million for the modernization/sustainment of the HC-130 Hercules aircraft fleet;
- $187.6 million for C4ISR acquisition, program management, systems engineering and integration, and infrastructure improvement costs.

The budget requests $451 million in other capital costs, an increase of $261 million (or 138 percent) above the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. This includes $110 million to acquire 40 Response Boat Mediums (RB-Ms), $65 million to deploy the Rescue 21 system to Lake Michigan,

Puerto Rico, Hawaii, and Guam, and $110 million in personnel costs to execute AC&I programs. This also includes $92.9 million to construct shore facilities and aids to navigation, as well as $20 million to rehabilitate Coast Guard servicemember housing. The Coast Guard currently has a backlog of over 40 prioritized shore facility improvement projects with an estimated combined cost of $581.5 million.

Alteration of Bridges: The President does not request funding for the Alteration of Bridges program in FY 2012. The program received $4 million under the FY 2011 Continuing Resolution which expires on March 4, 2011. Created by the Truman-Hobbs Act of 1940 (33 U.S.C. 511 et. seq.), the Alteration of Bridges program authorizes the Coast Guard to share with a bridge's owner the cost of altering or removing railroad and publicly owned highway bridges which are determined by the Service to obstruct marine navigation.

The American Recovery and Reinvestment Act of 2009 (P.L. 111-5) provided $142 million for the Alteration of Bridges Program. The Coast Guard used the funding to begin alteration of four bridges and design work on a fifth. Seven additional bridges have been determined to be unreasonable obstructions to navigation and currently await funding. An additional 32 bridges are potential obstructions to navigation, but require additional study before they can be deemed eligible for the Alteration of Bridges program.

Research, Development, Test and Evaluation: The President requests $19.7 million for Coast Guard Research, Development, Test, and Evaluation (RDT&E) account, a reduction of $4.9 million (or -20 percent) below the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. The RDT&E account funds supports improved mission performance for the Service's 11 statutory missions through applied research and development of new technology and methods.

The Coast Guard intends to use the $19.7 million requested for RDT&E in FY 2012 to develop new technologies for the detection and recovery of oil and hazardous substances from the sea floor; develop ballast water treatment methodologies; provide improved, sensors, data sharing and information security technologies for assets and shore units; and develop new systems to improve intelligence collection and dissemination.

Retired Pay: The President requests $1.4 billion for the Retired Pay account, a $39.4 million (or 2.8% increase) over the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. The Retired Pay account provides mandatory funding for military retirement and medical payments to retired Coast Guard servicemembers and their dependents.

Federal Maritime Commission

The Federal Maritime Commission (FMC) was established in 1961 as an independent regulatory agency charged with the administration of the regulatory provisions of shipping laws. The FMC is responsible for the economic regulation of waterborne foreign commerce. The FMC protects shippers and carriers from restrictive or unfair practices of foreign governments and foreign-flagged carriers. The FMC also enforces the laws related to cruise vessel financial responsibility to ensure that cruise vessel operators have sufficient resources to pay judgments to passengers for personal injury or death or for nonperformance of a voyage.

The FMC is composed of five Commissioners appointed for five-year terms by the President with the advice and consent of the Senate. No more than three Commissioners may belong to the same political party. The Commission is led by a Chairman appointed by the President. Richard A. Lidinsky, Jr. was sworn in as Chairman in October 2009.

FY 2012 FMC Budget Request: The President requests $26.2 million in FY 2012 for the activities of the FMC, an increase of $767,000 (or 3 percent) above the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011.

Account	**FY2011 CR (Expires March 4, 2011)**	**FY2012 President's Budget Request**	***Difference of FY11 CR and FY12 Budget Request***	***% Difference of FY11 CR and FY12 Budget Request***
Formal Proceedings	$8,271,111	$8,620,451	*$349,340*	*4%*
Equal Employment Opportunity	$226,831	$225,388	*-$1,443*	*-1%*
Inspector General	$770,607	$799,409	*$28,802*	*4%*
Operational and Administrative	$16,229,451	$16,619,752	*$390,301*	*2%*
Total	**$25,498,000**	**$26,265,000**	***$767,000***	*3%*

Formal Proceedings: The President requests $8.6 million for the Formal Proceedings account, a $349,340 (or 4% increase) over the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. The FMC uses this account to fund the salaries and expenses of the offices of the Commissioners, Consumer Affairs and Dispute Resolution Services, General Counsel, and Administrative Law Judge.

Most of the increase in the Formal Proceedings account ($214,094) is attributable to the expansion of the Office of Consumer Affairs and Dispute Resolution Services and is intended to meet an increase in the number of parties seeking alternative dispute resolution. This office provides services to assist shippers, carriers and other parties in resolving disputes through mediation.

Maritime Administration

The Maritime Administration (MARAD) was established in 1950. It administers financial programs to build, promote, and operate the U.S. flag fleet; manages the disposal of Federal government-owned vessels; regulates the transfer of U.S. documented vessels to foreign registries; maintains a reserve fleet of Federal government-owned vessels essential for national defense; operates the US Merchant Marine Academy; and administers a grant-in-aid program for state operated maritime academies.

MARAD is led by an Administrator appointed by the President with the advice and consent of the Senate. David T. Matsuda was sworn in as Administrator in June 2010.

FY 2012 MARAD Budget Request: The President requests $357.8 million in FY 2012 for the activities of MARAD, a reduction of $5.1 million (or -1.4 percent) below the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011.

Account	FY2011 CR (Expires March 4, 2011)	FY2012 President's Budget Request	*Difference of FY11 CR and FY12 Budget Request*	*% Difference of FY11 CR and FY12 Budget Request*
Operations and Training	$149,750,000	$161,539,000	*$11,789,000*	*7.9%*
Assistance to Small Shipyards	$15,000,000	$0	*-$15,000,000*	*-100.0%*
Ship Disposal Program	$15,000,000	$18,500,000	*$3,500,000*	*23.3%*
Maritime Security Program	$174,000,000	$174,000,000	*$0*	*0.0%*
Title XI - Administrative Expenses	$4,000,000	$3,740,000	*-$260,000*	*-6.5%*
Title XI - Loan Guarantees	$5,000,000	$0	*-$5,000,000*	*-100.0%*
Total	**$362,750,000**	**$357,779,000**	***-$4,971,000***	***-1.4%***

Operations and Training: The President requests $161.5 million for the Operations and Training (O&T) account, an increase of $11.8 million (or 7.9 percent) above the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. O&T funds the salaries and expenses for each of MARAD's programs, the operation, maintenance, and capital improvements to the U.S. Merchant Marine Academy, and financial assistance to the six state maritime academies.

The budget request for O&T includes $93.1 million for the U.S. Merchant Marine Academy, including $64.2 million for Academy Operations, and $28.9 million for capital

improvements, repairs, and maintenance; $17.1 million for the six state maritime academies; and $51.4 million for MARAD Operations and Programs.

The budget request does not include funding for the Marine Highways grant program. The program received $7 million in funding within MARAD's Operations and Training account in the FY 2011 Continuing Resolution which expires on March 4, 2011.

Assistance to Small Shipyards: The budget does not include a request for funding for the Assistance to Small Shipyards grant program. The program provides capital grants to small privately owned shipyards to expand shipbuilding capacity, efficiency, and competitiveness. The program received $15 million in annualized funding in the FY 2011 Continuing Resolution which expires on March 4, 2011.

Ship Disposal: The budget requests $18.5 million for the Ship Disposal Program, a $3.5 million increase (or 23 percent) above the level provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. The requested funding includes $12.954 million for expenses related to the disposal of eight obsolete ships, and $3.046 million to conduct the regulatory activities associated with storing the Nuclear Ship SAVANNAH.

Maritime Security Program: The budget requests $174 million to maintain 60 U.S.-crewed, U.S.-flagged merchant fleet vessels to serve the national security needs of the United States under the Maritime Security Program (MSP). This is the same level of funding for MSP as provided by the FY 2011 Continuing Resolution which expires on March 4, 2011. Together with unobligated balances carried forward from prior years, this request will provide the total FY 2012 program level of $186 million necessary to fund the program at the FY 2012 authorized level of $3.1 million per vessel. Under this program, direct payments are provided to U.S. flag ship operators engaged in U.S. foreign trade. Vessel operators that participate are required to keep the vessels in active commercial service and provide intermodal sealift support to the Department of Defense in times of war or national emergency.

Title XI Loan Guarantees: The budget does not include a request for funds for loan guarantees for the construction or reconstruction of U.S. flagged vessels in U.S. shipyards under the Title XI program. The budget also proposes to rescind $54 million in unobligated Title XI loan guarantees. MARAD currently has $96 million in Title XI loan applications pending. The program received $9 million in annualized funding in the FY 2011 Continuing Resolution which expires on March 4, 2011.

WITNESSES

The Subcommittees will hear testimony from the following witnesses:

Admiral Robert J. Papp, Jr.
Commandant

United States Coast Guard

Master Chief Michael P. Leavitt
Master Chief Petty Officer of the Coast Guard
United States Coast Guard

The Honorable Richard A. Lidinsky, Jr.
Chairman
Federal Maritime Commission

The Honorable David T. Matsuda
Administrator
Maritime Administration

REVIEW OF THE ADMINISTRATION'S FISCAL YEAR 2012 BUDGET REQUESTS FOR THE U.S. COAST GUARD, FEDERAL MARITIME COMMISSION, AND FEDERAL MARITIME ADMINISTRATION; FINDING WAYS TO DO MORE WITH LESS

Tuesday, March 1, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:00 a.m. in room 2167, Rayburn House Office Building, Hon. Frank A. LoBiondo, [chairman of the Subcommittee on Coast Guard and Maritime Transportation] presiding.

Mr. LOBIONDO. Good morning. The committee will come to order. The Subcommittee on Coast Guard and Maritime Transportation is meeting today to hear testimony on the President's fiscal year 2012 budget request from the leaders of the three Federal agencies which promote, protect, and regulate vessels and mariners in U.S. waters and international trade.

As my colleagues know, our nation is facing a tremendous budget crisis. Years of overspending have driven our national debt and deficit to record levels. This congress must make extremely difficult decisions in the coming months to bring our spending under control and cut the deficit.

The effort continues today with the presentation of the fiscal year 2012 budget request. The President's request, $9.85 billion for the Coast Guard in fiscal year 2012, an increase of 1.8 percent over the current level.

The members of this subcommittee are keenly aware that resources have not kept pace with the service's rapidly expanding mission portfolio in recent years. That is why I commend Admiral Papp for publicly saying the service must closely evaluate whether they continue to take on new missions in the current fiscal environment.

I also commend the service for uncovering some savings through efficiencies in operations and the consolidation of services. I am interested in knowing if more operational savings can be found that will not adversely impact safety, security, and mission success.

I also have some concerns with the Coast Guard's budget request. First, the service continues to push off investments and the acquisition of assets. The five-year capital improvement plan proposes a fantastic 66 percent increase in funding over the next 3 fiscal years. The service needs to stop burying its head in the sand, and propose a fiscally-sustainable long-term capital acquisition plan.

I would point out that we should have had at least a partial solution to this years ago. But the service and the Department continued to refuse to provide this subcommittee with the fleet mix analysis. I remind the service that the subcommittee requested this analysis over 13 months ago. I urge the service in the strongest possible terms to satisfy our request for this document in very short and rapid order.

Second, the service continues to lack the polar missions plan long sought by Congress. To add insult to injury, the service intends to spend millions of unbudgeted dollars to refurbish the *Polar Sea*'s engine, and then decommission the ice breaker. I don't quite understand this, but maybe you can help us. A classic example of throwing good money after bad.

The budget request for the maritime administration represents a 1.4 percent reduction below the current level. Most of the cuts come from zeroing out funding for the grants and other programs, which are meant to revitalize the maritime sector and protect U.S. mariner jobs. At the same time, the budget proposes to increase funding for operations and administration at the Agency.

While I appreciate the difficult choices the administrator made in developing this budget, I am concerned these programs are being cut while operating expenses continue to grow.

I am also concerned with the tremendous amount of time it takes the Administration to process applications for title XI loans. This is even more concerning, given the fact the budget proposes to rescind $54 million in unobligated title XI loans—guarantees, when they have nearly $100 million worth of applications still to process. If all the applications were approved, it would provide $1.5 billion to U.S. shipyards and create thousands of new jobs at a time when our nation desperately needs to create jobs.

Finally, the budget request for the Federal Maritime Commission proposes a three percent increase over the current levels. Although a three percent increase in the FMC budget amounts to less than $1 million, I really think it sends a wrong signal in the current fiscal environment, where many agencies are not receiving any increase, and some actually a reduction. The Commission needs to take a much closer look at their operations and try to develop savings through consolidation of services and more efficient operations.

With that, I would like to yield to ranking member, Congressman Larsen, for your statement.

Mr. LARSEN. Thank you, Mr. Chairman. Mr. Chairman, I want to thank you for conducting today's subcommittee hearing, and I welcome the opportunity to discuss the President's fiscal year 2012 budget proposals for the U.S. Coast Guard, the Federal Maritime Administration, and the Federal Maritime Commission.

Maritime transportation remains a critical component of our national economy, contributing over $10 billion annually, and gener-

ating nearly 270,000 jobs. So today's message is clear, that we must continue to invest wisely to facilitate, protect, and regulate maritime commerce, if we want to see the U.S. economy expand and flourish.

Mr. Chairman, I have a great deal of interest in how Congress spends our taxpayers' money and saves taxpayers' money. There may be a practical reality that forces hard-working public servants to do more with less. However, today's testimony shows plainly that more will not get done with less. Rather, less will get done with less. Regrettably, too much emphasis is currently being placed on how much can we cut, rather than a more appropriate question, which is how can we best direct Federal resources to generate economic growth and spur job creation.

It's our responsibility to ensure that these maritime agencies which oversee fair and competitive shipping practices, that respond to disastrous oil spills, or assist vessels in distress, or that retain a secure fleet of ships to support overseas deployment of our armed services have the necessary resources to fulfill their respective missions.

Now, supporters and critics of the Coast Guard contend that its budget is insufficient for the demands placed on the service's nearly 50,000 military and civilian full-time employees. Commander Papp acknowledged in a recent 2011 state of the Coast Guard address, "The Coast Guard does not have the resources to perform at 100 percent in every one of its missions on every given day." He went on to say that more with less is not an acceptable option. "Without continued recapitalization, we will not be semper paratus."

I am not convinced that the budget request for the Coast Guard before us today is adequate to meet the demands that we have placed upon the service. I am interested in hearing how my colleagues expect the service to do more with less, and what tradeoffs they will find acceptable.

Now, the Maritime Administration is in a similar situation. MARAD has two critical investment programs that support our domestic shipbuilding industry, and they are both targeted for reduction.

First, title XI, guaranteed loan program, provides federally-guaranteed loans for purchasers of U.S. flagships built or reconstructed by a U.S. shipbuilding industry, and for the modernization of U.S. shipyards. Vessels constructed under title XI contribute to the ability of the United States to carry its foreign and domestic waterborne commerce, to help sustain efficient shipbuilding facilities, and to help preserve a skilled shipbuilding workforce.

No new funds for loan guarantees are requested for fiscal year 2012. Of the unrequested amounts made available in 2009 and 2010, $54.1 million is proposed for cancellation. These proposals effectively kill these investments that generate good-paying jobs here in the U.S.

And second, the budget requests no additional funds for assistance to small shipyards program. Similar to title XI, these funds invest in American port infrastructure, create American jobs, and help domestic shipyards such as Nichols Brothers Boat Builders, located in Freeland, Washington, helping them make the necessary

capital investments to remain competitive and generate new business.

Mr. Chairman, these cuts will not result in more with less, but less with less. I know there is a strong desire to cut Federal spending. I, myself, have voted for cuts in the last CR debate. And I agree that we must bring discipline to the nation's fiscal house, but I urge that we temper that effort with reason and sound judgement.

Now, despite these tight budgets called for in fiscal year 2012, I am pleased that the Administration has proposed a modest increase for the Federal Maritime Commission. In light of the important role the Commission has in monitoring world shipping practices, especially the growing trans-Pacific trade, I will want to hear from Chairman Lidinsky on how the Commission intends to use new funding to support U.S. exports, ensure fair competition, and protect American consumers.

In closing, Mr. Chairman, the congress has recognized that, since the founding of our republic, that our nation's economic prosperity is interwoven with maritime commerce. The maritime agencies before us today carry on that legacy of Federal support for our domestic maritime industry and the oversight of maritime commerce that produces, annually, billions of dollars in economic activity, and thousands of jobs.

America does not want less with less. What America wants is an efficient and effective Federal Government. When it comes to maritime commerce, that should be an objective on which we can all agree. Thank you, Mr. Chairman.

Mr. LOBIONDO. Do any Members wish to make opening statements? Mr. Coble?

Mr. COBLE. I will be very brief, Mr. Chairman. I commend you and the ranking member for having put together a very outstanding panel. We keep hearing about more with less, Admiral and Master Chief. The Coast Guard has been doing more with less since 1790. They wrote the book on it. I don't mean that you and the commandant have been around that long, Master Chief, but I feel like I have.

But I was taken by a comment by the chairman—and maybe the ranking member touched on it—regarding the *Polar Sea*. Much monies are being expended to make certain repairs. And then, I'm told, she's going to be dispatched to the boat yard. Now, that hardly sounds prudent. So I hope we hear more about that.

But thanks to all of you for being here. Mr. Chairman, good to see you again. Thank you, Mr. Chairman. I yield back.

Mr. LOBIONDO. Congresswoman Hirono?

Ms. HIRONO. Thank you, Mr. Chairman. Mr. Chairman and Vice-Chair Landry, and Ranking Member Larsen, it is a pleasure to join this subcommittee as a member. And, having reviewed the testimony for today's hearing, I would like to associate myself with the remarks of Ranking Member Larsen.

Having said that, I want to thank all of our witnesses for being here today. As you probably know, the maritime industry and security are very important to my home state of Hawaii. And there aren't any roads between our islands; the only options we have for moving goods and people from the mainland and between islands

are either by boat or by air. In fact, we have to import 80 percent of our food and merchandise. And, of that 80 percent, over 98 percent of those imported goods come by ship. So, shipping and maritime safety and security are of vital importance to the economy and livelihood of Hawaii's people.

As Commandant Papp knows, ensuring the safety and security of the maritime public is a full-time challenge. I commend the work that the approximately 1,500 Coast Guard personnel in Hawaii's 14th district does on so many fronts to make sure that the people of the 14th district is protected. And you do have 14.2 million square miles that make up this district, which includes Papahanaumokuakea, the northwestern Hawaiian Islands monument, the biggest monument in the country. So, you have a tremendous task, not just protecting the people and commerce, but also protecting 140,000 square miles, as I mentioned, of the monument.

As this committee knows, ensuring that our nation's ports and harbors can handle the 21st century commerce is also of vital importance to our future economic growth. And I appreciate the work of the Maritime Administration and Maritime Commission to help ensure that we are always expanding commerce.

And the harbor improvements that the Maritime Administration and Hawaii's Harbors Division have partnered on in the past, and most recently, the Honolulu Harbor Pier 29 project, which received a $24.5 million Tiger Grant are critical to Hawaii's economic future.

So, I look forward to hearing from you, and working with you. Thank you.

Mr. LOBIONDO. Thank you. We are going to turn to our panel. And our panel today includes Admiral Robert Papp, Commandant of the Coast Guard; Master Chief Michael Leavitt, the master chief petty officer of the Coast Guard; Richard Lidinsky, the chairman of the Federal Maritime Commission; and David Matsuda, administrator of the Maritime Administration.

Thank you all for being here. Admiral Papp, the floor is yours.

TESTIMONY OF ADMIRAL ROBERT J. PAPP, JR., COMMANDANT OF THE COAST GUARD; MASTER CHIEF MICHAEL P. LEAVITT, MASTER CHIEF PETTY OFFICER OF THE COAST GUARD; RICHARD A. LIDINSKY, JR., CHAIRMAN OF THE FEDERAL MARITIME COMMISSION; AND DAVID T. MATSUDA, ADMINISTRATOR OF THE MARITIME ADMINISTRATION

Admiral PAPP. Good morning, Chairman LoBiondo, Ranking Member Larsen, and distinguished members of the subcommittee. I am privileged to appear before the subcommittee today for the first time as commandant to discuss the Coast Guard's fiscal year 2012 budget request, and also to proudly represent the men and women of the United States Coast Guard.

I am particularly pleased to be accompanied by Master Chief Petty Officer of the Coast Guard Michael Leavitt, as well as our partners from the Maritime Administration and the Federal Maritime Commission. My full written statement has been submitted for the record, and I would like to offer this brief oral statement.

I would like to start off by thanking the subcommittee for the Coast Guard Authorization Act of 2010. We are using this authority to move forward with our internal reorganization, and increase support to our operational forces, and we will continue to use it to enhance our marine safety program and conduct acquisition reform. And we will use it to address an important issue for our families: housing. And I want thank you for that.

I am pleased to be speaking before the subcommittee on the date of the eighth anniversary of the Department of Homeland Security. The Coast Guard is honored to be anchored in DHS, where we proudly serve as its maritime arm. While anchored in DHS, we enhance our value to the country by maintaining bridges to the Department of Transportation, the Department of Defense, the Department Justice, the Department Interior, the Environmental Protection Agency, and many other interagency partners.

Now, as a ship captain having served 14 years of my 35 years of service at sea, I readily admit to viewing the world through the lens of a sailor. Nine months ago, when I took command of the Coast Guard, my first reaction was that of a navigator: to take a fix, ascertain our position, and set a course for the future. And that's what I did. My four guiding principles—steady the service, honor our profession, strengthen our partnerships, and respect our shipmates—set the future course for our service.

I would like to start off—two weeks ago I gave a situation report to the service in my State of the Coast Guard address, and further refined the goals with the release of my Commandants Direction 2011. As part of the release of the President's fiscal year 2012 budget, I also released our posture statement, which sets forth our budget objectives, all of which link back to my guiding principles.

My priorities are: to sustain front-line operations, to rebuild the Coast Guard, to enhance maritime incident prevention and response, and to support Coast Guard families. This fiscal year 2012 budget is the first waypoint on the course to those priorities.

Now, as a ship's captain, first and foremost, the duty is to assure the safety of the ship and the crew. This traditional responsibility often requires making tough choices. Working in the maritime environment is inherently dangerous, and captains must continuously balance mission accomplishment against risk to the ship and the crew. Today's challenging fiscal climate is no different. We must make tough choices to preserve our ship of the service. Working closely with and receiving strong support from the Secretary Napolitano and the Department, I have made the tough choices.

In his State of the Union speech, the President asked us all to tighten our belts. While we tighten our belts, I will not lose sight of our utmost priority, which is serving the American people. The safety and security of our nation's waterways impacts the lives of every American.

The challenge we face, though, is that the rising costs of running aging cutters, boats, aircraft, and shore facilities quickly consume any positive increment in our budget. In an effort to avoid any reduction in those front-line operations I talked about, we have carved out over $140 million by directing management efficiencies and making targeted reductions in administrative costs and profes-

sional services. We will invest those savings in front-line operations. These were tough choices, but, I think, the right ones.

As an operator, I can tell you that our readiness is dependent upon simultaneously sustaining front-line operations while recapitalizing assets. There needs to be a balance. Unless we continue to recapitalize our ships, planes, and boats, and improve our shore, stations will not be able to maintain an acceptable level of readiness to perform our missions. We won't be ready to respond quickly and effectively to contingency operations, like we did in Haiti and Deep Water Horizon.

We are requesting $1.4 billion in our acquisition request, and that goes to fully fund national security covenant number 5, produces 6 new patrol boats, funding for 2 maritime patrol aircraft, funds 40 new response boat mediums, and sustains acquisition work in the design of our offshore patrol cutter, which will be the replacement for our medium endurance cutter, and funding to support critical shore recapitalization needs.

We want to continue to enhance our maritime incident prevention and response, and this budget allows us to do that, which—it provides $10.7 million to hire additional marine safety inspections, investigators, and fishing vessel examiners, and it allows us to establish an incident management assist team, which will give us added capacity for contingencies in the future.

And then, support for our military families. You can't have a strong military workforce without a healthy military family. So, Master Chief Leavitt will discuss some of the military family initiatives in the fiscal year 2012 budget supports upon the conclusion of my remarks.

So, in conclusion, the Coast Guard, as the maritime component of the Department of Homeland Security, is committed to working hand in hand with our many partners to assure the safety and security of American citizens and our ports and waterways. For over 220 years we have been protecting those on the sea, protecting America from threats delivered by the sea, and protecting the sea itself. This is our chosen profession, this is our way, and this is what we do. I thank you for the opportunity to testify today, and I look forward to your questions.

Mr. LOBIONDO. Thank you, Admiral Papp.

Master Chief?

Master Chief LEAVITT. Good morning, Mr. Chairman and distinguished members of the subcommittee. It is a privilege to appear before you here today. This is actually the first time I have ever testified before Congress, so it is truly an honor. Also, it's an honor and privilege to represent more than 39,000 Coast Guard enlisted personnel.

In the past nine months, I have had the opportunity to travel around the country and listen to the many challenges facing our hard-working men and women and their families. One of the most formal challenges is obtaining affordable and adequate housing and child care. For example, one instance is particularly telling: 14 percent of the DoD personnel have their children enrolled in subsidized military child care facilities, yet only 5 percent of Coast Guard personnel do.

In order to meet our mission requirements, Coast Guard personnel are assigned throughout the United States and overseas. In some cases, our personnel are fortunate enough to be stationed on or near DoD or large Coast Guard facilities. In these locations, our personnel have better access to reasonable housing, affordable child care, and military treatment facilities, or civilian providers that really accept the military's health care program.

But for many of our members and their families who are stationed in small coastal towns, or find themselves in isolated or seasonal high-cost areas, it's a much different story. In these locations, including the areas this subcommittee represents, obtaining adequate or affordable housing is a challenge. Child care providers are scarce and, in most cases, very expensive. Often times, medical and dental care providers are limited, and those who are nearby may not accept military health care program. As a result, our personnel tend to absorb these additional costs. These type of increased financial burdens, compounded by limited employment opportunities available to military spouses, stresses the entire family.

So, that said, we are truly grateful for the housing and child care provisions in the fiscal year 2012 budget. The budget will ease the stress on our military members and their families. Furthermore, this budget will put us on a course towards closing the gap between the Coast Guard and our DoD counterparts. And ultimately, these provisions will enhance our mission readiness, and allow us to provide a much better service to our taxpayer.

So, in closing, our Coast Guard men and women are standing the watch. They risk their lives to rescue those in peril, and they protect our homeland. They deserve these benefits.

So, thank you again, Mr. Chairman, for the opportunity to discuss the needs of our Coast Guard personnel. I look forward to answering any questions you may have.

Mr. LOBIONDO. Thank you, Master Chief.

Chairman Lidinsky, you are now recognized.

Mr. LIDINSKY. Thank you, Mr. Chairman, Mr. Ranking Member, members of the subcommittee. Thank you for this opportunity to present the President's fiscal year 2012 budget for the Federal Maritime Commission. With me today are FMC Commissioners Rebecca Dye and Michael Khouri. Your former colleague, Commissioner Joe Brennan, is back manning the ship, and sends his best regards.

With the committee's permission, I would like to summarize my testimony, and request that my full written statement be included in the record of the hearing.

The President's budget for this commission provides $26,265,000 for fiscal year 2012. This represents an increase of $2.1 million over the enacted fiscal year 2012 appropriation, or 3 percent, 767,000, over the President's fiscal year 2011 request, and funds 133 positions. This includes an increase of two positions targeted for our office of consumer affairs and dispute resolution, who have seen a 16 percent increase in complaints and disputes that they handle. This would strengthen our efforts to provide prompt, efficient solutions for commercial disputes between ocean carriers and their customers, and will help prevent problems with ocean transportation or equipment from hindering the growth of our exports.

As the committee knows, from late 2008 to late 2009, the international container shipping industry suffered the worst year in its 45-year history. Fortunately, in calendar year 2010, the U.S. liner trade saw a very rapid recovery, and U.S. container volumes grew an average of 11 percent. In our largest trade lane, the trans-Pacific, we saw shortages in early 2010, when demand returned. But in April, carriers began adding capacity. And by October, capacity passed its pre-recession levels. Currently, weekly capacity in the trans-Pacific is 24 percent higher than it was last time this year, and container shortages have virtually disappeared.

In the coming year, I plan working on the three top priorities I outlined during my confirmation hearing. First, the Commission must work for recovery and job growth within our ocean transportation industry, particularly among exporters and the businesses they serve.

Second, the Commission must focus on protecting our country's shipping community from unfair and harmful practices by foreign governments, cargo carriers, or cruise lines. More than 95 percent of the United States ocean container trade travels on ships controlled by foreign carriers. And we've been watching them like a hawk to ensure that they efficiently and fairly serve U.S. exporters and importers.

Third, the Commission shall work with all sectors of our maritime family to help airports and the shipping industry. Each commissioner at the FMC is committed to working in an efficient, cooperative, and bipartisan manner to bring about these goals.

Here are some highlights that we have taken in the recent months. We are working hard to support our nation's export growth. U.S. exporters must have an efficient, fairly-priced, and reliable system to deliver goods to market.

We instituted Fact-Finding 26 under Commissioner Dye, which interviewed over 170 witnesses to come up with explanations of what had happened during the recession, and to provide solutions to many of the problems that we faced. We are continuing to roll out various recommendations of that fact-finding.

Commissioner Khouri has undertaken a fact-finding to deal with household goods issues. We have had thousands of complaints in recent years, and we are working with the DoT on coming up with solutions in that area.

The Commission is committed to applying the President's 2011 January executive order to improve regulations and make them less burdensome. We have already made regulatory relief and modernization a top priority.

We last week issued a final rule that will relieve more than 3,300 licensed non-vessel-operating common carriers from the cost and burdens of publishing tariffs in the rates they charge for cargo shipments. There are reports that many businesses could save up to $200,000 a year.

Also last week the Commissioner issued a final rule that updates our filing requirements and clarifies procedures for informal proceedings, also to help parties that bring their business before the Commission. It is just the first step in an ongoing project that made the Commission's procedure rules more clear, modern, efficient, and cost savings.

We are closely monitoring the impact of the People's Republic of China regulations on our trade. As part of our emphasis on service to consumers, we are focusing our needs and our growth in the consumer affairs division, where we hope that service contracts will be brought to the Commission for resolution.

We have also seen environmental issues becoming intertwined with our area of regulation. One example of that is the slow steaming. And we have issued an order of inquiry, notice of inquiry, to solicit input that will give us guidance in that area.

In conclusion, Mr. Chairman and members of the subcommittee, we thank you for your support, particularly as we celebrate our 50th anniversary year. It's an honor to appear before the subcommittee, and I am happy to answer any questions you may have later.

Mr. LOBIONDO. Thank you.

Mr. Matsuda.

Mr. MATSUDA. Good morning, Chairman LoBiondo, Ranking Member Larsen, and members of the subcommittee. Thank you for inviting me to be here today. I look forward to working with you all in the 112th Congress. With your permission, I would be happy to summarize my testimony and submit the complete document for the hearing record.

Mr. LOBIONDO. Please do.

Mr. MATSUDA. Thank you, sir. And first, as you all know, last week we saw the tragic and senseless murder of four U.S. citizens at the hands of pirates. I want to assure the subcommittee that piracy remains a key focus for the Maritime Administration. Just yesterday I addressed a United Nations-sponsored piracy working group, challenging our government and industry partners around the world to step up their efforts, harden the targets which pirates have turned into blood-stained profits. We continue to work with the Coast Guard and the State Department to take whatever steps are necessary to end this threat.

I would also like to update you on another issue I know is of great importance to the subcommittee, and that is the U.S. Department of Energy's use of U.S. flagships to carry cargo for its renewable energy loan guarantee program. I have good news. Today the Department of Energy has formally changed its policy to apply cargo preference requirements to their program. We are working closely with our partners in the Administration to ensure the cargo preference requirements are applied fairly, consistently, and with common sense. This solution means we manage to avoid costly and time-consuming litigation, and the ultimate result is more cargo on U.S. ships crewed by U.S. workers.

Let me provide you with an overview of the Maritime Administration's budget priorities for the coming year. Mr. Chairman, as Maritime Administrator, I am tasked with overseeing the health of an industry that contributes more than $10 billion each year to our economy, and employs more than a quarter-million Americans. This important industry contributes directly to our nation's economic competitiveness, environmental sustainability, and readiness. And, given the breadth and seriousness of these responsibilities, I am confident that this proposal best serves the needs not only of the Maritime Administration, but the nation, as a whole.

Of the $357.8 million the Maritime Administration is requesting for 2012, the overwhelming share of the budget supports the merchant marines' vital role in maintaining the maritime transportation system and sealift capability, so that when disaster strikes we are able to provide help quickly and effectively whenever and wherever needed.

We are a maritime nation, dependent on our waterways to survive. By weight, 95 percent of all goods imported into our country arrive by ship. That is why we are focused on the future of this important industry.

And our future is highly dependant on investing in education. I share Secretary LaHood's vision to prioritize the training of future maritime leaders by making the U.S. Merchant Marine Academy at Kings Point, New York, a jewel among Federal academies. To achieve this, we have requested an additional $19 million for necessary information technology updates, improvements in academic programs, and long-overdue facility capital improvements.

We are also requesting additional funds for our state maritime academies. These investments in education are critical for the long term. At the same time, we are also facing current challenges head on, by requesting funds to honor maritime security program commitments at the fully authorized level of $186 million, including carry-over funds. This important program provides our military assured access to the commercial ships and crews we need to sustain U.S. forces overseas, as well as provide for our nation's commercial and humanitarian needs.

For 2012, I am pleased to report that the Obama Administration has proposed funding for our nation's port infrastructure. Building on the successful Tiger Grant program, the budget proposal includes $5 billion for a national infrastructure bank, funds which ports and maritime projects will be able to compete for.

Also, the Maritime Administration has for the first time proposed funding for two programs: the web portal MarView program, and an environmental research initiative focused on finding solutions to the maritime industry's environmental challenges like ballast water and air emissions.

Funds requested for our ship disposal program will continue to create jobs and clean up the environment, as we remove obsolete vessels from the national defense reserve fleet.

Mr. Chairman and Members of the Committee, the budget request I have outlined will help preserve and protect our nation through maintaining a healthy maritime industry. While meeting these critical needs, it is also sensitive to our nation's economic conditions. Our request is actually $5 million less than fiscal year 2010. It reflects our confidence that we can do more with spending less.

Thank you, and I am happy to answer any questions from the subcommittee.

Mr. LOBIONDO. Thank you. I would like to ask unanimous consent to submit for the record a statement from the gentleman from coastal Louisiana, Mr. Landry.

[No response.]

Mr. LOBIONDO. Without objection, so ordered.

Mr. LOBIONDO. We will now go to questions. Mr. Larsen?

Mr. LARSEN. Thank you, Mr. Chairman. And I imagine we will have a couple of rounds of questions, so I will maybe jump around here with the panel. But I have got quite a number of questions I want to ask. But I will start with Admiral Papp.

Regarding the recapitalization program for the Coast Guard, it's estimated it costs in excess of $24 billion over the next 15 years. And in this budget request, or in your testimony, you note it's—you have a $1.4 billion in fiscal year 2012. How do you anticipate being able to achieve your full goals, given this request level of funding? Is this getting you on your way, or is this a tougher choice to take a small bite this year in hopes you're going to get larger bites in the ensuing years?

Admiral PAPP. Thank you, sir. First of all, I have made it clear, speaking to groups across the country, we cannot get these ships out there fast enough. I am continually reminded of how desperately we need the new ships.

I was just out to the West Coast two weeks ago. I visited one of our national security cutters, and saw the great improvements that we are giving our people that have to go out and do dangerous missions. And at the same time, I went and visited some of the 42 and 43-year-old ships that are out there at the same piers, and sort of the desperate situation we find ourselves in, trying to keep those running. So we can't get them out there fast enough.

However, what I will say is that we are getting there as quickly as we can. And as I said in my opening statement, there are tough decisions to be made when we are confronted with the budget constraints that not only the Coast Guard has, the Department has, but the country has. What I am gratified by is the fact that the $1.4 billion request from the President is the highest acquisition request that we have ever received. And it is at a time where we have been demonstrating our competency much better, in terms of our acquisition reform.

And I would say that, to a certain extent, the Coast Guard is complicit in not being able to build up the credibility and confidence in our program, but I think we have come an awful long way. We have instituted acquisition reforms now that I think serve as a model for other organizations across government. We have come and gone through a very difficult negotiation on the national security number four to get a fixed price contract. But even working at a fixed price contract, because of the delays of getting that contract awarded, it came in more than it was budgeted for.

So we have had to do some creative moving around of funds in concert with the Department and the Congress in order to get number four awarded, and we are working as quickly as we can to get number five.

We have had to fit a lot of projects into that $1.4 billion. I am satisfied at this point that we are moving along on a lot of fronts, including patrol boats and boats for our search and rescue stations. And as we have worked with the Department, they have increased our level of funding in the outyears in the capital and investment plan, and I am very hopeful that we can start moving this along quicker in the outyears.

Mr. LARSEN. And we still do need to get to that funding in the outyears, since we budget one year at a time.

I will just note, as well, you used the word "desperate," or a form of it, twice in your response: desperately needing new ships, and desperate to replace the old ones, and an appropriate use of the condition right now of the position that you're in at the Coast Guard, and I think a clear message that we need to move forward on the recapitalization.

But you also have a lot of other things that we have asked you to do, including several new initiatives in the 2010 authorization. Given the budget that the Coast Guard has received, do you have sufficient funds to ensure the Coast Guard is able to implement the measures that we have asked you to implement in the 2010 authorization?

Admiral PAPP. Yes, sir. We have amounts in there for continuing our acquisition reform. We have received money in there to continue our marine safety performance plan, and also we have received money to help us out with our housing authorities that the subcommittee gave us.

So, incrementally, I think we are making progress on all fronts. And I cannot think of any areas that were put in the authorization plan that we don't have some funding directed towards that.

Mr. LARSEN. Thank you. Of the 11 missions that the Coast Guard has, you noted in your State of the Coast Guard speech that there were going to be some choices you will have to make. Of those 11 missions, are you doing 50 percent of 5 of them, and 100 percent of the rest of them, or how would you characterize your ability to make the full commitment to all 11 missions?

Admiral PAPP. Well, sir, what I would say is I think in various forms what I said has been mischaracterized a little bit. I have no authority to stop doing any mission of the Coast Guard.

Mr. LARSEN. Right.

Admiral PAPP. Those are statutorily required. And I am given a finite set of resources to accomplish those missions. We make judgements on a day-to-day basis—my operational commanders do—to apply those resources against the highest need.

A great example is a year ago, when I was one of those operational commanders, we have cutters that are deployed for various missions, interdicting migrants, interdicting drugs. But when an earthquake occurs in Haiti, that's a higher priority for us, and we were to redirect those resources, knowing full well that we will suffer, perhaps, a little degradation in migrant interdiction, and probably a little degradation in drug interdiction. But those are the choices that we make. We get the assets, we have to make the decisions how to operationally employ them.

But I would say when I was talking in my speech, my State of the Coast Guard speech, there is also—because of our can-do attitude, there is a lot of things that we take on on our own. We see a need, so we rush out there to do it, often times saying we will do it, resource-neutral. Resource-neutral is never neutral, because the resources have to come from some other location within the Coast Guard.

And what we are about right now—in fact, I have commenced a stem to stern review of what we call our deployable specialized forces, to make sure we're not overburdening them—what things should we be doing for our country? What things were those teams

intended to do? And then let's train them well, make them proficient in what they're supposed to do, so we serve the country well. And, oh, by the way, along the way, we will also perhaps accrue some savings that we can devote to other mission areas or jobs.

Mr. LARSEN. Right. Thank you, Mr. Chairman, and in the interest of, obviously, other members I will yield back, and——

Mr. LOBIONDO. Thank you.

Mr. LARSEN [continuing]. Do a second round later.

Mr. LOBIONDO. Mr. Coble.

Mr. COBLE. Thank you, Mr. Chairman. Good to have the four of you with us. Thank you for your service.

Gene Taylor, the former congressman from Mississippi, knowing of my Coast Guard background, always addressed me as "Admiral." The present chairman, the gentleman from New Jersey, knowing of my Coast Guard background, addresses me as "Master Chief." I want the record to reveal that I am qualified to perform the duties of neither admiral nor master chief, but both titles have a real good ring to them. You may continue to address me that way, Mr. Chairman.

Admiral, I was going to talk to you about recapitalization of the Coast Guard, but I think you have already touched on that. Let me get more directly to the *Polar Sea*. I am told that the Coast Guard plans to decommission her within the next five or six months. At the same time, I am furthermore told, Admiral, that the several million dollars—six, I think—will be expended to complete the overhaul of her main engine. Now, Admiral, tell me what I am missing here.

Admiral PAPP. Well, sir, while on the surface it looks like a bad news story, there is actually some positive rays of light there, at least as far as I am concerned. Once again, this goes back to the very challenging tough decisions that we have to make.

What I am confronted with, as I sit before you today, is only one ice breaker that works. The *Healy* is working right now, but that's a medium ice breaker. We have no heavy ice breaker for the United States.

Now, we can continue to pour money into *Polar Sea*. It has all its engines down right now. And we can continue to pour money into that, and then get maybe a year or two out of her once she gets—if she gets—back in service. What I have done is I have made the decision that we do not pour more money into that ship, using the scarce money we have to get *Polar Star* reactivated.

The President proposes to transfer the funding back from the National Science Foundation back into the Coast Guard. That's the positive ray of light that I am talking about here. Because I feel that we can better manage that money for our ice breaker fleet, and start to build up the competencies of our ice breaker sailors once again.

But given the limits under which I have to operate in terms of that money, I think that it's best just to—what we're going to do is continue to repair one of the engines on the *Polar Sea*, test that and learn from it. And we can take all the parts that we have purchased for the *Polar Sea* and transfer those over to *Polar Star*. Now, there will be a gap while we do not have a heavy ice breaker, but we've got a gap right now.

But in terms of taking the scarce resources that I have, it's my judgement that we should transfer those over to the *Polar Star*, and do a complete reactivation on her, so we have a reliable heavy ice breaker that will last 7 to 10 years, rather than trying to piece together *Polar Sea* and get maybe a year or 2 out of her.

Mr. COBLE. Admiral, how many heavy-duty ice breakers are active in the fleet now?

Admiral PAPP. None within the Coast Guard. We have the——

Mr. COBLE. I thought that's what you said.

Admiral PAPP. Yes, sir. Both *Polar Sea* and *Polar Star* are—well, *Polar Star* is in a long-term reactivation. We have about $62 million that was appropriated to put her back into service, and perhaps get 7 to 10 more years while the country decides what we are going to do about ice breakers and the Arctic. *Polar Sea* was the one that was active, and all the engines are inoperative right now. We were going to spend a lot of money to get all the engines back up to speed, but I feel that that money is better devoted to getting *Polar Star* back online.

Mr. COBLE. And *Healy* is inactive, as well?

Admiral PAPP. No, *Healy* is our medium ice breaker for scientific response in the Arctic.

Mr. COBLE. OK.

Admiral PAPP. And she is active. So we will have *Healy* throughout this entire period.

Mr. COBLE. I thank you, sir. Mr. Chairman, good to see you again. Mr. Chairman, if carriers and shippers in their respective service contracts don't come to FMC to resolve their disputes, what action do you take?

Mr. LIDINSKY. Thank you for that question, Mr. Coble. As I said in my testimony, looking back at the recession that we went through, and many of the troubles that were experienced between carriers and shippers, the service contract is at the core of it.

This is the document that does the deal in the moving of the cargo. We have over three million of them on file at the Commission, and nobody can argue they're not a successful document. It's what cargo flows today with. But the contract itself, in the 1984 Act, said that any dispute would go to state court over the argument. We want parties to come to the Commission, use our CADRS office to resolve their disputes, a no-cost, confidential process.

Now, we're in a very crucial period at the moment of carriers and shippers renegotiating these contracts up to—May 1 is the usual start date. If we find, come spring, come summer, that they have not put voluntarily to come to CADRS, I will come back to this subcommittee and request legislation that we change the shipping act.

Mr. COBLE. I got you.

Mr. LIDINSKY. Thank you.

Mr. COBLE. Thank you, Mr. Chairman. Mr. Chairman, I see my red light has illuminated, so I yield back my time.

Mr. LOBIONDO. Congresswoman Hirono.

Ms. HIRONO. Thank you, Mr. Chairman.

Mr. Matsuda, I want to thank you for coming to Hawaii this past August and engaging with our State Department of Transportation.

I do have a question for you. There was a time when we had a very robust shipbuilding industry in our country and not so much

now, and we want to do everything we can to encourage the purchasing and acquisition of U.S. built ships. But I do note that the Maritime Guaranteed Loan Program, which is one of the ways that we can encourage shipbuilding in our country, is not being funded and, in fact, some of the money that is already in there is being canceled.

Can you talk a little bit about what the impact of this is going to be? And are we doing anything else if we are going to pretty much cut back on the loan program, anything else to support a shipbuilding industry in our country?

Mr. MATSUDA. Thank you.

And that is an excellent question. Let me be clear with the Title XI Loan Guarantee Program proposal. We are continuing to accept and process applications for loan guarantees in shipbuilding. This is not something that we are going to stop because of this proposal.

What this proposal does is this: The Administration proposes taking an excess of funds it has accumulated in the Title XI Shipbuilding Program and canceling it. It is a tough choice in today's economy and the budget pressures that we are all under, but it is one that we feel will still be able to meet the needs of the industry as they look to continue to build ships in the U.S.

I should point out that in my testimony I talk about the Capital Construction Fund. This is another program we have that allows tax deferred money to be used for shipbuilding. There is currently $2.8 billion sitting in that account. Title XI is an application driven process. We can only process what is in front of us. If the carriers decide not to build ships, we cannot really make them do it.

But when they do come to us, we want to make sure we have a process that works and is efficient.

Ms. HIRONO. I think it is a real challenge to really recreate a robust shipbuilding industry in our country, and I am sure there are other ideas that we can bring to the fore to do that. I am not sure that these two programs that sort of maintain it seems to me a status quo kind of a situation so that we are not falling further backward. Is that an accurate way to look at it?

Mr. MATSUDA. I believe so.

Ms. HIRONO. For Commandant, when you allocate the scarce resources, on what basis are you going to do that? Because, of course, as I mentioned in my opening remarks, the 14th District, which includes Hawaii, Guam and other areas, it is 14.2 million square miles that you have to cover in terms of all of your activities.

So is the area of coverage one of the ways that you are going to allocate scarce resources?

Admiral PAPP. Yes, ma'am. Thank you for that question.

And as far as shipbuilding goes, we would be happy to build more Coast Guard cutters to stimulate the industry, but the 14th District provides us with unique challenges that are not found in all of our other districts in the expanse of the area that they have to cover, given all of the fisheries in the Western Pacific and as far over as deploying to do drug interdiction in the Eastern Pacific as well.

So we have to have ships that can range far, that can sustain themselves, that can operate independently. The two high endurance cutters that you have out there, the Jarvis and the Rush, are

both over 40 years old. They are two of those ships that I have been talking about, and across that fleet, we are losing ship-days as we speak because we generally like to get about 185 days a year out of each one of those ships, and right now we are averaging closer to about 140 days because of mechanical breakdowns.

So getting the high endurance cutters replaced by the National Security Cutters is very important to us, and getting the newer boats and patrol boats that take care of the stuff closer to the islands out there is important, as well as long-range aircraft to cover that broad expanse.

In terms of how we make those decisions, once again it goes back to on a daily basis. The 14th District Commander will have units assigned to him from the Commander, Pacific area. Most of the time they will be on fisheries patrols or interdiction patrols, but that operational commander only has those finite resources, and based upon whatever cases come up, whether it might be an unexpected search and rescue case or some other security issue, we will have to redirect those resources.

So those finite resources get transferred across various mission areas, which therein lies really the value of the Coast Guard, as we have versatile and adaptable resources to be used across those missions, as well as our people who are versatile and adaptable as well.

Ms. HIRONO. Thank you.

Thank you, Mr. Chairman.

Mr. LOBIONDO. Mr. Harris.

Dr. HARRIS. Thank you very much.

If I could just ask Mr. Matsuda, the budget request that you have represents a 1.5 percent reduction below the current level, but if you remove the Title X area, it actually is an increase.

First of all, I am going to ask you what was your fiscal year 2008 budget because there are some of us who think that that represents a realistic target for the non-defense portion of the budget.

And how could you get there? How could you get to the fiscal year 2008?

Mr. MATSUDA. Thank you.

Although I do not have the 2008 numbers in front of me, I can tell you that we have looked at what the impact would be at operating under 2008 levels. The most severe impact would be to the United States Merchant Marine Academy. They would be faced with some very difficult choices with immediate layoffs of faculty and staff, cutting the incoming classes, the class size, or offering services or limiting the actual academic year. All of those would severely impact the operations of the school.

In addition, the budget for the academy has grown over the past couple of years primarily because a lot of the funds that were used to fund off-book or nonappropriated fund activities have been brought on book and now made a more transparent part of the budget.

So these are realities that have really shaped up to make a harsh difference between the fiscal year 2008 environment and the current one.

Dr. HARRIS. I came from State government before. I mean, our colleges are asked to do more with less. This is consistent across

all of the institutions for higher education. So you are suggesting that somehow what you are responsible for should be exempt from doing more with less?

Mr. MATSUDA. I am suggesting, and actually the story with the academy and its capital needs are that these needs have been long deferred, for years, decades. There are buildings there that still exist from when they were built in 1945 or earlier. It is before a time when women were actually allowed at the school.

So there are basic things like making sure there are sufficient women's restrooms or locker rooms that can accommodate that introduction. This was the first academy to actually allow women at the school. So there are some very basic capital needs that need to be met at the academy, and this budget that has been proposed by the President will go a long way toward addressing them.

Dr. HARRIS. Well, I would suggest that these are the needs that are seen in every institution of higher education. If you look in our university system in Maryland, our university has backlogs of hundreds of millions of dollars of capital projects they would like to complete. They have buildings similarly as old, and they are just going to be asked to do more with less.

So if you could just get the answer to me about what the fiscal year 2008 budget was broken down by the various components, I would appreciate that.

Now, Mr. Chairman Lidinsky, I would also ask you the same question. You have actually asked for an increase in your budget this year. What was your budget in fiscal year 2008?

You know, to the witnesses, this discussion has gone on for a few months now, this target of 2008. So I am a little surprised that some of you come to the Committee hearing without knowing what your budget was two years ago, since this has been much talked about.

But, Mr. Chairman, could you just indicate why, again, you think your commission somehow needs an increase when every other part of non-defense discretionary spending is going to be asked for a decrease?

Mr. LIDINSKY. Mr. Chairman, our budget in fiscal year 2008 was $22.072 million.

Dr. HARRIS. So then can you go ahead and review why you think, you know, you need about 15 percent more?

Mr. LIDINSKY. We are a very small agency. When Mr. Coble brought up about the Coast Guard writing the book on doing more with less, when I first served at the Commission as a young lawyer back in the 1970's under Chairman Bentley, we had 330 people on staff. Today we have 200 people less although trade is ten times what it was in that period.

So coming from a small agency, our salaries, our pensions, our built-in costs are fixed at about 75 percent of the budget. So in terms of dollar figures, we have to be very careful in what we ask for in terms of meeting commitments for IT, for mandated programs, for security, for pensions, for people retiring, succession planning.

We have over two-thirds of our people who are eligible to retire today if they wanted to retire. So when you are dealing with 130 people and you have got very strong fixed costs, any increase that

you have to have for a mandated new program or to do additional efforts to help our exporters is going to look a large increase for a small agency.

Dr. HARRIS. Thank you very much.

Thank you, Mr. Chairman.

Mr. LOBIONDO. OK. The gentleman from Minnesota.

Mr. CRAVAACK. Good morning. First off, Admiral Papp and Master Chief Leavitt, I would like to thank the great men and women of the fantastic Coast Guard for all of the missions that they accomplish on a daily basis and all the sacrifices that they render and their families as well. So thank you very much for your service, gentlemen.

Mr. Matsuda, we talked just briefly up in Duluth and the Great Lakes. We have a very, very large merchant traffic using lakers and salties going up the seaway, and one of the things that I noticed in talking to Mr. Ojard here, the Port Authority out of Duluth, is that we do have a concern about the port.

The port is the second largest dry bulk port in the United States, kind of funny even though it is in the middle of the United States.

But my concern is that for the lack of shipping capital investment that I am seeing. Obviously taconite is one of our main exporters in that area, but we are seeing a very big difficulty in seeing, like you just mentioned, people building ships here in the United States under the United States flag.

So I know that there was a study. The merit study was initiated just about a year ago; is that correct? Could you tell me, sir, what the result is of that study?

Mr. MATSUDA. Certainly. We made the decision to conduct a study on the future of shipping in the Great Lakes and look at the recapitalization options of the fleet. As you know, there are many challenges that the Great Lakes face operating under a full year, trying to meet the needs of the various shippers up there. It is not easy.

We recently concluded a three-visit tour to Chicago, Duluth and Cleveland in the Great Lakes, and we are happy to hear from the stakeholders and discuss some of these issues. We focused on some of the environmental challenges, as well as the port and infrastructure challenges.

We recently did this. I literally just got back last week, and we are happy to share with you the results of what we learned.

We are going to take this data and also look at some more in-depth material, given the current status of the fleet, what are potential future shipping needs, and compile a full report, and we are happy to discuss that with you and the subcommittee as well.

Mr. CRAVAACK. Great. Thank you for that.

I would also like to dovetail on my colleague Ms. Hirono's comments. What do you feel that the Federal Government can do to help to promote business and industry in the Merchant Marine?

I just had the great fortune of going to the Naval Academy just yesterday and did a tour at the Naval Academy, visited midshipmen there, and I realize how important an academy is. So you do have my concerns there. But as my colleague, Mr. Harris, did say, we are all under budget constraints, but hopefully we will be able to reach the needs of what midshipmen need there as well.

But what can the Federal Government, in my minute and 50 seconds left, can help promote us, that we can help you getting business going under the U.S. flag?

Mr. MATSUDA. Well, I could probably answer that question two ways. One is for the international trade, and that is something that we have been focused on, looking at the differences between U.S. and foreign flag operating costs and seeing if we cannot better understand what are the differences and whether there are any regulatory or other impediments to help encourage companies to flag under the U.S. registry.

That is a study we have ongoing. We are close to getting the final results from, and again, we expect them some time this spring, and we are happy to share those results with you and the subcommittee.

On the domestic fleet, obviously the Jones Act plays a strong role in making sure that there continues to be a strong shipbuilding component in the U.S. Having the Title XI and other shipbuilding tools are available. Title XI does not work for everybody, especially projects where they are a smaller size, smaller dollar value. But at the end of the day building a ship is such a risky proposition. It is a long-term asset. It is hard to find long-term money to do that, especially in today's credit market and credit situation.

So making sure that we have all of the tools and programs that are available to assist folks who desire to build a ship in the U.S. is something that is very important to insuring the long-term survival.

Mr. CRAVAACK. Thank you very much, sir.

And I will yield back the rest of my time.

Mr. LOBIONDO. Mr. Cummings.

Mr. CUMMINGS. Thank you very much.

Good morning, gentlemen. Mr. Matsuda, I am very pleased to hear that the Department of Energy agrees that the cargo preference requirement should apply to loan guarantee cargoes. As you know, that is something that I have been very, very concerned about.

And do you know when such cargoes may begin to be moved? And how will you and the Department of Energy work together to apply the cargo preference requirements?

Mr. MATSUDA. Thank you, sir.

We are very pleased to report that this morning. The language on the Department of Energy's Website has changed to indicate how we will be working with them to make sure those requirements are met.

Basically, we are integrated with our agency partners at the Department of Energy to look at and work with the various project sponsors to make sure they are meeting these requirements. And a lot of times that means dealing with the project engineers, the folks who are in charge of procurement, making sure they understand the law and how they can meet it. And we have done that successfully already on several of the projects.

The change on the Website also helps indicate to future applicants or those who might just be looking at the program now about how it will work and what requirements they need to meet.

Mr. CUMMINGS. Chairman Lidinsky, can you provide us with an update on Commissioner Dye's investigation, as well as whether there are recent changes in the cargo rolling canceled books, container shortages, and the attempts to force charges that were not agreed and contracts that were just executed last month?

And what else can the FMC do to address those problems?

Mr. LIDINSKY. Thank you very much for the question, Mr. Cummings.

The picture is much brighter than when we met a year ago. As you know, Commissioner Dye conducted her fact finding over the summer back in December. Many of her recommendations involving the problems that took place during that period of time have been rolled out here in the form of orders to the carriers, further investigations taking place.

The issue that was of concern, we had a dialogue on this this year about container shortages. It is a much more improved picture today. Capacity is up.

The USDA Program is just about to be formally launched. They have worked together with one of the shipping conferences in the westbound trade to help identify through computers where missing containers could be supplied to exporters.

So I would say that we face a much more positive situation. The only cloud on the horizon, as I mentioned before you arrived, was the fact that the service contracts still need to be properly made in order to prevent rolling in the other issues. We are in the negotiating season right now, and should that not occur, we will be pleased to come back to the subcommittee and ask for legislation to bring that about.

Mr. CUMMINGS. Now, Admiral Papp, during your state of the Coast Guard address, you said we made great progress in executing our diversity strategic plan, but we have significant gaps which require us to continue our efforts.

I recently visited the Coast Guard academy where I met with the admission staff, and they are reaching into communities where the Coast Guard is not well known and working hard to recruit our future. The academy has made great strides to increase the core of cadets' diversity, end of quote.

Can you update us on the ongoing efforts to increase diversity at the Coast Guard Academy, including how things are looking as you seek to recruit the next class at the academy?

Admiral PAPP. Yes, sir, Mr. Cummings.

And thank you for your job as Chairman during the last Congress. I got a chance to thank the subcommittee for their work on the authorization bill. I thank you publicly as well, but more importantly for your attention to the diversity concerns of our service and giving us proper oversight in that regard.

I had a chance to travel up to the Coast Guard Academy in January to speak to the corps of cadets, 1,000 of them, about leadership issues, and of course, as I was talking to them, I talked about diversity as well. But I also took the opportunity to go over personally a visit with the recruiting staff at the academy.

And I am very pleased with the progress we have been making. We have increased the number of people that are going out to the field to those areas where we have not recruited before, and what

we are finding is that not only are there areas that were unfamiliar with the Coast Guard Academy, but also it is not just the students. It is also faculty advisors, guidance counselors, and others that need to be educated.

And also many times some of the schools that we are targeting that have very good students with very good academic records, oftentimes the schools perhaps do not have the resources in terms of the numbers of guidance counselors that some more affluent localities do.

So we have provided funding to the Coast Guard Academy to bring on I believe we have got about a dozen people now that are going out to targeted areas in the field, to work with guidance counselors, to work with students, to make sure we get the completed applications in, just to provide that little bit extra of a boost in those areas that heretofore were unfamiliar with the Coast Guard Academy.

Right now, I do not have any figures in terms of acceptances or how many appointments have been issued because it is a little too early in the process, but in terms of the numbers of applications that we have coming in, it reflects another increase over last year's very promising numbers.

Mr. CUMMINGS. Thank you.

Thank you very much, Mr. Chairman.

Mr. LOBIONDO. Mr. Farenthold.

Mr. FARENTHOLD. Thank you very much.

Admiral, I would like to start with you if you would not mind. What do you see is the growth areas within the Coast Guard mission over the next five to ten years?

Admiral PAPP. The growth areas will be, I think, and it is reflected in our budget, how do we respond to incidents, such as Haiti, Deepwater Horizon, hurricanes. We are seeing an increased number of hurricanes, and thank goodness we dodged that bullet this last summer, particularly when we were in the midst of working on the oil spill down in the Gulf.

But what we have found over the past probably four years, going back to Hurricane Katrina, is that we really lack the capacity for incident response. What we do is we curtail activities that we would normally be doing, and we deploy people to take care of those responsibilities.

I will give you a for-instance. During the height of Deepwater Horizon, we had about 3,000 people forward deployed from the Coast Guard to man various incident command posts across the Gulf of Mexico. These were not people that we had on standby waiting to take care of incidents. In fact, I was speaking to an Army officer, who when he heard me sort of whining about the fact that we were so depleted, said, "Well, why don't you use your folks that are in garrison?"

And their mindset is you have these divisions of infantry or artillery or whatever that are in training, and then when crises come up, you order them up and you send them forward. The Coast Guard just does not have that band strength. So there——

Mr. FARENTHOLD. Do you see the Coast Guard's role as a direct responder or a first responder there, or do you see it more as a supervisory role over private sector response team?

Admiral PAPP. It is clearly a shared responsibility. One of my principles is strengthening our partnerships. It has got to be a partnership with industry, State, Federal and local forces, just as it was during the oil spill. And primarily it is supervisory.

Those 3,000 people down there were in incident command posts, but it is also putting people out into the field either working directly on a spill or whatever the incident might be or supervising those people that industry is paying for out there.

Mr. FARENTHOLD. We also see a line item looking to purchase some more aircraft and maintain the air fleet. Much of what the Coast Guard does short of helicopter rescues, seems like it would be something worth studying, moving to unmanned vehicles. Are you all looking at rather than having guys flying up in jets doing the patrols doing some of that with unmanned vehicles as a cost savings?

Admiral PAPP. Actually the HC–144 Ocean Sentry aircraft that you see in the budget is a replacement for those jets that we have used for many years. This is going to give us probably in the long run a lower cost asset that is able to stay out there for more hours, do greater surveillance, has better sensors, has a sensor pallet that goes in there, and we have been putting it to good use. That is another one of those assets that we cannot get out there soon enough.

Mr. FARENTHOLD. And you do not think that a lot of that could be done with some of the technological advancements that we are seeing with things like the Predator drone?

Admiral PAPP. Some of it could be, and we are in the process right now of working with our partner within the Department of Homeland Security, Customs and Border Protection. They do have a Predator program that they are working on right now.

The challenge is coming up with a Predator that is adapted to the maritime environment, which is completely different. It is a whole new set of environmentals that you are dealing with, with salt, air and other things.

Mr. FARENTHOLD. I live on the coast. I understand that.

Admiral PAPP. Yes, sir. So we are certainly interested in it. We have been working on a trial project with CBP, and we have, in fact, been providing some Coast Guard aviators to help fly the Predators and see what sort of return we can get on it.

But those are very expensive, and I do not have the room in the budget at this point.

Mr. FARENTHOLD. And let's talk for just a quick second about ship disposal. What is your all's procedure for ship disposal? I understand there is a clean-up.

Are you all sinking them? Are you sending them to ship recyclers? Are you stripping materials out and then selling them?

It seems like there might be some people willing to take these for nothing in exchange for the scrap.

Admiral PAPP. Yes, sir. Actually that is a pretty good news story as well. To be truthful, we are talking about 40 year old ships. That means we have not been giving away too many ships recently. We are hopeful that we will be giving away more here in the near future, but what we do have is, first of all, we have foreign military sales, and there are some opportunities out there to sell the ships,

getting money back, and also saving us the cost of having to clean them up environmentally.

But we also have within the bill that is going forward, it gives us the authority to work with Mr. Matsuda and the Maritime Administration to go through their ship program, which would then sell them off for scrap, which then saves us the cost of having to have them environmentally pure before they are transferred someplace else or sunk and possibly give some returns to the Government.

Mr. FARENTHOLD. Thank you very much, sir.

Mr. LOBIONDO. Mr. Landry.

Mr. LANDRY. Thank you.

Commandant, of course, I do not have any problem with ICE down on coastal Louisiana, but I was just curious as a business owner, have you all looked into the possibility of leasing icebreakers from the private sector rather than trying to pour money into old assets and then come back to us and ask for large capital expenditures?

Admiral PAPP. Well, what happened here back in 2005, sir, is the operating funds for our polar icebreakers were transferred to the National Science Foundation, and I am not sure of the logic in that or the wisdom, but in any case, the National Science Foundation immediately turned around and then started leasing foreign icebreakers.

It is interesting to note that the first year they did that, they leased a Russian icebreaker to break out McMurdo at the South Pole, and the Russian icebreaker broke down. We had to activate our icebreaker and send it all the way from Seattle to break it out.

So there certainly are possibilities for leasing icebreakers, but I think there is probably some minimum number of icebreakers that this country wants to have on hand.

Mr. LANDRY. Well, I would like you to lease them from U.S. companies rather than from foreign companies. I know that on the Great Lakes there are a number of icebreakers that are leased by governments from companies in the United States. I have one of the shipbuilders and owners in my district that actually leases icebreakers out on the Great Lakes. So it is amazing that we went out to foreign countries to lease icebreakers when the gentlewoman was talking about how we increase our shipbuilding capability and how we get people back to work in this country.

It certainly seems to me that we could look at a cost savings measure, possibly leasing those icebreakers from companies right here in the United States.

Admiral PAPP. It is certainly an option that is out there. We have not investigated it because we are trying to come up with the wherewithal to support the icebreakers that we have, and most of the time we fall short of the hours just on the icebreakers that we have.

Mr. LANDRY. Well, it seems like based upon the amount of money you are pouring into a very old vessel, maybe you all should have someone take a look at that. I will be more than happy to send you a couple of names of people who are building them and would lease them to you all.

Admiral PAPP. Thank you, sir. We will take a look at that.

Mr. LANDRY. OK. Real quickly, as you know, seven years ago Congress passed a statutory requirement for the Coast Guard to craft regulations for touring vessel inspections, including safety management systems for touring vessels. The goal of these regulations is to increase the operational safety of the largest segment of commercial U.S. flag vessels. The safety management system required is one of the National Transportation Safety Board's top ten most wanted transportation safety improvements, and from what I have seen, these draft regulations are a great example of how the Coast Guard has worked, you know, to get input from private industry and rely greatly upon the wisdom of the private industry in promulgating those regulations.

I understand that we still have not published those in the Federal Register, and after two congressional directives and countless industry contacts, could you tell me why we have not gotten those published yet?

Admiral PAPP. Yes, sir, and I understand the importance of pushing this through. There is a lot of good in there, but it does, as you noted, reflect a huge change and probably impacts a lot of resources not only for the Federal Government in terms of having inspectors, but also for industry as well in terms of changes they may need to make.

That regulations package has gone back and forth a lot. I have had a chance to give it some focus now during the nine months that I have been the Commandant. It has been back with us and probably if there is any delay right now, it is because we have been back and reviewing it in the midst of Deepwater Horizon, and now we have been able to give some more attention to it.

Frankly, I have taken the opportunity to go across the country and talk to the industry groups as well, a broad watch of the maritime industry, but in particular, the American Waterways Operators who certainly are most affected by this bill. In fact, I met with their executive committee just the other night to get input from them.

We want to make sure we have got the right package going forward. I think we have answered the questions that were posed to us upon review, and we have transferred it back up to the department to get their final review on it.

Mr. LANDRY. Seven years.

Admiral PAPP. Yes, sir.

Mr. LANDRY. Mr. Commandant, that is a long time.

Admiral PAPP. Yes, sir.

Mr. LANDRY. OK.

Mr. LOBIONDO. Mr. Matsuda, I wanted to follow up on a question that the Congresswoman from Hawaii posed to you about the Title XI, and I believe that you stated that there was $2.8 billion in the capital construction fund that could be accessed by account holders, if I am accurate here, and you also noted that on the Title XI funds that you have to have applications before you in order to be able to expend the money.

Well, unless we are mistaken, at present if your applications that you have before you were to move forward, you would not have enough money to approve them. You would not have enough money to cover them.

I do not understand. Help me understand how you can say you do not have applications before you when either I have got wrong information or somehow you have got wrong information.

Mr. MATSUDA. I believe the information you have is correct in that that is the amount that the applications have requested. At the end of the day, we go through this process of determining whether this is a deal that is acceptable, an acceptable risk to the taxpayers. And that may not be the case by providing the amount of subsidy required compared to what they originally proposed.

So at the end of the day some of these projects may not be good projects. They may not move along through the process with the same amount of speed that others do. We have found, given recent history, that it takes some time to get some of these projects moving along, and I know that that is due to a couple of factors.

One involves our internal processes, and that is something that I have taken a very close look at. We hired a consultant to come look at the business processes used to see if we cannot speed those up or make them more efficient. But on the outside, the majority of the time it takes to process these applications is spent waiting for an applicant to provide more information on their application.

Mr. LOBIONDO. Admiral Papp, the Coast Guard completed a fleet mix analysis to determine the numbers and types of vessel platforms that would be necessary to support Coast Guard missions in the future. Chairman Mica and I requested this report 13 months ago. It is pretty hard to understand why we have not had it.

Were you going to be able to provide it to the subcommittee by the end of the week?

Admiral PAPP. I would be reluctant to give you a guarantee that I could get it to you by the end of the week. I will commit to you to do my best to move this forward though, sir.

Clearly, this is something that is very important to me as well. As you know, as I think the subcommittee knows, we have gone through phase one of the fleet mix analysis, which at least validates the construct of what we have in the acquisition baseline for what was known as the Deepwater Project in terms of the mix of National Security Cutters, offshore patrol cutters, fast response cutters, and the associated aircraft.

Now it is in the process, a combination of the department, us, and GAO, taking a look at various options within that that would perhaps either provide better return or better value for what is proposed.

But I commit to you to getting back and getting a timeline on that so that we can get this to the subcommittee.

Mr. LOBIONDO. I appreciate that. I hope we do not have to ask for this in a public setting again.

Admiral PAPP. Yes, sir.

Mr. LOBIONDO. On the National Security Cutter, the Office of Management and Budget is requiring the Coast Guard to have available amounts sufficient to cover the cost of long lead material, construction and post production before the production begins. As a result, the fiscal year 2012 budget requests $77 million to complete the construction of the National Security Cutter No. 5, but does not request funding for long lead materials for No. 6. This ob-

viously will delay delivery in the future of National Security Cutters and I think cost the taxpayers millions more money.

Can you talk about what is the impact of OMB's new full funding policy on the per vessel price of the National Security Cutter and what is the impact on the delivery schedule of future NSCs?

Admiral PAPP. Well, that is the big issue, the full funding in any given year for the long lead production and post production costs. That obviously takes up a large portion of whatever the amount is that we get for acquisitions in any given year.

As we work through the fixed price contract, which I think was a righteous effort for us in terms of our acquisition reform, the fixed price contract on No. 4, and when the price came in we had to move money that was originally dedicated towards long lead time procurement for No. 5 and then work within the continuing resolution to make sure we had enough money to award the long lead money for No. 5.

We were granted an exception by OMB to be able to do this because of the promise or at least what appeared to be the intent of Congress to put the money for No. 5 into the 2011 budget.

But even at the amount that we are trying to predict, it is hard for us to predict right now how much will come through in the 2011 budget because of the continuing resolution. What we think we are going to get would require another $77 million in the 2012 budget, and because we had to put money for No. 5 in the 2012 budget, we just could not come up with the room to fit in the entire cost of NSC No. 6 without displacing a lot of other very important projects that we cannot afford to breach the acquisition project baselines.

And, frankly, I think we are gaining some savings by buying some more patrol boats. We are going to build out our response boat medium a little quicker and get that project out of the way so we can make room in the out-years. All in all, as I said right from the start, there were some very tough choices within this budget, and I think we have optimized our purchases within the amount of money that is available.

Mr. LOBIONDO. Admiral, I understand we have some very tough choices to make, but can you either tell me today or get back to us on what this is going to cost the taxpayers?

Admiral PAPP. In terms of a delay on No. 6 in terms of long lead?

Mr. LOBIONDO. Yes.

Admiral PAPP. Yes, sir. We will provide that to you.

[The information follows:]

> Based on the current full funding policy, the funding associated with the sixth NSC is not required until FY 2013. Future year requests will include funding for both long-lead materials and production of the same ship in a single fiscal year to ensure operational return on fiscal investment.

Mr. LOBIONDO. OK. Master Chief, the Coast Guard Authorization Act of 2010 establishes a housing trust fund to help finance the construction and renovation of Coast Guard service member housing. Is the funding available in the trust fund sufficient to cover the backlog of service member housing improvement projects?

Master Chief LEAVITT. Thank you, Mr. Chairman, for the question. Thanks for approving that authorization, by the way, too.

Right now we are in the process of identifying those properties that that Authorization Act allows us to do, and taking a look at the housing areas. Buckson, North Carolina, that housing area is looking at they are being sold and then put back, to reinvest back into our housing, along with other properties.

The goal is probably to get those monies back in, look at it, and then get them appropriated for fiscal year 2013. But to be honest with you, this whole project is more to get us going, more to help jump start the housing because the long-term processes of our housing is to take a good look at our housing over the general Coast Guard because there are a lot of areas that it is going to take a lot more than $20 million that we may be able to get into it in the fiscal year 2013.

[The information follows:]

> CORRECTION: The current housing account balance does not cover the projected backlog of proposed military housing projects, but the provision within the Coast Guard Authorization Act of 2010 provides the Coast Guard with a vehicle to address military housing needs on a recurring basis. The Coast Guard is in the process of conveying several pieces of property, and recouping the proceeds into the established housing fund for future housing projects, as authorized by the Coast Guard Authorization Act of 2010. The Coast Guard housing project request in the 2012 budget, and authorities contained in the new legislation will begin to address the backlog of eligible government owned housing improvement projects.

For example, across the broad base I think Admiral Allen said a third of it is in pretty good shape, a third of it is in medium shape, and a third of it is in poor shape, and that is what we are facing. We are facing the high cost of construction. Right now with this bill we are looking at $20 million, and we are looking at replacing the unaccompanied personnel housing up at Cape Cod and as well as the lower Columbia River there. It is very expensive taking a look at that. So we are just looking at two housing areas. We have 4,000 houses, plus or minus a few, out there in our inventory.

So if you take a look at those numbers, you can see, well, $20 million this year might be able to cover other area housings right here, but the reality of it, Master Chief Bowen came in here last year and he told you that we are about $300 to $350 million in backlog in the housing. So those are the challenges that we face and how we are going to organize across our mission because housing is included in the infrastructure that we have also, our older infrastructure, about the same age as our ships, Mr. Chairman.

Mr. LOBIONDO. Well, either today or as a follow-up, if you can suggest, make any recommendations to us, I mean, short of striking the lottery for you, what we can do to help improve the housing situation, we would be interested to try to continue working on that.

Master Chief LEAVITT. Yes, sir. One thing that we are doing is an analysis of our housing to identify the numbers we have

throughout the country, to see what the supply and demand is for our housing versus basic allowance for housing, and we will have a much better idea once we run this analysis across to see what our position is. We can give you a much better number of what that deficit might be in that gap by identifying that gap, sir.

[The information follows:]

> The Coast Guard is very appreciative of the new housing legislation contained in the Coast Guard Authorization Act of 2010. Specifically, the authority to leverage the proceeds from the sale of excess Coast Guard property for repair and construction of Coast Guard housing will be an important tool for the Coast Guard in managing its housing program. Currently, the Coast Guard is aggressively pursuing execution of these new authorities in order to improve the material condition of Coast Guard owned housing and the quality of life of our service members. The Coast Guard has also embarked on a comprehensive national assessment of government owned family and unaccompanied personnel housing. The results of this assessment will baseline current maintenance conditions and the proper allocation of Coast Guard owned housing. Additionally, this assessment will also prioritize housing maintenance/recapitalization requirements. Most immediately, the Coast Guard requests the support of Congress in funding the military housing projects contained in the President's FY 2012 budget. These projects (Cape Cod, MA and Sector Columbia River) are vital to providing military members/families in these areas with affordable, suitable housing critical to ensuring operational readiness.

Mr. LOBIONDO. Thank you, Master Chief.

Mr. Lidinsky, in December 2010, the FMC formally accepted the report of Commissioner Dye's investigation into vessel capacity and equipment shortages. Has the FMC established the shipper-carrier working groups to follow up on the investigation's recommendations?

Mr. LIDINSKY. We have, Mr. Chairman.

Mr. LOBIONDO. Is your mic on?

Mr. LIDINSKY. I say we have, Mr. Chairman, moved forward. The fact finding had six or seven different areas of action for the Commission to follow. Commissioner Dye is overseeing most of those. The Commission had a vote on several of those, such as getting full transcripts from some of the carriers, a Notice of Inquiry concerning the alliances that run certain carrier groups, and bringing together the shippers and carriers and the working groups as well.

Mr. LOBIONDO. Thank you.

Mr. Larsen, back to you.

Mr. LARSEN. Thank you, Mr. Chairman.

Back to Chairman Lidinsky, it was noted that you have a slight increase in your budget, and it seems that from my perspective the only possible way to justify that in this current fiscal environment is that there is some relation to your increase to economic growth and creating U.S. jobs here as a result of the trade that the Commission has responsibility to oversee.

Can you give us an indication that that is, in fact, the case?

Mr. LIDINSKY. That is a correct analysis, Mr. Larsen. Every action that the Commission takes, whether approving an agreement or whether overseeing a new program such as Pier PASS, which on the West Coast, which has created hundreds of jobs for truckers, has an economic impact on our employment situation.

In the specific case of the increases in the budget where we call for these two additional spots in our Consumer Affairs Office, this would help shippers who maybe just enter into the international export stream, to overcome any problems we are having with carriers.

So I think it is a very strong investment to make just for two positions. At the current moment we have two people assigned from another office to help out that office because we're seeing an increase of over 16 percent in cases so far this year, a projected total of about 650 cases for the year resolving these issues.

But people who would go particularly into the export trade often try it once and if they are unsuccessful for whatever reason, then they back off, and there are jobs that are not create.

Mr. LARSEN. Thank you.

Chairman Matsuda or Administrator Matsuda, with regards to the MSP, you note that the Administration has requested $174 million for the Maritime Security Program to support sealift operations. Considering the current and continued deployment of U.S. Armed Forces overseas, the unrest throughout the Middle East, and so on, and the likely scenario of increased fuel cost, is your request sufficient to meet the sealift needs of our Armed Forces?

Mr. MATSUDA. This request for the Maritime Security Program would fully fund the program at the authorized level, and this is a program that has throughout its history has always been funded at the authorized level. It has been a progressively larger amount. Over every several years it gets adjusted in the authorization, and that approach has helped to deal with things like fuel costs and inflation.

I note that recently Congress extended the program for ten years, and we hope to have a proposal up to Congress shortly that would talk about how we might be able to address some of the details in the program.

But it is a critical one. It is one that we work very closely with our partners, the United States Transportation Command and the Department of Defense, to make sure it is meeting their needs. Right now we will note that General Duncan McNabb, the commander, has called for more of specific types of ships, roll-on/roll-off vessels, for instance. Some of these have a hard time meeting commercial viability tests that you need to be able to operate in the foreign trade.

So we are working with them to make sure it is a program that delivers the right mix of vessels and crews to make sure it meets their needs.

Mr. LARSEN. Thanks.

With regard to the assistance to small shipyards, we had occasion to discuss this a little bit yesterday, and I have given my assessment of how the shipyards in my district have utilized it in order to become more efficient today so that they are more efficient

over the next ten years. So the payback on this is not a one-year payback. It is a payback over the life of the shipyard.

Given that, can you talk a little bit about why this is in the request zeroed out?

Mr. MATSUDA. Well, the Shipyard Grant Program is something that we take very seriously. We continue to administer the grants to make sure that the funding that has been provided, which was $100 million in the Recovery Act; there was another $15 million before that and I believe a similar amount in another previous year; overall these grants have done wonderful things. We have tallied at least 500 jobs created to date as a result of the grants. It helps the small shipyards purchase new equipment.

Some of these equipment manufacturers have hired new folks to help produce the stuff here in the U.S. So overall we think it has had a great impact. It is too early to see maybe in the long term how that might impact the competitiveness of our shipyards and repair facilities, and so that is something we are continuing to monitor, but we certainly understand the importance of it.

Mr. LARSEN. If I could just note, Mr. Chairman, before I yield back that you mentioned 500 jobs, which obviously does not seem like a lot, given what has been put in this program, but again, none of these shipyards look at this as a one-year investment. They all look at it as part of investment today that pays off over the long term for them.

And, again, I have invited you to several shipyards in my district to see what they have done with these grants that will mean a long-term investment for the shipyard so that they can maintain their viability, their competitiveness, and to get out there and go out and compete for shipbuilding jobs.

Mr. LOBIONDO. I would be happy to witness that.

Mr. LARSEN. Thank you. Thank you, Mr. Chairman.

Mr. LOBIONDO. I would like to ask unanimous consent that Mr. Southerland, a Member of the full Committee, be allowed to sit on the subcommittee for the hearing today.

Without objection, so ordered.

Master Chief Coble.

Mr. COBLE. Thank you.

Mr. Chairman, when you address me in that manner, at least when Admiral Allen was here, there would be a broad smile across his face when you said that.

Admiral and Mr. Chairman and Ranking Member, I do not want to be a Johnny One Note, but I am still having difficulty embracing the *Polar Sea* problem, Admiral. I am still steaming in the fog.

Let me ask you this, Admiral. What do you plan to do with her once she is decommissioned? Are there plans to perhaps retain her with the hope of reactivating her at a subsequent date?

Admiral PAPP. Yes, sir, absolutely. The challenge that we are confronted with, and perhaps I should have given a little bit more detail here, is the money that is transferred back from the National Science Foundation back into the Coast Guard budget in the President's recommendation is enough to operate one medium icebreaker and one heavy icebreaker. So *Healy*, of course, will be operated. She is operating and will continue to do that.

But right now we have only got one icebreaker crew. *Polar Star*, the one that has been under reactivation, has no crew. She was laid up in caretaker status for a number of years pierside, and then we have just recently gotten the funding to reactivate that, but we do not have operating funds for that ship. We only have operating funds for the *Polar Sea*, which is broken down and which I do not want to invest any more money in.

So what we will do is we will transfer the operating funds from *Polar Sea* over to *Polar Star* to complete the reactivation and then have a full up ship ready for about another ten years of service.

Mr. COBLE. That being the *Polar Star*.

Admiral PAPP. The *Polar Star*.

Polar Sea, we will lay that up and put it in caretaker status like *Polar Star* was before. We will retain it to see the outcomes of our high latitude study and other decisions that are made by the country in terms of what we want for organic icebreaking services for this country.

[The information follows:]

> CORRECTION: After the POLAR SEA is decommissioned in FY 2011 and all personnel have been transferred to the POLAR STAR, the Coast Guard will immediately begin the disposal process with MARAD. Disposal plans have not been finalized, but POLAR SEA will likely be transferred to MARAD's Reserve Fleet in FY 2012 with final disposal options at MARAD's discretion. We strongly support enactment of DHS General Provision Section 539 in the President's 2012 Request to enable the most efficient means for disposition.

Mr. COBLE. Thank you, Admiral. I am still not grasping it, but I appreciate that, Admiral.

Thank you, Mr. Chairman.

Mr. LOBIONDO. Mr. Cravaack.

Mr. CRAVAACK. Thank you, Mr. Chairman.

Mr. Matsuda, I would like to go back again. One of the main concerns that I have is regarding your Merchant Marine availability. With China developing a deep water navy, my question would be: how quickly could we spool up, if necessary, if we became involved in a global conflict once again where we would need our Merchant Marine fleet to be fully active under U.S. flag hopefully, if not, our allies, to be able to move men and materials to where they need to be for the conflict?

Mr. MATSUDA. I am happy to talk to you about that. This is something that we work very closely with the Department of Defense on, to make sure that as they are the customer, so to speak, that we meet their needs in terms of delivering this commercial capability to carry goods on U.S. ships with U.S. crews.

One of the most important programs to make sure that can happen is the Maritime Security Program, and that provides an economic incentive for these private U.S. companies to maintain a ship under U.S. flag and hire U.S. crews.

The other flip side of that is the Cargo Preference Program, which makes sure that they can carry cargos that are financed by

the Federal Government and able to sustain their business operations and meeting their costs.

These programs work to provide a Merchant Marine that is capable and available, ready to meet the needs of the military.

In addition to this, we have a fleet of our own vessels that are held in reserve status around the country, 49 large cargo ships, some of them specialty mission, but for the most part these are crewed with a skeleton crew, and they rely on this pool of U.S. commercial mariners employed by American companies in the MSP program, and these are ships that can be available within five days' notice.

The Maritime Security Program and the commercial ships, generally speaking, some of these can be anywhere in the world trading at any particular time. Generally speaking, they will take longer to make sure that they are available, but with the whole package of programs, we make sure that we have a product that works and delivers everything that our troops need on the front line when they need it.

Mr. CRAVAACK. Thank you for that.

Now, once step further, engaging, we have casualties to our maritime fleet. How are we prepared to replace those ships?

Mr. MATSUDA. Do you mean the reserve ships held by our agency or——

Mr. CRAVAACK. Well, if we were in a full conflict, for example, obviously there will be casualties to our maritime fleet. How quickly is the United States able to respond to building more ships if necessary or being able to acquire assets needed to make sure that we are able to maintain the war?

Mr. MATSUDA. That is a good question. Obviously that depends on both our own country's industrial shipbuilding capability. I think that for the most part the focus of our Nation's shipbuilding has been on the military side and less so on the commercial side. However, given what the market is right now for vessels available in the world to sail, there is an abundance of, for instance, tanker vessels. This is just a fact of the industry.

If we were to need one of these ships, we might not be able to get one fairly quickly, depending on the state of the current industry. For other types of vessels, we do not know, and that is why we focus more on maintaining a U.S. capability. But at the end of the day what we want to make sure we deliver to the military is assured access to sealift capability.

Mr. CRAVAACK. Thank you much, sir.

And I will yield back the rest of my time, Mr. Chairman.

Mr. LOBIONDO. Mr. Landry.

Mr. LANDRY. Commandant, in your prepared statement you stated the Coast Guard provides our Nation with tremendous value and service to the public, and I could not agree with you more. You all do a great job. You all have done a great job during the Deepwater Horizon accident and also during the hurricanes that have plagued our coast.

However, according to the Coast Guard's Website, there are more than 6,500 oil and gas producing wells in the Gulf of Mexico and fishing vessels numerous enough that nearly 40 percent of the U.S. commercial catch is landed along the Gulf Coast.

Considering the staggering number of commercial activity in the Gulf, is it realistic to expect the Coast Guard to reach every drilling platform accident site in enough time to save a maritimer's life who must abandon the platform by jumping overboard?

Admiral PAPP. Well, it might be unreasonable, sir, if that was the only response, and I will emphasize the word "response." We do two things in the Coast Guard. We do prevention and response, and part of our process is to make sure that platforms have the proper firefighting equipment; that the crews are trained; that there are lifeboats and other facilities that take care of that.

In other words, we do not want the fire to start or an explosion or whatever it might be in the first place. So we pour a lot of effort into those prevention activities.

In terms of response, we will continue to do our best. It is a lot to expect, but on the other hand, we do not get a lot of cases, and we do have sufficient helicopter coverage out there and boats that are close enough to respond within a required time period.

Mr. LANDRY. And I appreciate that. I just know that there were two accidents actually in the Gulf of Mexico this year, one right after or a couple of months after the Deepwater Horizon accident. In both of those accidents men had to jump overboard. I think that probably as careful and as prudent as you can be when a man or a woman is faced with a disaster on a platform and trying to make a decision on how to survive, they have a tendency to want to jump into the water.

I think we were lucky with the Deepwater Horizon that the Bankston Todd was there at the time. However, in the Manor accident, those men stayed in the water for ten hours. If that would have been in January or February when the Gulf temperatures are in the mid-50's, I do not know if we would have picked them all up alive, which is my concern.

Admiral PAPP. Yes, sir. Well, it is always balancing against risk. In an unlimited resource environment you could provide more out there, but then how many of them do you cover? How much do you keep in full-time reserve? I think we have got adequate resources.

Mr. LANDRY. Would you say that the private sector could do as good of a job putting some sort of standby vessels within certain maybe three or four blocks of man?

Admiral PAPP. Well, it is an intriguing concept, sir, but it is going to cost somebody some money somewhere, and I do not know if you can predict where the optimal location would be. It is certainly something worth looking at.

Mr. LANDRY. Thank you.

Mr. LOBIONDO. Mr. Southerland, you are up.

Mr. SOUTHERLAND. Mr. Chairman, thank you very much.

Though not a regular sitting member of this subcommittee, I appreciate the opportunity to speak today.

My questions today are for you, Mr. Matsuda, and I thank you for allowing me the opportunity to ask you a few questions. My questions today are in regards to the Title XI Loan Program.

There is an application before you right now that I think you are aware of, Eastern Shipbuilding application, and the reason I am bringing my questions today is right now with Florida at historical

unemployment numbers, 12 percent, creating jobs is clearly a mantra that gains traction in Florida.

This application, which has been before MARAD for two years now, we are quickly approaching a deadline, March 10th, for this application to be heard and a decision made. I know that the Credit Committee will see this application on March 8th, just two days, 48 hours before the expiration, and I just wanted to get some feedback from you, if possible, regarding this application.

Seeing the crisis that we are in in this country of having to create jobs, can you address this particular application?

Mr. MATSUDA. I surely can, sir, and this is one that we have been watching closely, as we know how important it is to you all and others certainly in the region and the industry.

Like this application, we treat every application as one that has the potential to be successful, and so in many ways we work very closely to make sure we can put together a deal that meets the financial tests to allow the Federal Government to put their guarantee behind the project.

There has been a number of instances in the past where decisions were made that, well, maybe they were not the best in terms of the risk that was before the Administration, but this is something we take very seriously and we look very closely at. We understand that we are approaching the statutory deadline. We do not think that that deadline will stand in the way of them actually refiling to make sure it is fully considered with sufficient time.

Mr. SOUTHERLAND. But you clearly understand though that in the business world time is not just money, but speed is also profit, and so therefore, there is a sense of urgency out there in the private sector that clearly, if this deadline is not met, that there is a great, I would almost tell you a better than average chance that this contract to build these vessels would go to a foreign country somewhere else.

And so, therefore, I think that is why I just bring it up today. The sense of urgency, I appreciate the deadline extension, but after the project moves on, the extension to be able to attract a contract like this goes away.

Mr. MATSUDA. We are fully aware of it, and I assure you we are moving with all due haste to make sure it is considered. What we cannot change are the merits of the deal. If it is not a good deal for the Federal Government——

Mr. SOUTHERLAND. No, I understand. But here we are. It has been filed for two years. It is a two-year application, and we now hear this in the Credit Council 48 hours before the deadline, and so, therefore, I mean to say that we are at the 11th hour, I would say that we are at like the 11th hour 59 minutes.

And so what happens? Is there, in your opinion, is there time for the Credit Council to hear this application, approve this, and will that be done on the 8th? Is it possible for this to meet the deadline or have we push this to the Credit Council to where it is impossible to approve this on the 8th and for this to be approved for funding by the 10th?

Mr. MATSUDA. Well, we do not like to put these types of applications before the Credit Council and other internal review processes until we are confident that this is a deal that can be approved that

works for the Federal Government and they can make a recommendation to the Secretary.

Mr. SOUTHERLAND. So you feel, and the only reason I am hastening is because I am running out of time; so you feel that it has met that standard to be worthy to go before the Credit Council. Because you just stated that you did not want to put an application before the Credit Council unless it has met certain standards. So I am assuming since it is going before the Credit Council on the 8th that it has met certain standards that you feel that it is worthy to go before them

Mr. MATSUDA. Well, I do not think I could speak to the particulars of it or the merits of it, but I can tell you that we are working very hard to make sure that it is in that shape by that time, and we hope that we can get there.

Mr. SOUTHERLAND. So if it goes before them and if it be approved on the 8th and it can still meet the deadline on the 10th in order for full approval so that we can create 300 jobs, 1,500 ancillary jobs, a huge economic boost in a region that was hit by and affected by the Deepwater Horizon?

Mr. MATSUDA. Well, again, I could not speak to the particulars. I will tell you that we will not let the process be upended nor get in the way of these important goals that we understand.

Mr. SOUTHERLAND. But be sensitive that the process could very well be the reason that these jobs go elsewhere in the world. OK? So there is a sense of urgency here.

Mr. MATSUDA. Yes.

Mr. SOUTHERLAND. And I would just ask that it is my understanding that this transaction clearly falls inside the guidelines and that this is a very credit worthy applicant that can stand on its own merits. I appreciate you today and your comments. I would just ask that because of the sense of urgency, OK, that we would do our due diligence on the 8th and then do our due diligence on the 10th so that this contract and the jobs it will create will not go overseas.

Mr. Chairman, I thank you for the time, and I really appreciate you allowing me to ask these questions.

I yield back.

Mr. LOBIONDO. Sure. Mr. Matsuda, we understand you cannot speak to particulars today, but I guess it is only fair to tell you that the Chairman of the full Committee, Mr. Mica, will probably ask you for particulars if this falls apart from a timeline standpoint. The Committee is very interested in it, American jobs, and you heard all of the arguments.

So just know there is a bigger picture than what you are hearing just here for Mr. Southerland.

Mr. MATSUDA. I fully appreciate that, sir, and I would be happy to talk about that. In the meantime, I will inform the Chair of the Credit Council, our Deputy Secretary, of your interest in this.

Mr. SOUTHERLAND. Thank you.

Mr. LOBIONDO. OK. Mr. Larsen.

Mr. LARSEN. Thank you, Mr. Chairman.

Just a couple of questions to clean some things up. First, I am impressed with this subcommittee's full recognition apparently that there is definitely a Federal Government role in supporting jobs in

this country, and that seems to be shared on both sides of the aisle, something we are hearing a lot of lately.

Admiral Papp, last year's authorization bill in Section 809 specified that not all Coast Guard licensed captains need to have TWIC, Transportation Worker Identification Credentials. Only those having unescorted access for secure areas of vessels would be required, that are required to have vessel security plans, but I am told that the National Maritime Center is still advising mariners that a license or a merchant mariner document is not valid unless the person also possesses a TWIC.

And further, the center will not issue or accept an application without proof that the applicant has applied for the TWIC card.

Is what I am hearing correct? Is the Coast Guard requiring TWIC as a prerequisite for obtaining a mariner license?

Admiral PAPP. Sir, I am not sure whether we are requiring it for the license itself. What I do know is that in the spirit of unintended consequences, when we move forward with the TWIC, often times like any other regulation or change that is developed, we find there are probably some groups that we probably did not intend to include.

We discovered in my previous job as the Commander, Atlantic Area, we had laytexoma. We had some of the outer regions of the boundary waters up in Minnesota where you have uninspected vessel owners, fish guides and other people who clearly need some sort of licensing, but perhaps do not need the requirement of the TWIC.

Unfortunately, the processes that we developed in terms of screening for both rely upon the same resources, and because of the database and their interaction together, and I cannot get into the technicality of this.

Mr. LARSEN. Sure.

Admiral PAPP. But what I do know is we came up with means to do these in tandem, and now we are in the process of trying to separate those. There are clearly some groups that we had not intended to have to take on this extra burden of having the TWIC as well, and we are working diligently to change that.

Mr. LARSEN. Can you get back to us with the specifics of how you are addressing this?

Admiral PAPP. Yes, sir. We will submit that for the record.

[The information follows:]

> The present policy regarding the Transportation Worker Identification Credential (TWIC) requirement for mariners seeking a Coast Guard-issued credential mandates that mariners provide their biometric and biographic information to a Transportation Security Administration (TSA) enrollment facility. This policy and approach is in accordance with the regulations required pursuant to 46 U.S.C. 70105, requiring all mariners to hold a TWIC. DHS designed this requirement to eliminate the multiple collection of similar information by the Coast Guard and TSA—creating efficiencies for both the Federal government and the mariner. The coupling of the Merchant Mariner Credential (MMC) with the TWIC allows TSA to collect the information, perform the security threat assessment, and then share the data with Coast Guard for use in issuing the MMC.

> In response to the Coast Guard Authorization Act of 2010, the Coast Guard is in the process of developing a short-term strategy to modify the TWIC enforcement policies for the affected mariners and a long-term strategy to decouple having a TWIC be a pre-requisite for a MMC. Accordingly, the Coast Guard is working closely with the DHS Screening Coordination Office and TSA to maintain the efficiencies gained from sharing enrollment centers with TWIC to obtain necessary safety and suitability information for issuing MMCs, preserve the convenience to the mariner of access to significantly more enrollment locations than were available before coupling TWIC and MMC enrollment, and afford those individuals relief from financial costs associated with the TWIC. These things are not easy to accomplish, especially as we seek to avoid reversing the efficiencies and elimination of unnecessary redundancies gained under the current system. The Service is currently working to issue both near-term policy and longer term regulatory relief to affect those statutory changes.
>
> In the short-term, the Coast Guard will develop and implement policy that would remove the requirement for holding a TWIC when serving under the authority of their credential. Affected mariners would still be required to use the TSA enrollment facilities to provide their biographic and biometric information. The Coast Guard is seeking to complete the short-term solution during 2011. The long-term solution will require a regulatory change.

Mr. LARSEN. That is great. I appreciate that very much.

For Mr. Lidinsky, Chairman Lidinsky, I understand the Commission has recently published new rules that will relieve more than 3,300 licensed, non-vessel operating common carriers from the costs and burdens of publishing tariffs in tariffs or rates they charge for cargo shipping. Do you anticipate additional rulemaking in the upcoming year that will further reduce regulator burdens on the maritime industry and provide them additional incentives for economic growth?

Mr. LIDINSKY. We are, Mr. Larsen. In that NVOCC proceeding where I had mentioned before we had identified certain business that would save $200,000, we made the point that we hope some jobs come out of this. Of course, that is the decision of each individual business.

But we are also agreeing all of our rules, regulations, and other orders and directives that we have put out under the spirit of the President's Executive Order, which as an independent agency you know we do not have to adhere to, but we are certainly doing so, to translate savings that could be translated into jobs in our ports and airlines.

Mr. LARSEN. Excellent. Well, if you can keep the subcommittee up to speed on the further steps you are taking to reduce regulatory burdens, I would certainly appreciate it.

Mr. LIDINSKY. We certainly will.

Mr. LARSEN. And my final question, Mr. Matsuda, MARAD has requested $2 million in base funding to support midshipmen finance requirements at the Merchant Marine Academy that were previously funded through midshipmen fees, which have since been discontinued. Is this the last budget or will we see additional plus-ups to the academy's base budget to cover these costs?

Mr. MATSUDA. For these costs we hope so. As we address the Government Accountability Office's recommendations, there are 47 recommendations they made to help improve the accountability and transparency of the school's finances, and we have addressed 42 of them to date. We are making very good progress on closing out the remaining recommendations.

Mr. LARSEN. I am sorry. When you say the 42, have those been closed out? Have those been checked off?

Mr. MATSUDA. They have.

Mr. LARSEN. OK.

Mr. MATSUDA. And we have shared our work with the GAO, and they are going back over them as we speak.

Mr. LARSEN. OK.

Mr. MATSUDA. But I know that we made very good progress in cleaning up the finances and making sure that everything is working transparently and with full accountability.

With the midshipmen fees, this is one that was responsible for a number of their recommendations, and we felt that it was actually less efficient to collect these than to simply request for the funds from Congress.

Mr. LARSEN. Thank you.

Mr. Chairman, thank you very much for indulging me. Thank you.

Mr. LOBIONDO. Additional questions? The gentleman from Minnesota? The gentleman from Louisiana? Are you good?

Mr. LANDRY. Yes, sir, Mr. Chairman. Thank you.

Mr. LOBIONDO. I would like to thank our distinguished panel very much.

And the committee is adjourned.

[Whereupon, at 11:55 a.m., the subcommittee was adjourned.]

Landry Statement for Record

I thank Chairman LoBiondo for calling this hearing and our witnesses for giving of their time to testify.

As the title of this hearing suggests, it is incumbent upon all of us to find ways to return a greater investment back to the Federal taxpayer. However, in our effort to restore fiscal discipline to the Federal budget, we cannot endanger our domestic security, job creation or economic development.

In Coastal Louisiana, job creation is often times related to the off shore oil and gas industry, in fact, more than 1 out of every 3 jobs in my district is somehow related to the oil and gas industry.

Despite the yesterday's announcement from the Administration that it is releasing 1 offshore drilling permit, many of state's 320,000 oil and gas workers remain out of work. I certainly hope that over the course of the next few days, we will see additional permits issued and – in the very near future – we will get back to the level of permitting activity we had prior to the Deepwater Horizon Spill, thus providing these hardworking men and women a way to return to work.

And as we do so, we must ensure we have a Coast Guard capable of protecting those who man these offshore platforms. And I look forward to hearing from the Commandant about steps we in this Committee can take to enhance the Coast Guard's life saving capabilities.

Statement of the Honorable Frank A. LoBiondo
Subcommittee on Coast Guard and
Maritime Transportation
Oversight Hearing
A Review of the Administration's Fiscal Year 2012 Budget Requests for the U.S. Coast Guard, Federal Maritime Commission, and Federal Maritime Administration; Finding Ways To Do More with Less
March 1, 2011

The Subcommittee on Coast Guard and Maritime Transportation is meeting today to hear testimony on the President's fiscal year 2012 budget request from the leaders of the three federal agencies which promote, protect, and regulate vessels and mariners in U.S. waters and international trade.

As my colleagues know, our nation is facing a tremendous budget crisis. Years of overspending have driven our national debt and deficit to record levels. This Congress must make extremely difficult decisions in the coming months to bring our spending under control and cut the deficit. The effort continues today with the presentation of the fiscal year 2012 budget request.

The President requests $9.85 billion for the Coast Guard in FY 2012, an increase of 1.8 percent over the current level. The members of this Subcommittee are keenly aware that resources have not kept pace with the Service's rapidly expanding mission portfolio in recent years. That's why I commend Admiral Papp for publicly saying the Service must closely evaluate whether they can continue take on new missions in the current fiscal environment.

I also commend the service for uncovering some savings through efficiencies in operations and the consolidation of services. I am interested in knowing if more operational savings can be found that will not adversely impact safety, security, and mission success.

I also have some concerns with the Coast Guard's budget request. First, the Service continues to push off investments in the acquisition of assets. The five year Capitol Improvement Plan proposes a fantastic 66 percent increase in funding over the next three fiscal years. The Service needs to stop burying its head in the sand and propose a fiscally sustainable long term capitol acquisition plan.

I would point out we should have had at least a partial solution to this years ago, but the Service and the Department continue to refuse to provide this Subcommittee with the fleet mix analysis. I remind the Service that the Subcommittee requested the analysis over 13 months ago. I urge the Service, in the strongest possible terms to satisfy our request for this document in short order.

Second, the Service continues to lack the polar missions plan long sought by Congress. To add insult to injury, the Service intends to spend millions of unbudgeted

dollars to refurbish the POLAR SEA's engine and then decommission the icebreaker. A classic example of throwing good money after bad.

The budget request for the Maritime Administration represents a 1.4 percent reduction below the current level. Most of the cuts come from zeroing out funding for grants and other programs which are meant to revitalize the maritime sector and protect U.S. mariner jobs.

At the same time, the budget proposes to increase funding for operations and administration at the agency. While I appreciate the difficult choices the Administrator made in developing this budget, I am concerned these programs are being cut while operating expenses continue to grow.

I am also concerned with the tremendous amount of time it takes the Administration to process applications for Title XI loans. This is even more concerning given the fact the budget proposes to rescind $54 million in unobligated Title XI loan guarantees when they have nearly $100 million worth of applications still to process. If all the applications were approved it would provide $1.5 billion to U.S. shipyards and create thousands of new jobs.

Finally, the budget request for the Federal Maritime Commission proposes a 3 percent increase over current levels. Although a 3 percent increase in the FMC budget amounts to less than $1 million, I think it sends the wrong signal in the current fiscal environment.

The Commission needs to take a much closer look at their operations and try to develop savings through consolidation of services and more efficient operations.

STATEMENT OF
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BEFORE THE
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON COAST GUARD AND
MARITIME TRANSPORTATION
UNITED STATES HOUSE OF REPRESENTATIVES

March 1, 2011

Mr. Chairman and members of the Subcommittee, thank you for this opportunity to present the President's Fiscal Year 2012 budget for the Federal Maritime Commission.

The President's budget for the Federal Maritime Commission ("the Commission" or "FMC") provides $26,265,000 for Fiscal Year 2012. This represents an increase of $2,130,000 over the enacted Fiscal Year 2010 appropriation and funds 133 work years of employment.

Our Fiscal Year 2012 budget request contains $18,809,000 for salaries and benefits to support the Commission's programs. This figure includes funds for all salaries and benefits for the 131 positions authorized for Fiscal Year 2010, and an increase of two positions, which will be targeted to our Office of Consumer Affairs and Dispute Resolution Services ("CADRS") to strengthen the Commission's efforts to provide prompt, efficient solutions for commercial disputes between ocean carriers and their customers so that problems with ocean transportation or equipment do not hinder the growth of U.S. exports.

Official travel has been straight-lined at the Fiscal Year 2009-2011 levels of $283,000. The ability of our staff to travel to meet with stakeholders and our counterparts remains an essential aspect of our effort to provide better service to the ocean transportation industry and to accomplish our oversight duties more effectively.

Administrative expenses are increased $426,000 from the enacted Fiscal Year 2010 funding level. This includes $265,000 for mandated government-wide internet security upgrades. The remaining $161,000 is for Government Printing Office printing costs, telephones, rental of office space, supplies and library materials, and express mail services.

These increases are partially offset by reductions of $59,000 for government and commercial services, $97,000 for furniture and equipment, and $5,000 for postage. Administrative expenses to be funded in Fiscal Year 2012 support our customary business

expenses, such as for rent, security, telephones, litigation, postage, commercial and government contracts, and supplies.

In summary, the Commission's budget represents the basic spending necessary to conduct day-to-day operations and to meet the responsibilities Congress has entrusted to this agency.

STATE OF THE U.S. TRADES

Since 1916, the Commission and its predecessor agencies have effectively administered Congress's directives for oversight of the liner shipping industry. The Commission was established as an independent agency fifty years ago. Throughout those years we have worked with the industry and its customers to develop a regulatory system that protects competition, commerce, and U.S. exporters and importers while minimizing government intervention and regulatory costs. I would like to give a brief overview of the state of major U.S. trades and then identify some significant current events.

From late 2008 to late 2009, the international container shipping industry suffered the worst year in its 45-year history. Fortunately, in calendar year 2010 the U.S. liner trades saw a rapid recovery. U.S. container volumes in 2010 expanded by 11 percent to reach 28.3 million twenty-foot equivalent units ("TEUs"), compared to 25.5 million TEUs in 2009. The total volume of U.S. liner exports increased by 8 percent, which matched an 8 percent contraction in 2009. Similarly, the total volume of liner imports to the U.S. increased by 13 percent following a decline of 14 percent in 2009. Despite these impressive gains in 2010, total container volumes in the U.S. trades were still approximately 5 percent below their 2007 pre-recession peak.

For the international container shipping industry, last year's recovery was even more robust than these trade volumes suggest. When I testified to this Committee last year, I reported that in 2009 freight rates had collapsed and carriers had laid up more than 500 containerships. At one point they had idled 575 containerships, or 12 percent of their worldwide fleet capacity. By the end of fiscal year 2010, rates had regained most of their declines, load factors increased, and worldwide idle capacity had dropped to 2 percent. As a result, liner shipping companies' total freight revenue grew considerably, and they began expanding their service offerings.

Despite expanding service offerings, liner shipping companies have shown restraint in ordering new vessels. Today carriers have orders for 597 new containerships worldwide, with an aggregate capacity of 4 million TEUs, equivalent to 28 percent of the existing fleet capacity. This figure includes announcements in February that Maersk ordered ten 18,000 TEU vessels, and Mediterranean Shipping Company ordered six 8,800 TEU vessels. Today's order total of 28 percent of existing capacity is down from 43 percent last year and 60 percent two years ago.

The recent recession has not led to the increases in concentration among ocean carriers that many experts were predicting. In fiscal year 2010, the top 10 carriers accounted for 61 percent of the world's containership capacity, while in 2008 and 2009 they accounted for approximately 60 percent.

Our nation's ports also rebounded in 2010. On the West Coast, the Port of Long Beach saw total container volumes increase 19 percent; Los Angeles rose 10 percent; and Seattle increased 32 percent. The exception was Tacoma, which declined 5 percent in 2010, in large part due to the world's largest container carrier, Maersk Line, shifting container terminal operations to Seattle in 2009. On the East Coast, New York-New Jersey increased 13 percent; Charleston grew 12 percent; Savannah increased 13 percent; Jacksonville grew 11 percent; and Hampton Roads increased 4 percent.

Transpacific Trades

The Transpacific continued to be the largest of the U.S. liner trades, and China remained our leading overseas trading partner. Trade with nations in northeast Asia continued to account for over half of U.S. combined containerized imports and exports.

Trade in the Transpacific rebounded strongly in 2010, but experienced some growing pains. Beginning in late 2009, importers began to restock depleted inventory and exporters experienced a surge in demand for U.S. goods due to the weak dollar. As a result, demand approached or exceeded supply in the first quarter of 2010, and shippers experienced difficulty moving cargo between the U.S. and Asia. But carriers began increasing Transpacific capacity in April 2010, and by October 2010, container shipping capacity in the Transpacific had surpassed pre-recession levels. Currently, average weekly capacity is 24 percent higher than this time last year.

In 2010, Transpacific container imports grew by 14 percent and container exports grew by 7 percent. Asian import cargo continued to dominate the trade. For every TEU exported from the United States, 2.1 TEUs are imported from Asia.

In the outbound trade direction, the ten members of the rate discussion agreement, the *Westbound Transpacific Stabilization Agreement* (WTSA), had a combined market share of 63 percent. In the inbound trade direction, the combined market share of the fifteen members of the *Transpacific Stabilization Agreement* (TSA) rate discussion agreement had a combined market share of 92 percent. Following problems that U.S. shippers experienced in the Transpacific when demand returned in 2010, the Commission increased its monitoring of these carrier discussion agreements. We will continue our heightened vigilance in the nation's largest trade lane.

U.S. – North Europe Trades

The liner trade between the U.S. and Europe also recovered in 2010. Compared to 2009, U.S. liner exports grew by 14 percent in 2010, and liner imports from North Europe grew by 12 percent. The general outlook for cargo volume growth in the trade is modest due to the uncertainty over economic conditions affecting the trade lane.

Ocean carriers added services and capacity to the trade in 2010. Vessel capacity increased by about 10 percent in each trade direction, and the utilization of vessel capacity was reported to be around 87 percent in each trade direction — an increase from 68 percent utilization in 2009. With improved capacity utilization levels, carriers increased both rates and revenue. By the end of 2010, rates for inbound containers from North Europe had increased 34 percent from the previous year, after a 35 percent drop in 2009.

U.S. – Oceania Trades

U.S. exports to the Oceania region (Australia, New Zealand, and the Pacific Islands) were unchanged for the most part in calendar year 2010 from 2009. In the inbound trade direction, liner imports from the region grew slightly by 2 percent. Overall, U.S. exports shipped to the region exceeded imports. For every import TEU that moved inbound from the region, 1.5 TEUs of U.S. export cargo moved outbound.

The structure of the trade for container carriage between the United States and Australia, New Zealand, and the Pacific Islands has potential to generate anticompetitive conditions for U.S. exporters and importers. Six carriers directly serve the trade with a market share of over 85 percent and are parties to agreements with overlapping rate discussion and capacity rationalization authorities. There were no substantive agreement changes during the year, but the Commission continues to monitor and analyze the trade closely.

U.S. – South America Trades

Between the U.S. and South America as a whole, liner exports in the outbound trade direction increased by 27 percent in 2010, and liner imports moving inbound increased by 4 percent in comparison to the preceding calendar year. The volumes of cargo shipped inbound and outbound were closely balanced.

The region can be generally divided into two liner trade sectors: the west coast of South America and the east coast of South America. Carriers operating between the U.S. and east coast of South America do not participate in a broad-based discussion agreement. In the western sector, however, most of the major carriers that provide direct service are members of the *West Coast of South America Discussion Agreement* (WCSADA), a discussion agreement with voluntary rate authority. In 2010, the combined market share of WCSADA members was 78 percent in the outbound direction and 66 percent in the inbound direction.

COMMISSION ACTIVITIES

In the coming year, I plan to continue working on the three top priorities I outlined during my confirmation hearing in 2009: First, the Commission must work to assist our economic recovery for job growth — both within our ocean transportation industry and among the exporting and importing businesses they serve. Second, the Commission must remain at all times alert to foreign activities that may be harmful to our exporters, importers, the American industry that serves them, and above all the American consumer. And third, consistent with our

regulatory authority, the Commission should work with all sectors of our maritime family to help green our ports and the shipping industry.

These priorities are consistent with the Commission's strategic plan and its mission of fostering a fair, efficient, and reliable international ocean transportation system while protecting the public from unfair and deceptive practices. The agency's strategic plan sets forth two goals: (1) to maintain an efficient and competitive international ocean transportation system; (2) to protect the public from unlawful, unfair, and deceptive ocean transportation practices and resolve shipping disputes. It also recognizes the need to accomplish these goals through high-performance leadership and efficient stewardship of resources. Each of the Commissioners understands the importance of the agency's objectives, and we are committed to working in an efficient, cooperative, and bipartisan manner to accomplish them.

During the past year, the Commission has taken several important actions to accomplish these goals:

Supporting U.S. Exports and Economic Growth

The nation's push to increase exports gives each of us at the Commission a heightened focus. We know that the vast majority of those exports will travel through a port and by ocean. U.S. exporters must have an efficient, reliable system to deliver their goods to market, and we are working closely with those exporters, the shipping industry, and this Committee to solve bottlenecks or inefficiencies that could hinder growth. Continued vigilance is important when more than 95 percent of the United States' ocean container trade travels on ships controlled by foreign carriers.

In early 2010, the Commission began receiving reports that the strong rebound in demand was causing U.S. exporters and importers to experience supply chain disruptions such as abruptly cancelled bookings, cargo rolled to the next sailing, and successive surcharges and price increases. The Commission responded with an aggressive search for solutions to these supply chain problems. In March 2010, the Commission launched a fact finding investigation into vessel capacity and container availability issues, led by Commissioner Rebecca F. Dye. Her team held more than 170 interviews with companies and organizations involved in all aspects of international ocean shipping, led a series of best-practices discussion pairs between exporters and carriers, and began internet-based collaborative efforts to develop solutions to container availability issues. Commissioner Dye's team issued an interim report and recommendations in June, and a final report and recommendations in December. The Commission took several steps to act on those recommendations:

- Rapid Response Teams: In June 2010, the Commission established Rapid Response Teams to provide prompt solutions for commercial disputes between carriers and their customers. Sixteen ocean carriers have named high-level liaisons to work with the Rapid Response Teams to cut through red tape and respond to specific concerns within 24 hours.

- Increased TSA and WTSA oversight: In September 2010, the Commission ordered members of the TSA and WTSA rate discussion agreements in the United States' largest trade lane to file verbatim transcripts of their meetings. We are reviewing these transcripts for any collective actions that could harm our trade.

- Increased carrier alliance oversight: In January 2011, the Commission increased its monitoring of global vessel alliances and required them to provide advanced notice of planned changes in capacity. These alliances can enhance efficiency, but they also have the potential to become complex and anticompetitive agreements that allow manipulation or restriction of vessel capacity in a trade.

The Commission is currently working to implement additional recommendations from the investigation. Chief among those is a project to enhance the service contracts that set the terms of the relationship between ocean carriers and their customers who export or import. The Commission voted in December 2010 to move forward with this project, which is focused on helping small U.S. exporters and importers improve their service contracting practices through education and outreach. As we head into a new negotiating season for most annual service contracts, one of the most important lessons from the disruptions of the past two years is that service contracts must be improved. They need to provide clear rules of the road and accurately reflect the parties' mutual expectations. When, despite these efforts, disputes do arise, I encourage parties to bring their issues to the Commission's Rapid Response Teams for a resolution that avoids the cost and delay of litigation. Parties can even specify in their service contracts that they intend to make an initial stop at the Commission to attempt a mediated resolution rather than proceeding directly to a lawsuit.

The Commission is also working with the industry and their customers to form two working groups that the fact finding investigation team recommended:

- An International Ocean Transportation Working Group that will focus on such issues as booking cancellations, cargo rolling, improving shipper forecasting and minimum quantity estimates, and export capacity forecasting; and

- An Intermodal Container Availability Working Group that will focus on U.S. exporters' problems locating and obtaining the shipping containers they need.

In addition, the Commission is working with both the U.S. Department of Agriculture and the International Trade Administration at the Department of Commerce on projects aimed at better understanding and finding solutions to container shortages that plague U.S. exporters in rural areas.

Economic and Regulatory Relief and Modernization

The Commission is committed to applying the Executive Order that President Obama issued in January to improve regulation and make it less burdensome. Although independent agencies are not required to apply the Order, it was an easy decision for this Commission to do so, since we have already made regulatory relief and modernization a top priority. Recently the

Commission took several steps to reduce regulatory burdens and bring cost savings and flexibility to the shipping industry and the customers they serve:

Last week, after a year of work and many years of debate, the Commission issued a final rule that will relieve more than 3,300 licensed Non-Vessel-Operating Common Carriers (NVOCCs) from the costs and burdens of publishing in tariffs the rates they charge for cargo shipments. According to comments filed with the Commission, this action could save many of these supply chain businesses up to $200,000 per year. Those who take the steps to elect the exemption can stop publishing their tariff rates in 45 days. In the coming year, the Commission will be working to implement this new rule, and will be examining ways to improve it.

Also last week, the Commission issued a final rule that updates its filing requirements and clarifies its procedures for informal proceedings for small claims. The changes reduce filing burdens on the public and enhance privacy protections for parties to FMC proceedings. This rule change is the first step in an ongoing project to make the Commission's procedural rules more clear, modern, efficient, and environmentally friendly.

Foreign Shipping Practices

The Commission continues to address restrictive or unfair foreign shipping practices under Section 19 of the Merchant Marine Act, 1920; the Foreign Shipping Practices Act of 1988 (FSPA); and the Controlled Carrier Act of 1978. Section 19 empowers the Commission to make rules and regulations to address conditions unfavorable to shipping in our foreign trades; FSPA allows the Commission to address adverse conditions affecting U.S. carriers in our foreign trades that do not exist for foreign carriers in the United States. Under the Controlled Carrier Act, the Commission can review the rates of foreign government-controlled carriers to ensure that they are not below a level that is just and reasonable. The Commission is carefully monitoring these state-owned carriers to ensure that U.S. trades remain substantially free of unfair trading practices of foreign governments.

The Commission is closely monitoring the impact of the People's Republic of China's new requirements on both vessel operating ocean common carriers and NVOCCs to provide freight rate data and sensitive commercial information to a quasi-governmental agency, the Shanghai Shipping Exchange. In response to concerns raised by U.S. shippers, we visited the Shanghai Shipping Exchange in September 2010 to seek and obtain assurances regarding protections for confidential information of U.S. companies that must be filed with the Exchange. The FMC also raised these issues and concerns of U.S. NVOCCs in October 2010 as part of the U.S. delegation to bilateral consultations with the Chinese Ministry of Transport under the U.S.-China Maritime Agreement. The FMC will continue to follow these and related developments in China closely to ensure that no unreasonable conditions exist that would impair U.S. commerce.

Protecting American Consumers

The Commission has increased its emphasis on service and protection for members of the public — especially those who are not sophisticated shippers, but who may travel on cruise ships

or deal with international shipping once or twice when they ship personal belongings. In June 2010, the Commission began a fact finding investigation, led by Commissioner Michael A. Khouri, into issues that individual consumers have experienced when shipping their personal household goods overseas. Between 2005 and 2009, the Commission received over 2,500 consumer complaints related to household goods moving companies transporting personal effects and vehicles. In December, the Commission approved several interim recommendations from the fact finding team. These include efforts to educate consumers, work with industry and consumers to develop best practices and model shipping forms for consumers, update Commission licensing requirements to address issues with household goods shipments, enhance law enforcement efforts to protect consumers and address problem household goods movers, and promote alternative dispute resolution services to assist consumers. Commissioner Khouri's fact finding team is working on the second phase of the investigation, and will submit a final report and additional recommendations on April 15, 2011. Following up on one of the team's interim recommendations, the Commission is also working to finalize a Memorandum of Understanding with the Federal Motor Carrier Safety Administration to coordinate our efforts to protect household goods movers across the different modes of transportation.

In addition, the Commission has been conducting an inquiry to gain input on updating its financial protections for cruise passengers. Following receipt of written comments, the Commission held a public hearing in March 2010. Commission staff is currently working to develop a set of specific proposals to update its rules for the protection of passengers.

The Commission's Bureau of Certification and Licensing also worked with Cruise West to ensure that passengers scheduled to sail on vessels that board in U.S. ports were compensated when the cruise line ceased operations and cancelled sailings in September 2010.

Sustainability and Efficiency

In its role as a regulator of marine terminal operators and ocean common carriers, the FMC has seen environmental issues become increasingly central to the new agreements and shipping practices it monitors and approves. As ports and ocean common carriers adjust their business practices, equipment, and facilities to reduce their environmental footprint, the Commission works to ensure that it is a helpful partner.

One of the issues we are analyzing is the industry's widespread adoption of slow steaming, the practice of slowing vessel speeds to save fuel and reduce costs and emissions. In January 2010, the Commission voted to allow the TSA to discuss its members' slow steaming deployments. In January 2011, the Commission issued a Notice of Inquiry to solicit public input on how slow steaming has impacted ocean liner carrier operations and shippers' international supply chains, affected the cost of ocean liner service, and mitigated greenhouse gas emissions. Comments are due in April, and the Commission will then prepare a formal study of the effects of slow steaming. TSA member lines indicated that they may also use their discussion authority to work to increase use of alternative fuels, cold ironing, and other pollution-reducing technologies.

The Chairman's staff committee on environmental issues continues to examine these issues, as well as environmental initiatives at the nation's ports and international climate change negotiations under both the United Nations Framework Convention on Climate Change and the International Maritime Organization's Marine Environment Protection Committee. The Committee has met with other federal government agencies as well as industry experts and is working to highlight the work being done in this area.

Impact of European Union Repeal of Block Exemption

The Commission is studying the impact of the October 2008 European Union (E.U.) repeal of its block exemption from competition laws for liner conferences. As part of our study, we have been consulting with, and will continue to consult, organizations representing our major stakeholders — U.S. exporters and importers, public port authorities and marine terminal operators, ocean transportation intermediaries, and the liner vessel operators. In November 2010, we solicited industry and public views through a Notice of Inquiry (NOI) with a deadline for submitting information or comments in January 18, 2011. Responses to that NOI are available in the electronic reading room on the Commission's website. As we move forward, we would welcome any additional input from this Committee and all sides of the maritime industry or their customers.

While the long-term effects of the E.U.'s policy shift are difficult to predict — given the global recession's effect on international trade flows — the study will describe and analyze what has occurred in the U.S.-E.U. trades following the repeal of liner conference antitrust immunity and the economic downturn. We hope also to make some comparisons between trade lanes operating under U.S. shipping statutes and those operating under the E.U. regime. The study is scheduled to be completed, reviewed by the Commission, and publicly released in late 2011.

National Security

The Commission's oversight of ocean common carriers, ocean transportation intermediaries, and marine terminal operators is an important element in the effort to protect our nation's seaports. The Commission has a wealth of information available to assist our nation's efforts to secure not only our seaports but the entire supply chain. Unique among federal agencies, the FMC regulates virtually all entities involved in liner shipping, receiving, handling, and transporting cargo and passengers in foreign commerce. The FMC's unique mission affords us the opportunity to assist front-line security efforts by providing information regarding the backgrounds of parties using our nation's supply chain, including those with direct access to our seaports.

The Commission's Bureau of Enforcement and Area Representatives continue their efforts to prevent practices that are unfair and deceptive. Targeted violations included misdescription of cargo, which not only affects shipment costs, but can also pose a serious safety and security risk by preventing vessel operators and port officials from knowing what goods are being transported on vessels into the United States. During 2010, the Commission collected more than $1.1 million in penalties for such violations.

The Commission continues to exchange enforcement information with the Department of Homeland Security ("DHS"). Within the DHS, the Commission works together with Customs and Border Protection ("CBP") under an existing Memorandum of Understanding. Cooperation with other agencies has expanded into joint field operations to investigate entities suspected of violating both agencies' statutes or regulations. Such cooperation often involves local police, U.S. Citizenship and Immigration Services officers, and Immigration and Customs Enforcement officers, and the Federal Bureau of Investigation. Also during the past year, Commission Area Representatives provided assistance to an investigation by the Export-Import Bank and Department of Justice into a conspiracy to defraud the Export-Import Bank out of more than $850,000. FMC Area Representatives also confer with other federal agencies regarding ongoing matters of mutual interest, such as inaccurate descriptions of shipments and other malpractices.

The Commission is currently assisting national security efforts by working to share its informational resources with other federal agencies, including DHS through the International Trade Data System (ITDS) and the Automated Commercial Environment (ACE) portal. The Commission and CBP are in the process of executing and implementing an updated Memorandum of Understanding that will solidify the cooperative relationship between the two agencies, particularly with respect to the sharing of information. For its part, the Commission expects to provide access to its extensive informational resources and databases containing background information on entities regulated by the Commission. These are some of the most complete databases identifying ocean transportation intermediaries and other persons engaged in U.S. foreign commerce. Once completed, the ACE/ITDS system will provide greater transparency into the nation's supply chain.

Modernization and Technology

The Commission is pursuing several information technology ("IT") initiatives to comply with governing IT statutes and regulations, as well as strategically evaluating use of IT to increase efficiency and productivity, particularly in the licensing process. We believe enhanced information systems are critical to efficient identification and licensing of regulated entities and to information sharing with our counterparts at CBP and other federal agencies. These IT systems would also enable our Area Representatives, Bureau of Enforcement, and CADRS staff to have timely and comprehensive access to data needed to tackle ocean transportation intermediary and vessel operator practices that abuse or defraud the shipping public.

The Commission plans to use new IT to improve both agency business processes and the public's ability to conduct business with the agency. In Fiscal Year 2009, the agency, in response to several recent government-wide initiatives, identified new technology that will be incorporated into its business processes. The scope and speed of these technology investments will depend on availability of funds. These investments will lead to greater productivity, efficiency, and transparency. They will also reduce burdens for the ocean shipping industry.

Human Capital Management

At FMC, we understand that our leadership corps is a critical asset. At the present time, two-thirds of FMC's executives are eligible for optional retirement.

Our Human Capital Plan guides our actions in planning for succession. We provide training and development in leadership competencies within a technical context to prepare the next generation of leaders.

This year, we launched a Senior Executive Service Candidate Development Program in anticipation of filling executive vacancies over the next few years. That class of four individuals has embarked on a comprehensive development program that provides a variety of learning experiences to build on their already considerable technical knowledge.

We will continue to use a systematic succession management process that allows us to project our needs, prepare individuals to assume greater levels of responsibility, and evaluate the results. In this way, we expect to continue to maintain a talented leadership corps that can meet the challenges of the future.

CONCLUSION

Mr. Chairman and members of the Subcommittee, I hope that these comments give you a clear indication of the state of the liner shipping industry serving the nation's foreign trades and the important work to be accomplished by the Federal Maritime Commission. I thank the Subcommittee for its support of the Commission through the years and respectfully request favorable funding consideration for Fiscal Year 2012 and beyond so that the agency may continue to perform its vital statutory functions, and so that the public and shipping industry may continue to be served efficiently and effectively.

STATEMENT OF DAVID T. MATSUDA
MARITIME ADMINISTRATOR
MARITIME ADMINISTRATION
U.S. DEPARTMENT OF TRANSPORTATION

BEFORE THE
HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION

BUDGET PRIORITIES AND INITIATIVES OF
THE MARITIME ADMINISTRATION FOR 2012

March 1, 2011

Good afternoon Chairman LoBiondo, Ranking Member Larsen, and Members of the Subcommittee. I would especially like to offer a warm welcome to the Subcommittee's new members, and look forward to working with you on maritime transportation matters. Thank you for inviting me to discuss the budget priorities and initiatives of the Maritime Administration for 2012. I am pleased to appear before you to describe how the President's budget request will support maritime transportation and its contributions to our nation's economic competitiveness, our transportation system preparedness and readiness, and our environmental sustainability.

Given the budget environment we find ourselves in, the 2012 budget request sets priorities for competing needs of key elements of our maritime transportation system. Secretary LaHood has set a goal for the United States Merchant Marine Academy (USMMA) in Kings Point, New York, to become a jewel among the Federal service academies. Accordingly, Academy capital asset management, fiscal accountability, and operating program initiatives are priority emphases. The Maritime Administration's 2012 program is highlighted by a $19 million increase above the 2010 budget for long-deferred capital asset renewal and management, information technology upgrades, and operations program enhancements at USMMA.

The Maritime Administration continues to serve a vital role in ensuring sealift capacity which will meet national security and economic needs. As such, the 2012 request includes $174 million for the Maritime Security Program, an amount which, when combined with carryover funds, will allow funding of this program at the full authorized level.

The Agency's commitment to environmental sustainability is advanced through several new initiatives, including funding for a new fleet management program and technology testing to address maritime environmental challenges. As the U.S. Government's disposal agent for large commercial vessels, the Maritime Administration seeks an increase of $3.5 million above the 2010 funding level for the Ship Disposal Program to

increase obsolete vessel disposal actions, with special emphasis on meeting planned schedules and commitments outlined in the Suisan Bay Reserve Fleet (SBRF) judicial consent decree. An additional $2.5 million in new funds will allow the agency to build on successful programs which aim to find solutions to environmental challenges in the marine transportation industry.

The Agency regards our oversight and stewardship of the Recovery Act and other infrastructure grants as another priority. Moreover, I would also like to point out that for the first time, the Administration requests funding for MarView, an integrated internet-based data tool that will enhance the ability of both private sector and public sector parties to manage their Maritime Transportation System responsibilities.

I would like to take the next few minutes to provide the Subcommittee Members some information about the 2012 MARAD budget request and our initiatives and program activities.

FY 2012 BUDGET REQUEST

The Maritime Administration budget request for 2012 is $357.8 million, which will support the agency's coordinated program of activities and initiatives advancing Departmental and national objectives for the U.S. maritime transportation system. The 2012 request represents a $5 million reduction from the 2010 budget.

The Agency's mission is broad, in order to serve the breadth of this nation's maritime transportation system and its needs. Over time, legacy programs designed to sustain a viable and vibrant Merchant Marine have been enhanced with additional responsibilities in port infrastructure development, deepwater port licensing, marine transportation service development, and enhanced efforts to seek environmental, safety, and security solutions.

At the Maritime Administration's core is a cadre of maritime experts relied upon to provide policy, operational, educational and financial services to the U.S. maritime industry and public agencies. The Agency's expertise in the global logistics and maritime industry, along with industry and international relationships developed over time, has proven valuable to the operations of the Federal Government. It has also provided an acute awareness of the realities of operating in the commercial maritime industry, enabling our operational enterprises to accomplish more with fewer resources. In fact, for every dollar appropriated directly to the Maritime Administration by Congress, the Agency receives at least two more dollars from other Federal and public agencies to support additional maritime missions and objectives.

Additional services are provided to our agency partners and the industry using the base of expertise already established at the Agency. Our core competencies and agency assets have played valuable roles in enhancing military readiness, including responding to international humanitarian calls like the Haiti earthquake last year; investigating the impact to U.S. ports of the Panama Canal Expansion; and supporting operations such as the response to the DEEPWATER HORIZON spill. The Maritime Administration also

provides training platforms for Federal agencies conducting anti-piracy operations and for researchers testing ballast water treatment technologies in the harsh at-sea environment as opposed to the laboratory. We feel these services supported by the Agency's core competencies provide a net benefit to the country and are supported in the 2012 request.

ECONOMIC COMPETITIVENESS AND TRANSPORTATION SYSTEM PREPAREDNESS AND RESPONSE

Maintaining the economic competitiveness of the maritime transportation system and readiness of sealift capability relied upon by the Federal Government is the Agency's priority mission, commanding the largest share of the budget request. Approximately 86 percent of the 2012 request is devoted to economic competitiveness, defense mobilization and emergency response preparedness.

Maritime matters. Maritime transportation is a vital industry, contributing more than $10 billion per year to the national economy, and creating more than 265,000 jobs. The Maritime Administration's program activities focus on developing and maintaining a vital and viable U.S. merchant marine for commerce, emergency response, and national security. In order to further identify ways to improve our industry's global competitiveness, I have initiated a study on the Impediments to U.S.-Flag Registry using discretionary funds and savings accrued during 2010. The study is expected to conclude this spring and will provide an in-depth, comprehensive analysis of the incentives and detriments related to flagging vessels under the U.S. registry. I look forward to sharing these results with you and working with you on approaches to strengthen the U.S.-flag merchant marine in international trade.

United States Merchant Marine Academy

Secretary LaHood has identified heightening the profile and prestige of the U.S. Merchant Marine Academy as a priority for the Department of Transportation and the Maritime Administration. Consistent with this emphasis, the Administration's 2012 request includes $93 million for the USMMA, an increase of $19 million above the 2010 baseline level. This increase will support capital improvements, operational funding for necessary IT upgrades, and academic program enhancements, and provide for the elimination of midshipman fee collections. The USMMA anticipates graduating 225 licensed merchant marine officers and future leaders for service in the maritime industry and the Armed Forces in 2012.

An area of primary emphasis has been strengthening the management of USMMA capital improvement. At the request of the Secretary, the Maritime Administration engaged the assistance of a Blue Ribbon Panel of senior Federal executives from across the government to assist in an independent analysis of the Academy's capital improvement needs. The Panel toured the campus and inspected the physical condition of all major facilities to better consider and formulate observations and recommendations for the Secretary. The Panel issued its report, "USMMA: Red Sky in the Morning" in March 2010, and included recommendations for Academy capital improvement program

management. Responding to the panel report, the 2012 budget request introduces a new USMMA Capital Asset Management program, structured in accordance with the panel's recommendation:

> *"...consistent with the sustainment, restoration and modernization approach to life-cycle facility management, USMMA funding should be restructured to provide for three separate funding streams: facilities maintenance, equipment, and capital improvements."*

As the condition of midshipmen facilities can impact recruitment, retention, morale, and academic performance—in addition to the institution's ability to meet its mission-- the FY 2012 request includes a total of $28.9 million (an increase of $12 million above the FY 2010 level) for the Capital Asset Management portfolio. The request includes $23 million (an increase of $9 million above 2010 levels) for midshipmen-oriented capital improvements, consistent with areas of high concern noted by the panel. Of the funding in the 2012 request, $9 million will support completion of the priority renovation of the Delano Hall midshipman galley (subject to receipt of a full-year 2011 appropriation at FY 2010 levels), where the midshipmen receive their meals. The Academy will also be able to initiate the renovation of berthing spaces in Cleveland Hall ($11.5 million), and undertake the architectural and engineering studies ($2.5 million) for renovations to the remaining barracks and academic buildings. And, consistent with Blue Ribbon Panel emphasis on the importance of robust facilities maintenance and repairs, the 2012 capital program request includes another $2 million for major capital repairs and equipment replacement (an increase of $1 million above 2010) and $3.9 million (an increase of $2 million above 2010) for maintenance and routine repair of Academy facilities.

The 2012 request also includes $64.2 million for Academy operations, reflecting an increase of $6 million above the 2010 enacted level for operational enhancements and inflationary increases. The program increase will support ongoing renewal of critical IT infrastructure improvements needed to meet Federal Information Security Management Act (FISMA) and Clinger-Cohen requirements ($2.1 million), improvements and enhancements to the Academy's instructional program ($1.1 million), including two new instructor positions, operational requirements ($0.9 million), including regulatory body inspection requirements for the school's training vessel KINGS POINTER, and a recruitment diversity initiative ($0.1 million).

The Maritime Administration request also includes an increase of $2 million in base funding to support midshipmen requirements (laptop issue, laundry services, tailor and barber services, and supplemental health insurance) previously funded by the collection of Midshipman Fees. In the past, collection of these fees has posed internal controls and management challenges associated with fee administration as identified by the Government Accountability Office. Unlike cadets attending all other Federal service academies, USMMA midshipmen are not employed in a service branch and paid for their attendance at the school. Many midshipmen have used other Federal programs—such as Pell Grants—to cover these costs anyway. This funding would enable the elimination of Midshipman Fees, and midshipmen would be able to attend the Academy at no cost.

The Maritime Administration has made great progress towards restoring and strengthening USMMA financial management. During the last year, I appointed a new Academy Superintendent, as well as other senior officers, including new management to provide leadership and oversight for the Academy's facilities and capital improvement program. The Agency has also made significant progress in implementing management and process improvements based on recommendations in the GAO audit report, and this remains a priority performance goal of the Department. I'm pleased to report that the Agency has already completed actions responding to 42 of the 47 GAO recommendations for the Academy, and we expect to complete actions closing all recommendations during this fiscal year.

State Maritime Academies

The 2012 request for the State Maritime Academy (SMA) program includes $17.1 million, an increase of $1.2 above the 2010 enacted level, including funds for: (1) the Student Incentive Payment (SIP) program, (2) annual direct payments to each of the six State maritime academies, and (3) payment of maintenance and repair costs for training ships on loan to the State academies. Of the $17.1 million request:

- $2.4 million will fund the SIP program, enabling enrollment of sufficient students to be able to meet identified Armed Forces reserve requirements.
- $3.6 million will be paid directly to the State maritime academies for maintenance and support, a payment of $0.5 million to each school in FY 2012 (the maximum authorized amount). The request also includes $0.6 million to support fuel costs for the operation of SMA training vessels.
- $11.1 million will fund maintenance and repair costs for Federally-owned training ships on loan to the various State academies.

The State academies regard the SIP Program as among the most important recruiting tools to encourage State maritime academy cadets to pursue careers as merchant mariners. The Maritime Administration anticipates approximately 580 students in the license program will graduate from the academies in 2012.

Maritime Security Program

The Maritime Security Program (MSP) is the agency's largest appropriated program. The primary purpose of the MSP is maintenance of a fleet capable of supporting a U.S. presence in foreign commerce, while also ensuring the military's ability to obtain assured access to a sufficient number of commercial vessels and mariners. MSP vessel participants also deliver cargoes supporting overseas deployments of U.S. forces. The Maritime Administration requests an appropriation of $174 million for 2012 for this critical, proven, and effective sealift program. Together with unobligated carry-over balances, this request will provide the total 2012 program obligation level of $186 million necessary to meet the Administration's commitment of fully funding the program at the FY 2012 authorized level. This will result in enrollment of 60 authorized MSP vessels at

the full $3.1 million level. Funding at this level will enable DOT to continue to maintain a U.S.-flag international trade merchant fleet crewed by U.S. citizens to serve the Nation's commercial and national security needs. In 2012, the program anticipates maintaining enrollment of 60 U.S. flag vessels, and achieving 2.6 million square feet of roll-on roll-off sealift capacity by ensuring MSP operators replace older vessels with newer, more modern and efficient vessels.

Maritime Guaranteed Loan Program (Title XI)

Title XI offers loan guarantees for shipyard modernization projects and for building vessels in U.S. shipyards for operation under the U.S. flag, as well as supporting infrastructure investment and economic growth. The program helps by providing applicants access to long-term financing at stable interest rates, sustaining facilities for shipbuilding and ship repair within the U.S., and promoting system capacity and jobs. The 2012 request proposes funding of $3.7 million for administration of the Title XI guaranteed loan portfolio to ensure compliance with the Federal Credit Reform Act. The current loan portfolio is $1.95 billion, covering approximately 330 vessels.

The Administration has proposed a cancellation of $54.1 million of the $76.6 million currently available to fund the subsidy costs associated with new Title XI guarantees. In these times of economic challenge and shared sacrifice, the Administration believes these funds can more appropriately be used elsewhere to fund other pressing priorities at this time. The Maritime Administration will continue to process applications subject to available funding.

We remain cognizant that Title XI program is not an appropriate tool for every shipbuilding project. Many prospective applicants have decided that the time and cost involved in the Title XI process is not workable for smaller-sized shipbuilding projects. In addition, $2.8 billion remains available for shipbuilding projects in privately-held Capital Construction Fund (CCF) accounts, another ship finance program administered by the Agency.

Assistance to Small Shipyard Grants

In 2010, Congress provided $15 million in funding to support capital improvements at qualified shipyards to allow domestic shipyards to better compete for domestic and international commercial ship construction. This follows $117.5 million in combined Omnibus and American Reinvestment and Recovery Act (ARRA) funding provided in 2009. As the focus of our 2012 grant program will be on the administration of the 2010 grant awards and continued oversight of 2009 Recovery Act grants, no funding is requested for shipyard grants in 2012.

I am pleased to report that of 70 ARRA-funded Small Shipyard grants issued in 2009, 27 grant projects are reported as completed, with aggregate program outlays to date of $70 million. To date, the 70 shipyards have reported more than 500 full-time equivalent

job years of labor generated by these grants. In addition, these grants support additional indirect jobs.

Port Development/America's Marine Highways

In 2010, the Department of Transportation designated $120.4 million in Transportation Investment Generating Economic Recovery (TIGER I) Discretionary grants for seven port and maritime-related projects, most of which will be supplemented by State and local funds. Recently, the DOT announced another six TIGER II grants for maritime projects for an additional $84.8 million. The Maritime Administration is managing these port-related grants under the oversight of the Office of the Secretary. These grants are supporting new marine highway services, adding capacity to and improving efficiency of ports, and improving shoreside linkages to inland markets. As the focus of the 2012 program will be on the administration and oversight of the Department's TIGER Discretionary grants, no funding is requested in MARAD's budget for additional Marine Highway grants in 2012. However, I would like to highlight a new source of funding for Marine Highway and other port projects. The President is requesting $5 billion in 2012 to establish the National Infrastructure Bank that will provide grants, loans, and a blend of both for multi-modal projects including highway, transit, rail, aviation (including equipage), ports, and maritime initiatives. This is the first time such a large amount of funds would be available for Federal assistance to port and maritime projects, and the President has proposed continuing this funding for six years, totaling $30 billion.

MarView

As I noted earlier, for the first time, the Administration's budget request includes $1 million for the continued development of MarView, our integrated, data-driven web portal designed to collect, store, and display data on the Marine Transportation System (MTS). MarView is a tool for the fusion of this data to create models of the MTS that allow for advanced business analysis and planning. These models will help us to better understand and manage the MTS and its intermodal connections. MarView seeks to take advantage of the many data resources, whether they are already available or being created by others in the maritime community, by pulling together in one location as many of these resources as possible. This makes more efficient use of the time needed to support leadership in the decision making process. It supports the government's interagency efforts to develop and manage our maritime domain awareness capability by enhancing our global vessel tracking efforts, and planning for and reacting to emergency situations, particularly the effects of mobilization events and natural or man-made disasters and how they affect the U.S. national economy.

ENVIRONMENT

Maritime Administration environmental programs are aimed at reducing pollution and the adverse environmental effects of maritime transportation and facilities on communities and livability by focusing on obsolete vessel disposal, reducing marine transportation related air emissions, and treating ballast water to prevent ecological and commercial damage associated with nonnative invasive species.

Ship Disposal

The 2012 request of $18.5 million for the Ship Disposal program ($3.5 million above the 2010 level), includes $13 million to accelerate the removal of obsolete vessels from the National Defense Reserve Fleet for disposal, with priority emphasis on disposal of vessels in the Suisan Bay Reserve Fleet and compliance with judicial consent decree requirements for those vessels. At the requested funding level, the Maritime Administration will be able to dispose of 8 obsolete ships, consistent with settlement requirements. Due to the presence of onboard hazardous materials--such as residual fuel, asbestos and solid polychlorinated biphenyls-- on these ships, they must be disposed of properly. Expedited disposal of obsolete ships lessens environmental risk and makes sense not only from the standpoint of avoiding possible harm to the environment, but also in terms of reducing costs and stimulating economic activity in the domestic ship recycling industry. Of note, the Agency recently certified a new ship-recycling facility—the first on the West Coast—which will allow for competitive bidding of ship disposal contracts. Most ships removed from Suisun Bay Reserve Fleet, which now contains all remaining high-environmental risk vessels, have out of necessity been covered by sole-source contracts for the cleaning of the ships before towing through the Panama Canal to recycling facilities on the U.S. East and Gulf Coasts.

The request also includes $2.5 million for a new Fleet Environmental Initiative to support environmentally sustainable practices for the obsolete vessels in the fleet awaiting disposal, to reduce the environmental risks associated with vessel storage and deterioration.

The 2012 budget request also includes $3 million in funding to continue nuclear license management for the inactive Nuclear Ship SAVANNAH. The budget will support the continued maintenance and safeguarding of the SAVANNAH nuclear plant, and allow for technical actions to keep the vessel in conformance with Nuclear Regulatory Commission standards.

Environmental Programs

The impact of marine transportation on the human and natural environment has become more evident in port and coastal communities, which are feeling the brunt of environmental quality impacts from marine transportation activities. At the same time, marine transportation is expected to grow considerably due to increased use of our nation's waterways for freight and passenger movement. Marine-related environmental impacts will therefore become more profound. The environmental impacts of marine transportation must be adequately anticipated and addressed or they will adversely affect the nation's economic growth and the quality of life of our port and seaside communities.

The most pressing environmental issues facing the maritime industry are invasive species in ballast water, and energy use and air emissions. The Maritime Administration has

been called upon by industry and government agencies to provide technical advice and expertise, data, and assistance for the development of policy, regulation, research and studies in these areas. The Administration's 2012 request includes $1.5 million to advance critical multi-modal transportation research to reduce environmental pollution, develop a ballast water discharge standard, expand infrastructure and methodologies for certifying and verifying ballast water technology, improve in vessel emissions data, and reduce the Agency's carbon footprint.

Mr. Chairman, I wish to express my appreciation for the opportunity to present and discuss the MARAD program for 2012, and for the Committee's continuing support for maritime programs. We will continue to keep this Committee apprised of the progress of our programs in these areas in the coming year, including our efforts to improve processes and internal controls at the USMMA.

I look forward to working with you on advancing maritime transportation in the United States, and am happy to respond to any questions you and the members of this Committee may have. Thank you.

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United States Coast Guard

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TESTIMONY OF ADMIRAL ROBERT J. PAPP, JR.
COMMANDANT, U.S. COAST GUARD

COAST GUARD FISCAL YEAR 2012 BUDGET REQUEST

BEFORE THE HOUSE SUBCOMMITTEE ON COAST GUARD AND MARINE TRANSPORTATION

MARCH 1, 2011

INTRODUCTION

Good morning Mr. Chairman and distinguished members of the Committee. Thank you for the continuing support you have shown to the men and women of the United States Coast Guard. Most recently, your support in passage of the Coast Guard Authorization Act of 2010 provided the Coast Guard with improved acquisition oversight, enhanced workforce expertise and partnerships, and the ability to move forward with key modernization initiatives to enhance mission execution.

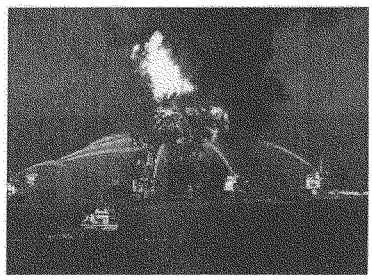
I am here today to discuss the Coast Guard's Fiscal Year (FY) 2012 Budget Request. Before I discuss the details of the request, I would like to take this opportunity to discuss the Coast Guard's value and role, some of our recent operations, including our recent response to the BP Deepwater Horizon Oil Spill, and the current budget environment.

For more than 220 years, the U.S. Coast Guard has safeguarded the Nation's maritime interests and natural resources on our rivers and ports, in the littoral regions, on the high seas, and around the world. The Coast Guard saves those in peril and protects the Nation's maritime border, marine transportation system, natural resources, and the environment. Over the past year, Coast Guard men and women – active duty, reserve, civilian and auxiliarists alike – continued to deliver premier service to the public. They saved over four thousand lives, protected our borders by stopping the flow of drugs and illegal migrants, and performed admirably in response to the largest spill in our nation's history – the Deepwater Horizon oil spill.

How does the Coast Guard operating model serve our public? The Coast Guard is an adaptable, responsive, military force of maritime professionals whose broad legal authorities, assets, geographic diversity, and expansive partnerships provide a persistent presence in the inland waters, ports, coastal regions, and far offshore areas of operations. This presence, coupled with over 220 years of experience as the Nation's maritime first responder, provides our Nation with tremendous value in service to the public.

The Coast Guard's value and role:

- We protect those on the sea: *leading responses to maritime disasters and threats, ensuring a safe and secure maritime transportation system, preventing incidents, and rescuing those in distress.*
- We protect America from threats delivered by sea: *enforcing laws and treaties, securing our ocean resources, and ensuring the integrity of our maritime domain from illegal activity.*
- We protect the sea itself: *regulating hazardous cargo transportation, holding responsible parties accountable for environmental damage and cleanup, and protecting living marine and natural resources.*



Fire boat response crews battle the blazing remnants of the off shore oil rig Deepwater Horizon. A Coast Guard MH-65C dolphin rescue helicopter and crew document the fire while searching for survivors on April 21, 2010.

The Coast Guard, working through DHS, led the Administration's response to the BP Deepwater Horizon oil spill, the first-ever Spill of National Significance, leveraging resources from across the country and around the world. The Coast Guard was the first agency on scene the night the Mobile Offshore Drilling Unit (MODU) Deepwater Horizon exploded, searching for those in distress and providing Federal on-scene presence. During the response, the Coast Guard worked closely with our Federal partners and industry to leverage resources where needed while carrying out our other missions throughout the world. From nearly every corner of the country the Coast Guard surged over 7,000 people, including members of the Coast Guard Reserve and Auxiliary, to support the response. Coast Guard members served in cutters and boats, in fixed and rotary-wing aircraft, and in the shore-side incident command system. The Coast Guard's adaptive operational model allowed for the:

- Integration of government and industry to contain the spill, recover more than 34.7 million gallons of oil-water mix, and perform controlled burns to remove more than 11 million gallons of oil from open water to protect the shoreline and wildlife.
- Deployment of 46 cutters and 22 aircraft. Surface assets included Medium Endurance Cutters (210-ft and 270-ft), Sea-going and Coastal Buoy Tenders (225-ft and 175-ft), Ice Breaking Tugs (140-ft) and Patrol Boats (179-ft, 110-ft and 87-ft). Air assets included Long and Medium-range Surveillance Aircraft (HC-130 and HC-144A) and Short and Medium Range helicopters (HH-60 and HH-65).

While 2010 was another exceptional "operational year" by any standard, these operations further stressed existing aged and obsolete cutters, boats, aircraft and support infrastructure that are in dire need of recapitalization. Furthermore, these extended surge operations strained workforce readiness due to increased op-tempo and deferred training. Even in the current fiscal environment where resources are scarce, we must continue to rebuild the Coast Guard, support front-line operations, invest in our people and families, and enhance maritime incident prevention and response capabilities to meet mission demands and ensure resiliency in the maritime domain.

FY 2012 REQUEST

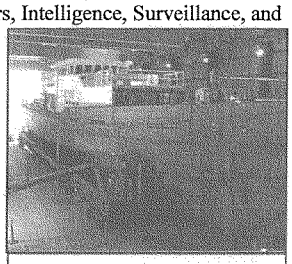
In Fiscal Year 2012, the Coast Guard will focus resources to advance strategic priorities. Through tough decisions and resource trade-offs, the Coast Guard's FY 2012 budget leverages savings generated through management efficiencies and offsets, and allocates funding toward higher order needs to support front-line operations. These offsets and reductions supported implementation of the following FY 2012 budget priorities:

- Rebuild the Coast Guard
- Sustain Front-line Operations
- Enhance Maritime Incident Prevention and Response
- Support Military Families

Highlights from our request are included in Appendix I.

Rebuild the Coast Guard

The Coast Guard's FY 2012 budget requests $1.4 billion to continue recapitalization of cutters; boats; aircraft; Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) systems; and infrastructure to improve mission readiness by replacing aged, obsolete, and unreliable assets. The FY 2012 budget requests funding for 40 Response Boats and six Fast Response Cutters, as well as a sizable investment in the renovation and restoration of shore facilities. This budget also provides resources to ensure that the Coast Guard's aviation fleet is mission-ready through the acquisition of two Maritime Patrol Aircraft, one HH-60 helicopter, and conversion and sustainment projects of multiple aircraft. Investment in Coast Guard recapitalization is essential to mission execution.



The replacement for the 110-ft Island Class Patrol Boat - the Fast Response Cutter (FRC) – is under construction at Bollinger Shipyards in Lockport, Louisiana.

Sustain Front-line Operations

To ensure the Coast Guard is able to meet the needs of the Nation, the FY 2012 budget balances resources between investments in capital assets, initiatives to sustain front-line operations, and measures to enhance mission execution. The FY 2012 budget requests $67.7 million to operate new assets delivered through asset recapitalization programs and provides funding to support personnel and in-service assets. Moreover, funding is included to operate CGC HEALY and support the operational reactivation of CGC POLAR STAR. The Coast Guard plans to decommission CGC POLAR SEA in FY 2011 and transition her crew to CGC POLAR STAR, enabling orderly transition to CGC POLAR STAR and facilitating her return to operations in FY 2013.

Enhance Maritime Incident Prevention and Response

Coast Guard Marine Safety and Environmental Response personnel promote safe and efficient travel, facilitate the flow of commerce in the maritime domain, and protect our natural resources. The FY 2012 budget requests $22.2 million to advance implementation of the Coast Guard's Marine Safety Performance Plan and Marine Environmental Response Mission Performance Plan. During the response to the Deepwater Horizon oil spill, Coast Guard incident responders established and executed the Incident Command System to lead an effective, unified effort. The

Coast Guard will enhance these core competencies in FY 2012 to keep pace with an ever-growing and evolving maritime industry and ensure continued proactive leadership to prevent disasters on the Nation's waters and remain ready to respond if they occur. Additionally, funding requested in the FY 2012 budget will assist in meeting Coast Guard Authorization Act of 2010 requirements regarding dockside examinations by adding examiners to improve fishing vessel safety.

Support Military Families

The Administration is committed to improving the quality of life for military members and their families. The health and welfare of families is the heart of operational readiness. The FY 2012 budget includes $29.3 million to address critical housing shortfalls and improve access to affordable, quality childcare. These initiatives will ensure Coast Guard members are *Semper Paratus* for all hazards and all threats.

CONCLUSION

The demands on the Coast Guard remain high. As we have for over 220 years, we remain ready to meet the Nation's many maritime needs supported by the FY 2012 request. We will always fulfill our duties and obligations to the American people, true to "Semper Paratus, Always Ready." I request your full support for the President's FY 2012 request. Again, thank you for the opportunity to testify before you today. I am pleased to answer your questions.

Appendix I - FISCAL YEAR 2012 BUDGET REQUEST

REBUILD THE COAST GUARD

Surface Assets
$642M (0 FTE)

The budget provides $642 million for surface asset recapitalization and sustainment initiatives, including:

- **National Security Cutter (NSC)** – Fully funds NSC-5 (anticipates $615 million provided for NSC-5 in 2011). The NSC is replacing the High Endurance Class.
- **Offshore Patrol Cutter (OPC)** – Sustains initial acquisition work and design of the OPC. The OPC will replace the Medium Endurance Cutter class to conduct missions on the high seas and coastal approaches.
- **Fast Response Cutter (FRC)** – Provides production funding for six FRCs to replace the 110-ft Island Class Patrol Boat.
- **Response-Boat Medium (RB-M)** – Provides production funding for 40 boats.
- **Medium Endurance Cutter (MEC)** – Provides for operational enhancement of five MECs at the Coast Guard Yard through the Mission Effectiveness Program.

Air Assets
$289.9M (0 FTE)

The budget provides $289.9 million for the following air asset recapitalization or enhancement initiatives, including:

- **MH-60T** – Replaces one Jayhawk lost in an operational crash in 2010.
- **HC-144** – Funds production of two Maritime Patrol Aircraft and procurement of up to five Mission System Pallets and associated spare parts to complete outfitting of the fleet.
- **HH-60** – Funds service life extension and component upgrades for eight aircraft.
- **HH-65** – Funds sustainment of key components.
- **HC-130H** - Funds Avionics Upgrade and Center Wing Box (CWB) replacements.

Asset Recapitalization – Other
$166.1M (0 FTE)

The budget provides $166.1 million for the following equipment and services:

- **Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR)** – Deploys standardized C4ISR capability to newly fielded NSCs and MPAs, and develops C4ISR capability for the OPC. Interoperable and integrated C4ISR is essential to the efficient and effective operation of these assets.
- **CG-Logistics Information Management System (CG-LIMS)** – Continues development and prototype deployment to Coast Guard operational assets and support facilities.
- **Rescue 21** – Completes deployment at Sectors Lake Michigan, San Juan, PR, Honolulu, HI, Guam; and continues replacement of legacy VHF systems in the Western Rivers.

- **Interagency Operations Center (IOC)** – Deploys Watchkeeper Information Sharing capability to three IOC locations. Commences deployment of the sensor management capability; resulting in improved capability to see, understand, and share tactical information critical to security and interagency coordination in vulnerable ports and coastal areas.

Shore Units and Aids to Navigation (ATON)
$193.7M (0 FTE)

The budget provides $193.7 million to recapitalize shore infrastructure for safe, functional and modern shore facilities that effectively support Coast Guard assets and personnel:

- Cape May, NJ – Replaces a condemned pier critical to execution of patrol boat missions.
- Corpus Christi, TX – Implements Sector/Air Station Corpus Christi consolidation in order to properly hangar, maintain, and operate MPA and and enhance mission effectiveness.
- Chase Hall Barracks, New London, CT – Continues renovations at the Coast Guard Academy by modernizing cadet barracks.
- Commences construction of the #3-6 FRC homeports, C4ISR training facility, and continues modifications to Air Station Miami to accommodate new MPA.
- Station Memensha Boathouse, Chilmark, MA – Replaces the boathouse destroyed by a fire in July 2010 essential to supporting coastal law enforcement, security and safety operations.
- TRACEN Petaluma, CA Wastewater Treatment Plant – Recapitalizes and expands the capability of the Wastewater Treatment Plant to ensure compliance with environmental regulations.
- Station Fairport, Ohio – Recapitalizes multi-mission boat station, originally constructed in 1918, to facilitate current-day operations.
- ATON Infrastructure –Improves short-range aids and infrastructure to promote the safety of maritime transportation.

Personnel and Management
$110.2M (794 FTE)

The budget provides $110.2 million to provide pay and benefits for the Coast Guard's acquisition workforce. The budget includes additional resources to support the government-wide Acquisition Workforce Initiative to bolster the professional development and capacity of the acquisition workforce.

SUSTAIN FRONT-LINE OPERATIONS

Pay & Allowances
$66.1M (0 FTE)

The budget provides $66.1 million to maintain parity of military pay, allowances, and health care with the Department of Defense (DOD). As a branch of the Armed Forces of the United States, the Coast Guard is subject to the provisions of the National Defense Authorization Act (NDAA), which includes pay and personnel benefits for the military workforce.

Annualization of Fiscal Year 2011
$53.9M (194 FTE)

The budget provides $53.9 million to continue new initiatives begun in the prior year, including increased counternarcotics enforcement through enhanced Law Enforcement Detachment (LEDET) capacity and follow-on funding for new assets (e.g., NSC, FRC, MPA, etc.).

Surface and Air Asset Follow-on
$50.8M (220 FTE)

The budget provides a total of $50.8 million to fund operations and maintenance of cutters, boats, aircraft, and associated subsystems delivered through major cutter, aircraft, and associated C4ISR acquisition efforts. Funding is requested for the following assets:

- RB-M-Funding for maintenance, repair and operational costs.
- FRC – Operating and maintenance funding for FRCs #6-8 and funding for crews #9-10. These assets will be homeported in Miami and Key West, FL. Funding is also requested for shore-side maintenance personnel needed to support FRCs.
- NSC – Signals Intelligence Capability follow-on and Crew Rotational Concept implementation for three NSCs located in Alameda, CA.
- HC-144A MPA – Operating and maintenance funding for aircraft #14; support and maintenance of Mission System Pallets 1-12.
- C4ISR Follow-on – Funding to maintain more than 200 C4ISR systems deployed and delivered by the Coast Guard C4ISR Program.
- Helicopter Systems – Funding to operate and maintain communications and sensor systems for HH-60 and HH-65 helicopters.
- Asset Training System Engineering Personnel - Funding to support NSC and FRC training requirements at Training Center Yorktown.

Polar Icebreaking Program
$39M (180 FTE)

The budget requests $39 million in polar icebreaking budget authority. Funding will support the operation and maintenance of CGC HEALY and prepare for the operational reactivation of CGC POLAR STAR. The Coast Guard plans to decommission CGC POLAR SEA in FY 2011 and transition her crew to CGC POLAR STAR, enabling efficient transition to CGC POLAR STAR and facilitating her return to operations in FY 2013.

Critical Depot Level Maintenance
$28.7M (0 FTE)

The budget provides $28.7 million for critical depot level maintenance and asset sustainment for vessels, aircraft, and shore infrastructure. Funding will increase support levels for the 140-, 175-, and 225-foot classes of cutters, restore aircraft spare parts and provide sustainment for aging shore infrastructure.

Distress Alerting Satellite System (DASS)
$6.3M (1 FTE)

The budget provides $6.3 million to begin replacement of the Search and Rescue Satellite Aided Tracking (SARSAT) system with the Distress Alerting Satellite System (DASS). This multi-agency partnership also includes the National Aeronautics and Space Administration (NASA), the National Oceanic and Atmospheric Administration (NOAA), the U.S. Air Force (USAF). Recapitalization of the SARSAT system beginning in FY 2012 is critical to ensure no loss of coverage in distress notification and life saving response during the planned deactivation of the legacy SARSAT system.

Coast Guard Network Security
$8.6M (0 FTE)

The budget provides funding for the Coast Guard to transition from its commercially provided Internet Access Points (IAPs) to DOD IAPs via the Defense Information Systems Agency (DISA) to ensure security of vital networks and meet cyber security requirements.

ENHANCE MARITIME INCIDENT PREVENTION AND RESPONSE

Marine Safety Enhancement
$10.7M (53 FTE)

The budget provides $10.7 million and 105 personnel to implement the next segment of the Marine Safety Performance Plan by investing in Marine Safety Inspectors, Investigators, and Fishing Vessel Safety Examiners at Coast Guard Sectors. This initiative furthers the Coast Guard's efforts to achieve an appropriate mix of military and civilian personnel with the necessary skill-sets and experience to perform Marine Safety inspections and investigations.

Marine Environmental Response Enhancement
$11.5M (44 FTE)

The budget provides $11.5 million and 87 personnel to enhance Marine Environmental Response (MER) capacity. This initiative supports the Marine Environmental Protection Mission by providing funding for an MER Incident Management and Assist Team (IMAT) and increasing technical expertise and strengthening MER career paths at Coast Guard Sectors and Strike Teams. The request is the initial investment in the Coast Guard's initiative to improve mission performance in accordance with the MER Mission Performance Plan.

SUPPORT MILITARY FAMILIES

Child Development Services
$9.3M (6 FTE)

The budget provides $9.3 million to increase access to child care services for Coast Guard families with dependents under the age of 12, better aligning the Coast Guard with the Department of Defense (DOD) child care standards. Additionally, this request funds 12 new positions critical to ensuring continued accreditation of the Coast Guard's nine child development centers by the National Association for the Education of Young Children.

Military Housing
$20.0M (0 FTE)

The budget provides $20.0 million to build family housing units at Sector Columbia River and recapitalize the Air Station Cape Cod Unaccompanied Personnel Housing, the highest priority housing projects, critical to the well-being of military personnel and their families assigned to these geographic regions.

DECOMMISSIONINGS, EFFICIENCIES, AND SAVINGS

High Endurance Cutter Decommissioning
-$6.7M (-92 FTE)

As part of its long-term recapitalization plan, the Coast Guard is decommissioning HECs as NSCs are delivered and made operational. The average age of the HEC fleet is 43 years and these assets are failing at an increased rate resulting in lost operational days and increased maintenance costs. The Coast Guard will decommission one High Endurance Cutter (HEC) in FY 2012.

PC-179 Patrol Coastal Decommissioning
-$16.4M (-108 FTE)

The three remaining 179-foot Patrol Coastal (PC) vessels will be decommissioned per a January, 2007 Memorandum of Agreement (MOA) with the U.S. Navy. These vessels will be returned to the U.S. Navy in FY 2012.

Standard Workstation Help Desk consolidation
-$6.9M (0 FTE)

Consolidates computer workstation support into two regional centers, eliminating 56 contractors.

Program Support Reduction
-$13.6M (0 FTE)

Reduction in programmatic support across the Coast Guard including support reductions for: small boat replacement, reservist and contract support for audit remediation, innovation program funding, recruiting, and training opportunities.

ADMINISTRATIVE SAVINGS INITIATIVES

In FY 2012 the Coast Guard will seek efficiencies and make targeted reductions in order to sustain front-line operational capacity and invest in critical recapitalization initiatives.

Management Efficiencies
-$61.1M (0 FTE)

Consistent with the Secretary of Homeland Security's Efficiency Review and building upon efforts in previous fiscal years, efficiencies will be generated by leveraging centralized purchasing and software licensing agreements, reductions in printing and publications, reductions in shipping and the transportation of things, reductions in advisory and assistance

contracts, minimizing purchases of supplies and materials, office equipment consolidation, implementing automation and energy conservation/savings measures, and limiting government usage of commercial facilities.

Professional Services Reduction
-$15.2M (0 FTE)

A reduction in professional services contracts for enterprise-wide mission support and operational support activities.

Non-Operational Travel Reduction
-$10.0M (0 FTE)

A 25% reduction in Coast Guard-wide non-operational travel, including travel for training, professional development, conferences, and international engagement.

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