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PROTECTING MARITIME JOBS AND ENHANCING MARINE SAFETY IN THE POST-BUDGET CONTROL ACT FISCAL ENVIRONMENT: A REVIEW OF THE ADMINISTRATION'S FISCAL YEAR 2013 COAST GUARD AND MARITIME TRANSPORTATION BUDGET REQUEST

(112–75)

HEARING

BEFORE THE

SUBCOMMITTEE ON
COAST GUARD AND MARITIME TRANSPORTATION

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

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[1] Master Chief Michael P. Leavitt did not submit a written statement.

U.S. House of Representatives
Committee on Transportation and Infrastructure

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Washington, DC 20515

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March 2, 2012

MEMORANDUM

TO: Members, Subcommittee on Coast Guard and Maritime Transportation

FROM: Staff, Subcommittee on Coast Guard and Maritime Transportation

RE: Hearing on "Protecting Maritime Jobs and Enhancing Marine Safety in the post-Budget Control Act Fiscal Environment: A Review of the Administration's Fiscal Year 2013 Coast Guard and Maritime Transportation Budget Request".

PURPOSE

On March 7, 2012, at 10:00 a.m. in 2167 Rayburn House Office Building, the Subcommittee on Coast Guard and Maritime Transportation will hold a hearing to examine the fiscal year (FY) 2013 budget requests for the United States Coast Guard, Federal Maritime Commission, and Maritime Administration.

BACKGROUND

United States 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.

FY 2013 Coast Guard Budget Request: The President requests $9.96 billion in FY 2013 for Coast Guard activities, $602.4 million (or -5.7 percent) less than the FY 2012 enacted level. This amount does not include $254.5 million for Overseas Contingency Operations (OCO), which the administration proposes to appropriate to the Department of Defense (DoD) in FY 2013 and then make available to the Coast Guard. If OCO funding is appropriated directly to the Coast Guard in FY 2013, as it has been in all previous fiscal years, then the budget proposes $347.9 million (or -3.5 percent) less than the FY 2012 enacted level.

Operating Expenses: The budget request for Coast Guard Operating Expenses (OE) in FY 2013 is approximately $6.79 billion, an increase of $35.9 million (or 0.5 percent) above the FY 2012 enacted level. 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 2013 request proposes to cut the size of Coast Guard's workforce by 1,071 positions. This includes a reduction of 1,008 servicemembers and 63 civilians. These are net reductions representing a decline in positions from decommissioning certain assets, the closure of facilities, and cuts to personnel assigned to intelligence, airborne use of force, training, and recruiting. These reductions are offset by increases in personnel to support the operation and maintenance of recently acquired assets.

The request includes $78.9 million to cover the cost of the Administration's proposed 1.7 percent pay raise for military personnel in FY 2013, increases in military benefits to maintain parity with benefits received by DoD servicemembers, as well as a 0.5 percent pay raise for civilian personnel.

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 2012; increased sustainment costs for aging assets; and increases in other administrative expenses, including $24.5 million in additional lease costs for the Service's new headquarters at St. Elizabeths Hospital. These increases are offset by $181.6 million in cuts derived through the decommissioning of certain assets and closure of two seasonal air facilities (see below), consolidation of technical services and reductions in personnel, travel, support, and other administrative costs.

The budget proposes to close or decommission the following facilities or assets:

- *Lake Michigan Season Air Facilities:* The Coast Guard proposes to close two air facilities which house HH-65 helicopters during the summer months in Waukegan, WI and Muskegon, MI. The rest of the year, the helicopters operate out of Air Station Traverse City, MI. The Service proposes to transition Air Station Traverse City from housing five HH-65s to housing three HH-60s helicopters. The Service proposes to transfer two of the three HH-60's from Air

Station Clearwater, FL where they are primarily assigned to a drug interdiction mission in the Caribbean, as well as one from Air Station Elizabeth City, NC where it currently supports a tactical homeland security mission. Finally, the Coast Guard proposes to remove three of the HH-65s from service and transfer the remaining two helicopters to two air stations that recently suffered HH-65 casualties. The Service estimates these changes will save $5.2 million in FY 2013. The Service recently spent millions to upgrade the HH-65 fleet with new engines and avionics.

- *High Endurance Cutters:* The Coast Guard proposes to decommission two High Endurance Cutters (WHEC) in FY 2013. The 378' WHEC fleet was first commission in 1967. The WHECs are failing at an increased rate which is resulting in lost operational days and increased maintenance costs. The Coast Guard estimates saving $16.8 million in FY 2013 through decommissioning two WHECs. The WHEC fleet is being replaced by the National Security Cutter (NSC). Two NSCs (BERTHOLF and WAESCHE) have been delivered to date and the Service expects to take delivery of a third NSC (STRATTON) in FY 2012.

- *110' Patrol Boats:* The Coast Guard proposes to decommission three 110 foot Patrol Boats (WPB) and terminate the High Tempo High Maintenance (HTHM) Operations program. HTHM was a bridging strategy to maintain patrol boat mission hours by approximately doubling the normal programmed hours for eight 110's by rotating two crews on each WPB. The Service estimates these changes will save $35.4 million in FY 2013. The Coast Guard estimates it needs an additional 103,000 patrol boat operational hours to fully carry out its missions. The Service estimates the termination of HTHM operations and the decommissioning of three 110's will increase the current patrol boat mission hour gap by 17,000 hours.

- *HU-25 Falcons:* The Coast Guard proposes to decommission three of the six remaining HU-25 Falcon aircraft in its inventory. The Service is replacing the outdated Falcons with new HC-144 Maritime Patrol Aircraft. The Service estimates decommissioning these assets will save $5.5 million in FY 2013.

Environmental Compliance and Restoration: The President requests $13.2 million for the Environmental Compliance and Restoration (EC&R) account in FY 2013, $0.3 million (or -2.5 percent) less than the FY 2012 enacted level. 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 $13.2 million requested for EC&R to pay for the environmental remediation and restoration of Coast Guard facilities in several states. The Service currently has a backlog of over 400 EC&R projects with an estimated combined cost of over $185 million.

Reserve Training: The President requests $132.5 million for the Reserve Training account in FY 2013, $1.7 million (or -1.3 percent) less than the FY 2012 enacted level. 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 recent years, 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 $1.19 billion for the Acquisitions, Construction, and Improvements (AC&I) account in FY 2013, a reduction of $271.6 million (or -18.5 percent) below the FY 2012 enacted level. 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 $1.03 billion for the acquisition of aircraft, vessels, and command, control, communications, computer, intelligence, surveillance and reconnaissance (C4ISR) systems. This represents a reduction of $64.5 million (or -6 percent) below the FY 2012 enacted level. The budget request includes:

- $683 million to complete construction of the sixth NSC. No funding is included in the five year Capital Improvement Plan for the acquisition of NSCs #7 or #8;
- $30 million to continue the development of the Offshore Patrol Cutter (OPC);
- $43 million to acquire one HC-144A Marine Patrol Aircraft;
- $31.5 million for the modernization/sustainment of the HH-65 Dolphin helicopter fleet;
- $76.5 million for C4ISR acquisition, program management, systems engineering and integration, and Nationwide Automatic Identification;
- $8 million to survey and design a new polar icebreaker.

The Service proposes to eliminate funding for the following acquisition programs in FY 2013:

- Response Boat – Medium (RB-M). The Coast Guard's program of record for this procurement calls for the acquisition of 180 RB-M's to replace the aged, slow, and obsolete 41 foot utility boat. To date, funding has been secured to acquire 166 RB-Ms. Despite proposing to terminate the acquisition early, the Service has not amended the program of record to explain how the reduced buy will meet mission requirements. Terminating the acquisition early could impair small boat readiness which could impact search and rescue mission effectiveness.

- HH-60 Helicopter Conversion. The Coast Guard had planned to make critically needed upgrades to the helicopter's search radar sensor system to improve the asset's ability to conduct search and rescue. The Service now proposes to put off these upgrades until at least 2017.

- C-130H Conversion/C-130J Acquisition. The Coast Guard's program of record calls for a fleet of 22 C-130J's by the mid 2020's. The Service proposes to use previously appropriated funding to complete the acquisition three C-130J's, bringing the fleet of C-130J's up to nine.

- In Service Vessel Sustainment. This program funds service life extension projects on the 32 year old fleet of 140 foot Icebreaking Tugs and mission effectiveness projects on the 16 year old fleet of 225 foot Seagoing Buoy Tenders. The Service proposes to delay initiation of these projects until FY 2014.

- Unmanned Aircraft System (UAS). The Service proposes to use previously appropriated funds to continue work to test and evaluate existing UAS platforms for potential use aboard cutters.

In addition, the Coast Guard proposes to withhold up to $139 million provided by Congress in FY 2012 to construct six new Fast Response Cutters (FRC), opting instead to construct four FRCs in FY 2012. The Service then proposes to combine the withheld $139 million from the FY 2012 appropriations with an additional $139 million requested in FY 2013 to construct four FRCs in FY 2013. This strategy will delay the acquisition of this asset, which is being acquired to replace the 26 year old fleet of 110 foot Patrol Boats.

The budget requests $186.5 million in other capital costs, 124.4 million (or -40 percent) less than the FY 2012 enacted level. This includes $110 million in personnel costs to execute AC&I programs and $49 million to make improvements to piers and hangers to support newly acquired assets. This also includes $15 million to construct shore facilities and aids to navigation, which is $97.9 million (or -86.7 percent) less than the FY 2012 enacted level. The Coast Guard currently has a backlog of over 35 prioritized shore facility improvement projects with an estimated combined cost of over $540 million.

Finally, no funding is included in the budget request to rehabilitate housing for Coast Guard servicemembers and their dependents. The account received $14 million in FY 2012 funding. Much of the Service-owned housing is decades old and in poor condition. The Service expects to complete a report which includes survey of the condition of its housing and recommendations on how to address the situation in May 2012.

Alteration of Bridges: The President does not request funding for the Alteration of Bridges program in FY 2012. The program did not receive funding in FY 2012. 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 the Coast Guard's Research, Development, Test, and Evaluation (RDT&E) account, a reduction of $8 million (or -29 percent) below the FY 2012 enacted level. 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 2013 to develop new technologies for the detection and recovery of oil and hazardous substances from the sea floor and in the Arctic environment; to develop ballast water treatment methodologies; to provide improved, sensors, data sharing and information security technologies for assets and shore units; and to develop new systems to improve intelligence collection and dissemination.

Retired Pay: The President requests $1.4 billion for the Retired Pay account, a $9.2 million (or -0.6 percent) less than the FY 2012 enacted level. 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.

Account	FY2012 Enacted	FY2013 President's Budget Request	*Difference Bet. FY2013 Request and FY2012 Enacted*	*% Difference Bet. FY2013 Request and FY2012 Enacted*
Formal Proceedings	$7,864,407	$8,584,638	*$720,231*	*9.2%*
Equal Employment Opportunity	$196,915	$212,194	*$15,279*	*7.8%*
Inspector General	$727,322	$764,127	*$36,805*	*5.1%*
Operational and Administrative	$15,311,356	$16,439,041	*$1,127,685*	*7.4%*
Total	**$24,100,000**	**$26,000,000**	***$1,900,000***	***7.9%***

FY 2012 FMC Budget Request: The President requests $26 million in FY 2013 for the activities of the FMC, an increase of $1.9 million (or 7.9 percent) above the FY 2012 enacted level.

Formal Proceedings: The President requests $8.6 million for the Formal Proceedings account, a $0.7 million (or 9.2 percent) increase over the FY 2012 enacted. 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 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.

Account	FY2012 Enacted	FY2013 President's Budget Request	*Difference of FY12 Enacted and FY13 Budget Request*	*% Difference of FY12 Enacted and FY13 Budget Request*
Operations and Training	$156,258,000	$146,298,000	*-$9,960,000*	*-6.4%*
Assistance to Small Shipyards	$9,980,000	$0	*-$9,980,000*	*-100.0%*
Ship Disposal Program	$5,500,000	$10,000,000	*$4,500,000*	*81.8%*
Maritime Security Program	$174,000,000	$184,000,000	*$10,000,000*	*5.7%*
Title XI - Administrative Expenses	$3,740,000	$3,750,000	*$10,000*	*0.3%*
Title XI - Loan Guarantees	$0	$0	*$0*	*0.0%*
Total	**$349,478,000**	**$344,048,000**	***-$5,430,000***	***-1.6%***

FY 2013 MARAD Budget Request: The President requests $344 million in FY 2013 for the activities of MARAD, a reduction of $5.4 million (or -1.6 percent) below the FY 2012 enacted level.

Operations and Training: The President requests $156.3 million for the Operations and Training (O&T) account, a decrease increase of $9.96 million (or -6.4 percent) below the FY 2012 enacted level. 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 $77.3 million for the U.S. Merchant Marine Academy, including $67.3 million for Academy Operations, and $10 million for capital improvements, repairs, and maintenance; $16 million for the six state maritime academies; and $53 million for MARAD Operations and Programs. The budget request does not include funding for the Marine Highways grant program.

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 $9.9 million in FY 2012.

Ship Disposal: The budget requests $10 million for the Ship Disposal Program, a $4.5 million increase (or 81.8 percent) above the FY 2012 enacted level. The requested funding includes $7 million for expenses related to the disposal of up 15 ships, and $3 million to conduct the regulatory activities associated with storing the Nuclear Ship SAVANNAH.

Maritime Security Program: The budget requests $184 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 amount represents a $10 million (or 5.7%) increase over the level provided in FY 2012. Together with unobligated balances carried forward from prior years, this request will provide the total FY 2013 program level of $186 million necessary to fund the program at the FY 2013 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. This program did not receive any funding in FY 2012.

H.R. 2838, The Coast Guard and Maritime Transportation Act of 2011

On November 15, 2011, the House of Representatives passed H.R. 2838, The Coast Guard and Maritime Transportation Act of 2011 on voice vote. H.R. 2838 authorizes the activities of the Coast Guard for each of the fiscal years 2012 through 2014 at the following levels:

Coast Guard			
Program	**FY2012**	**FY2013***	**FY2014****
Operating Expenses	$6,819,505,000	$6,922,645,000	$7,018,498,780
Acquisition, Construction & Improvements	$1,503,980,000	$1,505,312,000	$1,506,549,000
Reserve Training	$136,778,000	$138,110,990	$139,310,681
Environmental Compliance & Restoration	$16,699,000	$16,699,000	$16,699,000
Research, Development, Test & Evaluation	$19,779,000	$19,848,363	$19,913,431
Total	**$8,496,741,000**	**$8,602,615,353**	**$8,700,970,892**

** Assumes a 3% increase in military pay consistent with FY12 budget resolution*

***Assumes a 2.7% increase in military pay consistent with FY12 budget resolution*

H.R. 2838 also authorizes appropriations for the FMC at $22,100,000 for each of the fiscal years 2012 through 2015.

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

PROTECTING MARITIME JOBS AND ENHANCING MARINE SAFETY IN THE POST-BUDGET CONTROL ACT FISCAL ENVIRONMENT: A REVIEW OF THE ADMINISTRATION'S FISCAL YEAR 2013 COAST GUARD AND MARITIME TRANSPORTATION BUDGET REQUEST

WEDNESDAY, MARCH 7, 2012

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 LoBiondo (Chairman of the subcommittee) presiding.

Mr. LOBIONDO. Good morning. The subcommittee will come to order.

Before we get into the heart of the hearing, let me remind everybody that last week a very tragic event took place. We had a Coast Guard helicopter that went down in Mobile Bay, Alabama, on a training mission. Three servicemembers tragically lost their lives, and one is still missing. This is a very stark reminder of what our men and women in the Coast Guard have signed up to do, and how they put themselves in harm's way every day. Our Nation owes them a great debt of gratitude. And we should be keeping the families in our thoughts and prayers, and wishing them peace and strength.

So, Admiral Papp, if you would, please extend our condolences.

The subcommittee is meeting today to hear testimony on the President's fiscal year 2013 budget request from the leaders of the three Federal agencies which promote, protect, and regulate vessels and mariners in U.S. waters and in international trade.

As my colleagues know, our Nation is facing a very tough budget climate, as we try to control our exploding national debt. This Congress must continue to make extremely difficult decisions to bring our spending under control and to cut the deficit. The effort continues today with the presentation of the fiscal year 2013 budget request.

The President requests $9.96 billion for the Coast Guard in fiscal year 2013, a 4-percent cut over the current level. This is the first time in over a decade that a President proposes to reduce funding for the Coast Guard. These cuts have me gravely concerned. We

will repeat the same mistakes we made in the 1990s, when misguided cuts to the Service's operating and acquisition budgets left it entirely unprepared to meet the 9/11 mission which was thrust upon the Coast Guard.

For the fiscal year 2013 operating budget, the President proposes to slash the number of Coast Guard servicemembers by more than 1,000. Now, 1,000 may not seem like much, but for the Coast Guard that is a huge number, when we fought for so long to get that number up.

Those thousand will shutter recruiting stations, close seasonal air facilities, take recently upgraded helicopters out of service, and exacerbate the growing patrol boat mission hour gap by retiring vessels before their replacements arrive.

For acquisition, the President proposes to slash the budget by $272 million, or 19 percent below the fiscal year 2012-enacted level. The request proposes to terminate or delay the acquisition of the critically needed replacement assets, including Response Boats-Medium, Fast Response Cutters, Maritime Patrol Aircraft, Long Range Surveillance Aircraft, and Unmanned Aircraft Systems. It also proposes to put off important upgrades to the Jayhawk helicopter fleet, and delay sustainment projects on buoy tenders.

Finally, the request slashes the budget for improvements to shoreside installations by over 86 percent—86 percent, that is a big number—and eliminates funding to renovate its derelict housing for servicemembers and their dependents. And for me, that is one of the most troubling aspects, where we ask men and women to serve their country and put their lives on the line, and in many cases they are in substandard housing, as it is. Derelict is the proper word. And we eliminate funding to do any renovation, that is just not right.

Although I commend Admiral Papp for being honest about what these cuts will mean for the ability of the Coast Guard to successfully conduct its missions, I am very disappointed that the Secretary of Homeland Security and the President feel, nonetheless, it is acceptable to make them. Admiral Papp, you have been put in a very tough situation, and we understand that.

As I have said before, I think there are ways to find savings in the Coast Guard's budget by trimming administrative costs and implementing efficiencies and operation. Our Coast Guard authorization bill, which passed the House in November—overwhelmingly, I might add—provided for just that. But this budget request undermines the Service readiness and mission effectiveness, and could adversely impact the safety and security of our ports and waterways.

The budget request for the Maritime Administration represents a 1.6-percent reduction below the current level. Most of the cuts come from zeroing out funding for grants or other programs which are meant to revitalize the maritime sector and protect U.S. mariner jobs.

I am particularly concerned with the Administration's proposal to yet again zero out funding for title 11 loan guarantees. Title 11 program has served as an important catalyst for growing American shipbuilding jobs in the past, and it could be an important compo-

nent to further our recovery from the current recession with very little cost to the taxpayer.

Finally, the budget request for the Federal Maritime Commission proposes a nearly 8-percent increase over current levels. Although an 8-percent increase in the FMC budget amounts to less than $2 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 to try to develop savings through consolidation of services and more efficient operations.

With that, I would like to yield to Mr. Larsen for any comments he may wish to make.

Mr. LARSEN. Thank you, Mr. Chairman. And I apologize, I am dealing with a cold. So I will get through my comments here and try to wrap up. But I want to thank you for conducting today's subcommittee hearing to discuss the proposed budgets for the Coast Guard, the Maritime Administration and Federal Maritime Commission.

Before I get started, Mr. Chairman, I do want to echo your comments made with regards to the loss of life and those still missing from the Coast Guard family. We all—still remain very concerned, and I just want to share my thoughts and prayers as well, Admiral and Chief.

Maritime transportation continues to be a critical component of our national economy, contributing over $100 billion annually in economic output, and generating nearly 500,000 jobs, including 75,000 jobs aboard vessels or at shipyards. Investing wisely and strategically to facilitate, protect, and to regulate maritime commerce in the United States remains vital in our efforts to sustain the ongoing recovery of our economy.

I remain concerned with how the Federal Government spends the taxpayers' money. The responsibility rests squarely on the shoulders of Congress. It is our obligation to ensure that the taxpayers get the biggest bang for the buck from the funds that we invest on their behalf, to sustain important Federal programs, including those activities that sustain the U.S. maritime economy.

I noted at last year's budget oversight hearing that in our efforts to grapple with the Federal budget deficit, some in Congress are placing too much emphasis on how much can we cut. Rather, we should be asking a more appropriate question, which is: how can we best direct available Federal resources to generate economic growth and spur job creation?

That point remains just as relevant today. And after reviewing this year's proposed budgets for the Coast Guard and Maritime Administration, my warning that cuts in the Federal spending will not result in agencies doing more with less, but in agencies doing less with less, seems to have been affirmed.

Any way you slice it, the only conclusion I can reach concerning the Coast Guard's piece of the Federal budget pie is that it is insufficient to meet the demands placed on this multimission military Service.

Operating expenses account would see a small increase to maintain the pace of field operations. I am also pleased that funds are requested to allow the Coast Guard to move ahead with the acquisition of the sixth National Security Cutter, and that the Adminis-

tration has finally seen the light of reason, and requested funds to begin the planning and design work for a new Polar-class icebreaker. But these positive aspects are offset by cuts. Some steep in other Coast Guard accounts, including the acquisition, construction, and improvements account, and the research, development, test, and evaluation account.

In particular, I am disappointed that this budget does not request any funds to address the long-term backlog of servicemember housing needs.

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 on the Service. I will be interested in hearing from Commandant Papp on how he expects the Service to do more with less, and what will be the effects of tradeoffs embedded in this request.

Unfortunately, MARAD's budget proposal for fiscal year 2013 also disappoints. Although the overall proposed budget for MARAD would be less than a 2-percent cut from fiscal year 2012, important MARAD accounts that support our domestic ship building industry would go without.

First, as the chairman noted, the title 11 loan guarantee program which contributes to the ability of the United States to carry its foreign and domestic waterborne commerce helps sustain efficient shipbuilding activities, and preserves a skilled shipbuilding workforce would go unfunded in this budget.

Second, the budget would eliminate funding for the assistance to small shipyards program. Similar to title 11, this program has made an important set of targeted investments to improve American port infrastructure, create American jobs, and help domestic shipyards. Rather than eliminating these programs, we should be investing in them to stimulate job growth, allow U.S. firms to retool to remain globally competitive, and provide a genuine return on investment for the taxpayers here in the U.S.

If there is a ray of optimism this morning, it might be the proposed budget for the Federal Maritime Commission. For the second consecutive year, the Administration has proposed a modest increase to support the Commission. In light of the turbulent global economy, and the need to maintain reliable, efficient, and affordable marine supply chains, the Commission continues to play an often overlooked but vital role in monitoring world shipping practices.

I do want to hear from Chairman Lidinsky in how the Commission intends to use the new funding proposed in this budget, and what they intend to do to support greater U.S. exports, especially in the transpacific trade.

With that, Mr. Chairman, I look forward to testimony from our witnesses. Thank you.

Mr. LOBIONDO. Thank you, Mr. Larsen. Before we go to our panel, I understand we have a number of State maritime academy cadets that are with us today. We welcome you. We applaud your career decisions, and hope you stick with your career dreams for the maritime industry. Thank you for joining us.

Yes, Mr. Larsen?

Mr. LARSEN. I would like to welcome them. And, although he could not be here because he is at a Veterans' Affairs Committee

meeting, where he is a ranking member, Mike Michaud from Maine wanted me—I don't know which one is from Maine, but Mike Michaud from Maine wanted me to specifically call out the guy from Maine or gal from Maine and welcome you here today.

Mr. LOBIONDO. All right. We have our witnesses today—include Admiral Papp, the 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 the Honorable David Matsuda, who is the Administrator of the Maritime Commission.

We welcome you, Admiral Papp. The floor is yours.

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

Admiral PAPP. Well, thank you, Mr. Chairman and Mr. Larsen, particularly for those kind words. If I can divert from my statement for just a moment, we really do appreciate your thoughts and your prayers for the crew of the 6535. There are certain things that only the Commandant of the Coast Guard can do or should do.

One of those things was to fly over to Mobile on Friday to meet with the parents of Lieutenant Commander Taylor and the parents of Lieutenant Cameron, hug their mothers, do what I could, say what I could to help them feel a little bit better. But I was actually strengthened myself by the fact that they talked about their sons' love for the Coast Guard, love for flying, love for serving their country, and they died—what they were doing. I also had a chance to speak to the shipmates of Chief Petty Officer Jorge and Petty Officer Knight, who remains missing.

As well, I will go down there tomorrow for the memorial service, to speak to all hands in the assembled community as the keynote speaker for that memorial service. Once again, one of those things that the Commandant should and must do.

But one of the other things that the Commandant must do is be the voice for the men and women for the Coast Guard when we have these hearings to talk about our needs, our challenges that we are facing. And doing the former only strengthens me to give my best in doing this today. So thank you for recognizing them. And there are some challenges ahead, but the Coast Guard has adapted to storms in the past, and we have adapted to operate in times of peace, and we have continually responded to meet emerging maritime challenges.

And, as I said, today is no different. Coast Guard men and women are confronting a diverse array of maritime threats, whether it is transnational smuggling or illegal fishing on the high seas, increasing human activity driven by the economic opportunity of an ice-diminished Arctic Ocean, or piracy.

Just this past weekend, the Coast Guard Cutter *Northland* was on patrol off South America when its embarked helicopter spotted

a go-fast vessel with numerous bails on deck. The vessel refused to stop, so the helicopter fired warning shots, and then eventually disabling fire to stop it. *Northland*'s boarding team recovered 1,600 kilos, or nearly 2 tons, of pure cocaine, worth an estimated street value of $42 million.

This year also celebrates a 100th anniversary of the loss of *Titanic*, yet 100 years later the cost of *Concordia*'s recent loss reminds us of the importance of having safety-at-sea standards. And to ensure compliance, we need a robust marine inspection and safety program.

As you can see, our Nation is facing many maritime challenges. And if we don't have the tools to confront those threats, they will pose a significant threat to Americans' prosperity, because 95 percent of our commerce travels by sea. This is why responsibly rebuilding the Coast Guard and providing our hard-working Coast Guardsmen with the tools they need to do their job remains my top budget priority.

The good news is that since 9/11, because of your support, we have taken numerous steps to mitigate the risk overseas and back here in our ports, our inland waterways, and near our coasts. We have invested in international port security officers, marine safety enhancement program, and more small boats, more capable aircraft, and more personnel to operate them. We have also deployed rescue 21 distress communication systems throughout the continental United States and the Great Lakes. We have unified our field operations through the creation of sector commands, which brings together our prevention and response capabilities.

Using the authorities you provided in the Maritime Transportation and Security Act, we have enhanced our regulator inspection and compliance programs, and we have built out a highly effective deployable specialized force capability within our ports. We have also strengthened our partnership with the many Federal, State, and local operation agencies that we work with.

And while there is always more work to do, I can say definitively that in my almost four decades of service, I am proud to say that our shore, boat, and patrol forces are the best shape I have ever seen. But we never want to let the threats reach our ports. That is playing pure defense, it is sitting on our heels. We need to play offensively too, and we need to intercept the threats before they reach our shores.

So, back to the Cutter *Northland*. The condition of our offshore forces, especially our major cutter fleet, is a much different story than our inshore forces. Despite the best efforts of our crews, the state of our major cutter fleet, much of which is in excess of 40 years of age, is deeply concerning. Our legacy High Endurance Cutters are only achieving 70 percent of their programmed underway hours, and more than 50 percent of the time they sail with debilitating casualties.

This is cause for concern, because the key to interdicting threats offshore is maintaining a persistent presence with major cutters. If we don't have those cutters, and if they are not capable of operating independently in the transit zone and along the trade routes, we can not mount a response. It is just that simple.

So, over the last year, almost 700 metric tons of cocaine moved through the western hemisphere transit zone. And despite of having actionable intelligence on a weekly basis, we know that we miss targets almost on a weekly basis because we don't have the major cutters out there.

Our maritime threats are also on the rise. Expanding global population is placing pressure on our fish stocks and increasing the demand for fossil fuel. As a maritime nation and an Arctic nation, we require major cutters to patrol and ensure the stewardship of these and other deep sea routes. That is why we must continue to build our major cutters, such as the sixth National Security Cutter and the icebreaker, which has now kicked off in this budget. And I am extremely proud of the Administration for their support in this regard. But doing so also lowers our cost, maintaining momentum on building these shops, and we put National Security Cutters number four and five on contract for nearly the same price because we did it within the same year.

And there is two other reasons for our recent acquisition successes: first of all, your support; and our highly capable acquisitions workforce. I am proud of them all. And beyond those major cutters, we have also delivered our first fast-response patrol boats, and we have 11 more on order. We have delivered 13 Maritime Patrol Aircraft. The last two arrived ahead of schedule. And we have also delivered 83 of our Response Boats-Medium.

So, the ships and aircraft that we are building today are going to define the Coast Guard's capability for the next 50 years, the capability we need to remain true to our motto, semper paratus, as we enter our third century of service to the Nation.

So, thanks for the opportunity to testify, and I look forward to expanding upon this in response to your questions.

Mr. LOBIONDO. Thank you, Admiral Papp.

Master Chief?

Master Chief LEAVITT. Good morning, Mr. Chairman LoBiondo, Ranking Member Larsen, distinguished members of the subcommittee. It is a privilege to appear before you today, and it is also an honor to represent the hardworking Coast Guard men and women serving our Nation here in the United States and around the world. I continue to be humbled and amazed by the sacrifice, dedication, and commitment I see every day with our Coast Guardsmen, and for the unwavering support they receive from their families and loved ones, which allows us to better serve our Nation to its fullest extent.

Our dedicated Coast Guard men and women are working hard every day to protect our Nation's interest. We are overseas, we are on the high seas, we are in our Nation's waters, we are in our Nation's ports and waterways, we are manning our operation stations, we are working with our local agents in industry so we can help keep our Nation secure.

Right now, these brave Coast Guardsmen our out in the maritime environment saving lives, protecting property, conducting law enforcement, setting and working buoys, and by the way, breaking ice and so much more. I couldn't be more proud of the men and women of the United States Coast Guard for the outstanding job they do every day.

For example, just recently the icebreaker, Coast Guard Cutter *Healy*, completed a grueling 254-day deployment where she and her crew successfully supported important scientific research in the Arctic. But as you know, the *Healy* was diverted very late in her deployment to escort the Russian flag tanker vessel *Renda* along an 800-mile journey to deliver fuel to the people in Nome, Alaska. As the Nation watched, the Coast Guard Cutter *Healy* fought through severe storms in freezing temperatures to successfully escort the tanker *Renda* through the ice for the first ever wintertime fuel delivery at sea.

So, I want to personally thank you, Mr. Chairman and the members of the subcommittee, for replacing our aging assets with new cutters, aircraft, and boats. In my role, it is my responsibility to look out for our workforce and their families' well-being. The assets requested in our budget will provide our people with highly capable, safer, more efficient and effective platforms. Not only do these assets meet our most urgent operational requirements, they also help to greatly improve the quality of life and safety of the men and women that serve aboard and operate them.

So, as you heard before, the material condition of our cutter fleet is unacceptable. These ships were built over 40 years ago. The berthing areas are cramped, with up to 20 people sharing a common area, along with the sanitary facilities. In fact, Mr. Chairman, I served on board the Coast Guard Cutter *Boutwell*, a High Endurance Cutter, almost 30 years ago. And she was not a new ship then.

So, our crew spends countless hours repairing old, outdated mechanical systems to keep the ships running. And this results in lost training opportunities, and a decrease in operational proficiency that negatively impacts the crew's morale. We owe them better.

As the Commandant stated, we are now delivering and operating National Security Cutters to replace the aging High Endurance Cutter. I can tell you that the crews on these new ships are very excited to operate these new, very highly capable cutters.

Last year in my testimony I mentioned some of the challenges our men and women and their families face, particularly with regards to housing and child care. And on behalf of the servicemembers, I am truly grateful for the housing and child care enhancements made possible in the fiscal year 2012 budget. Because of your support, we are making great strides towards enhancing these programs and bridging the parity gap with the Department of Defense.

I visited multiple Coast Guard units during the past year, and I have heard the concerns of our members and their families. Ensuring adequate housing for our Coast Guard members living in high-cost areas is a high priority. Fiscal stewardship is also a high priority. And as such, we are currently in the process of assessing our housing inventory across the Nation, including Alaska, Hawaii, and Puerto Rico. In this constrained fiscal environment, we need to be very smart in how we spend our maintenance and recapitalization funding to sustain frontline operations so we can best support our members and their families.

So, on behalf of the men and women of the United States Coast Guard, I thank you for your continued support of our military

members, their families, and loved ones. Thank you for giving me the opportunity to recognize the great work our Coast Guardsmen perform every day, as well as sacrifices they endure. Thank you for allowing me to testify here before you today. And I look forward to answering any questions you may have.

Mr. LOBIONDO. Thank you, Master Chief.

Mr. Lidinsky.

Mr. LIDINSKY. Good morning, Mr. Chairman, Mr. Larsen, and members of the subcommittee.

Mr. LOBIONDO. Excuse me, could you pull the microphone a little bit closer, maybe pull it a little bit closer to you?

Mr. LIDINSKY. Better?

Mr. LOBIONDO. That's better.

Mr. LIDINSKY. Thank you for this opportunity to present the President's fiscal year 2013 budget for the Federal Maritime Commission. With me today are FMC Commissioners Rebecca Dye and Michael Khouri, and I bring best regards from your former colleague, Commissioner Joe Brennan, who is back at the Commission, manning the ship. Commissioner Mario Cordero is in Long Beach, California, this morning, attending an important shipping conference. I have submitted written testimony for the record, and with your permission would like to give a brief summary this morning.

The President's budget for the Commission provides $26 million for fiscal year 2013. As you noted before, Mr. Chairman, this would be an increase of $1.9 million over the enacted fiscal year 2012 appropriation. This is, however, $265,000 less than the President's fiscal year 2012 request, and funds 131.6 positions at the Commission. This request would allow the Commission to make badly needed investments in information technology, increased data security, improve efficiency, and streamline filings and applications for the industry. The scope and speed of these investments and benefits will depend on the availability of these funds.

The FMC greatly appreciates the faith and support that the chairman and rest of the committee have shown us in the past, and we would continue to use our limited resources wisely in the coming year.

The state of the U.S. trades. My written remarks detail each trade route that our country deals in, but here are two highlights. After rapid recovery and 11-percent growth in 2010, total U.S. container volumes continue to grow in 2011, but at a more modest pace, at 4 percent. There were approximately 29.5 million containers moving in our import trade. U.S. containerized exports grew by 6 percent, roughly 12 million containers. And I want to note that next week, the South Korea Free Trade Agreement takes effect. Two-thirds of our agricultural exports to Korea will become duty free from day 1, as will nearly 80 percent of our consumer industrial products. So this is a very bright horizon for this export trade.

I would like to give some highlights now of the Commission's priorities and activities. In the coming year their top priority will be assisting the economic recovery for job growth. We will do this two ways. First, working to ensure our Maritime transportation system efficiently supports growing exports, and two, providing regulatory

relief so that companies can hire American workers. Third, applying the lessons that we learned in the depths of 209 and the disruptions we saw when demand returned to our industry in 2010.

Each of the commissioners is committed to working in an efficient, cooperative, and bipartisan manner to accomplish the Commission's goals. Here are the highlights of the steps that we are taking.

Number one, supporting exports and economic growth. We have continued vigilance over the waterborne trade, as it affects imports and exports. Ninety-four percent of the United States oceans container trade travels on ships controlled by foreign carriers. Perhaps more often than they like, I remind these foreign ocean carriers that what they call a mere backhaul in moving their containers back out of this country, are exports that are crucial to our Nation's recovery.

Last year I reported the disruptions in 2010 prompted the Commission to launch a fact-finding investigation led by Commissioner Rebecca Dye. Following her recommendations, the Commission formed rapid response teams that dealt with over 438 cargo-related complaints that led to cases in dispute resolution. We increased oversight of discussion agreements in our largest Pacific trade with the two talking agreements there.

Throughout the past year we have continued these efforts. And although current shipping capacity is adequate, we will continue to apply lessons learned, and watch closely for new signs of disruptions that we saw last year, 2 years ago.

We are looking at new ways to assist exporters. After hearing from several major agricultural exporters, our staff is now looking at the idea of using data on file, while protecting service contract confidentiality to develop a container shipping rate index for targeted exports, such as grain, cotton, hay, and frozen meat. This will give exporters useful information to plan and hedge transportation costs that will, in turn, increase export sales. We look forward to the views of the industry on this matter, and the committee, as we consider this idea.

One related note. Last week we issued a final rule clarifying that shippers and carriers can use service contracts with rates that adjust based on container freight indices. For small businesses and individuals we are developing a search tool on our Web site to help locate nearby licensed and bonded NVOCCs.

Mr. Cummings is present, and I would just note that the item that he brought up 2 years ago has finally bore fruit with the USDA having a new project taking effect next month that will allow potential exporters to access a computer to see if container availability is present in about a dozen Midwest cities. So that is another tool in our arsenal to help exports.

In addition to supporting exports, we have tried to reduce regulatory burdens. In February of last year, we issued a final rule to relieve 3,500 licensed NVOCCs from having to publish their tariff rates. The Commission has also been working on our rules and procedures to make them more clear and efficient.

Just last month, the Commission has finished a landmark study on the EU lifting of the block exemption and competition law. The primary issue addressed in that multiyear study was simple. What

negative impact, if any, would repeal of the liner conference block exemption have on U.S. trades? The primary finding was that the repeal of the block exemption does not appear to have resulted in any impact on our trades. The study contains a wealth of data which maritime experts across the world are still analyzing. But the speculation and discussion concerning the study indicates the FMC's key role as experts in this field.

As I said in the past on the matter of anti-trust immunity, it is up to the Congress to make this decision. The best the FMC can do is assist you with objective facts. And we will be happy to answer any questions—any details regarding this study.

In November of last year, the Commission responded to requests from several Members of the House and the Senate, by launching an inquiry into whether Harbor Maintenance Tax and other factors may be causing U.S.-bound containerized cargo to be diverted from ports in the U.S. to Canada and Mexico. We received nearly 80 submissions during our comment period, and the Commission is working to gather additional data. We hope to publish this report in late spring or early summer of this year. In the meantime, the Commission will continue to work with fellow Government agencies and major trading partners to ensure that no unreasonable conditions impair our commerce.

The Commission is also working to protect consumers through the fact-finding study of Commissioner Michael Khouri. More than 2,500 complaints were received in recent years concerning the shipment of personal household goods. Commissioner Khouri's findings are being adopted. And just last Friday we signed a memorandum of understanding with the Federal Motor Carrier Safety Administration to leverage the resources of these two agencies to protect household good movers across the country from the different kind of fraud that can emerge in these shipments.

Mr. Chairman, thank you very much for your support of the Commission in the past.

I am honored to appear before you, and be happy to answer any questions that you might have.

Mr. LOBIONDO. Thank you.

Mr. Matsuda.

Mr. MATSUDA. Good morning, Chairman LoBiondo, Ranking Member Larsen, and members of the subcommittee. Thank you for the opportunity to discuss the President's fiscal year 2013 budget priorities and initiatives for the Maritime Administration. With your permission, I would like to submit my written testimony for the record and summarize it for the subcommittee today.

The Maritime Administration's statutory mission is to promote and strengthen the U.S. marine transportation system, including infrastructure, industry, and labor, to meet the economic and security needs of the Nation. Never has this been more important than today.

President Obama understands that investment in transportation is critical to the success of our Nation's economy. And the President's budget request reflects the Administration's priorities. This budget request will enable us to build America's infrastructure for the future, while putting people back to work today.

To start, the maritime industry's future will depend on people willing to enter this workforce of 260,000, and make their careers in the profession by availing themselves of educational opportunities. Today, I am joined by several of these future leaders from maritime academies across the country, and I thank you for welcoming cadets and midshipmen from California Maritime Academy, Great Lakes Maritime Academy, Maine Maritime Academy, Massachusetts Maritime Academy, and the U.S. Merchant Marine Academy in Kings Point, New York.

The President's budget request includes funding for programs to support all of these institutions they attend, and it continues to focus on addressing long-deferred capital needs at the U.S. Merchant Marine Academy, as well as current operating requirements, so that we can continue to provide the highest possible caliber of academic study with state-of-the-art learning facilities for future merchant marine officers and marine transportation professionals.

Following last year's historic levels of capital funding for the academy, this $77 million request will allow us to continue our progress on improving campus facilities and address current academic needs.

The budget request also includes $16 million for the State maritime academy programs, to continue Federal operational support, and allow us to provide school training ships for cadets to obtain valuable at-sea experience.

For the maritime industry, putting people back to work today means fully funding key initiatives, like the maritime security program. This program, combined with the agency's cargo preference program, supports 60 militarily useful ships trading in foreign commerce. The 2013 budget request proposes funding this program at the full authorized level of $186 million, including $2 million in carryover funds.

The budget also supports our priority to develop America's ports and marine highways, as we focus on increasing the use of marine transportation within the U.S. to alleviate congestion on our surface networks. I am pleased to report that key demonstration projects in 2010 are beginning to come to fruition, creating new jobs on the water, as well as in our ports and at key freight bottlenecks.

The President's budget includes $500 million for the popular TIGER grant program, which, through 3 rounds, has successfully funded 17 ports and maritime-related projects, totaling $276 million.

Our focus on the environment remains strong, as well. As the Federal Government's disposal agent for large, obsolete commercial vessels, we propose $10 million, nearly double 2012-enacted levels, to continue our progress in cleaning up our fleet sites responsibly, and create jobs in the recycling industry. And we propose $3 million to continue progress in identifying innovative operational solutions for the maritime industry.

Working with our partners in the Coast Guard and the EPA, we are tackling new technology challenges, such as the management of ballast water discharges and vessel air emissions. And we are exploring the feasibility of a new generation of biofuels for use in

marine engines, and using liquified natural gas for vessels serving the Great Lakes and other marine highways.

Finally, the budget request supports our agency's greatest asset, its people. The Maritime Administration's expertise, along with industry and international relationships developed over time has proven invaluable to the operations of the Federal Government, and in meeting our mission.

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

Mr. LOBIONDO. OK. Thank you, Mr. Matsuda. Admiral Papp, I would like to start with you. The budget request calls for $13 million to complete the mission effectiveness program on the fleet of 270 and 210 Medium Endurance Cutters. The capital investment plan contains no funding for further sustainment of the Medium Endurance Cutters beyond fiscal year 2013.

Does the Coast Guard believe these vessels will need no further maintenance between now and the mid-2030s, when the OPC acquisition is estimated to be completed?

Admiral PAPP. No, sir, not right now. We have invested in the 210-foot Medium Endurance Cutter and the 270-foot Medium Endurance Cutter. And if we stay with our program of record, and if we can keep the Offshore Patrol Cutter on record, what ultimately we will do is start decommissioning our oldest 210s first. They are all in excess of 40 years of age right now. They will be decommissioned first. The average age of our 270s right now is about 25 years. And if we can stay with the program, if we stay on course, we should have our OPCs built out by about 2030, at which time the oldest 270 would be about 43 or 45 years of age.

So, it depends on how long this gets strung out, however. I need to qualify that. If we don't get the funding and we can't build out the OPCs faster, we will clearly have to reconsider what we do to extend the lives on the 210s and the 270s. But right now I don't anticipate any major projects. Our routine maintenance money that we get should be sufficient to keep them going, now that we have replaced a lot of the problem engineering issues that we have that have been cropping up over the last few years.

Mr. LOBIONDO. Admiral Papp, on the Fast Response Cutter, the Coast Guard proposes to withhold up to $135 million provided by Congress in the fiscal year 2012 budget to construct six new Fast Response Cutters, and instead construct four Fast Response Cutters in fiscal year 2012. The Service proposes to combine the withheld $139 million from 2012 funding with an additional $139 million from fiscal year 2013 to construct four FRCs in 2013.

Can you talk to us a little bit about why the Coast Guard has apparently decided to disregard the intent of Congress and abandon plans to build the six FRCs in 2012?

Admiral PAPP. Well, sir, I think almost every question that you ask today I could probably start off by saying that I have a budget. At the end of the day I have been given a budget. I have to live within that budget. I have to make decisions on priorities and what we are going to maintain.

You noted that it is a 4-percent reduction in the overall budget. But when you look at our acquisition funds, it is a 20-percent reduction this year. So all of our acquisition portfolio, every project that we have an approved baseline on, what we are forced to do is go to the minimum ordering quantity for each and every product, including the National Security Cutter and other projects.

So, for the Fast Response Cutter, our contract requires us to build a minimum of four each year, or a maximum of six. We haven't ramped up to six yet. Right now, with the shipyard, we have been ordering four a year. We are grateful that we got the money in the 2012 budget to build out six. We don't want to do anything contrary to the—what the Congress—congressional intent is, but what we would like to do is work with the Congress to get permission to withhold that money, so that we can spread out four each year to keep the minimum level order going for the Fast Response Cutter.

I could only find enough money within our 2013 appropriation in acquisitions to pay for two Fast Response Cutters. So in order to live up to the contract and build the minimum of four a year, we looked at that option of moving the money from 2012 into 2013 to balance it out at four a year. Hopefully, in future years, we will be able to go back up to six.

Mr. LOBIONDO. Admiral, you know that I also had the opportunity to sit on the House Armed Services Committee. And we had a hearing—I think it was in the last week—where the Air Force is detailing plans on divesting 21—it appears to be either almost or brand new C–27Js, and that they may become available to other services at minimal cost. Is the Coast Guard looking into this option, and could you tell us a little bit about what you may be thinking here?

Admiral PAPP. Yes, sir. We are looking into this vigorously. It is an intriguing prospect. I learned about it weeks ago, and started conversations with the chief of staff of the Air Force, General Schwartz. And obviously, rather than put it up for foreign military sales or other things, they would prefer to see it go to another Service, if there is a Service need.

Interestingly enough, this aircraft was actually looked at in the deepwater system, when we had the deepwater project. It was one of the candidates that Lockheed Martin put forward for our short—our medium-range fixed-wing aircraft, Maritime Patrol Aircraft. Ultimately, it was compared against the CASA aircraft, the HC–144, which we are purchasing now. And the life cycle costs were higher for the C–27.

However, having said that, if we get free aircraft or minimal cost aircraft, that is a very attractive option for us. And there are actually some benefits we could gain, because the C–27 uses the same engines as our C–130Js. So we already have those engines, training place, logistics in place for those engines.

Bottom line is we are working a business case analysis. The Deputy Commandant for Mission Support is working that hard right now, and they intend to make that presentation to me within the next couple weeks. And as soon as we have that information, we would be happy to come up and brief it.

Mr. LOBIONDO. Yes, we would appreciate it. Although there was pushback from the HASC on how we have brand new planes that we are not using and we have a need, it appears the Air Force is determined to go down this route. So we would appreciate your keeping us up to date on that.

Mr. Larsen?

Mr. LARSEN. Thank you, Mr. Chairman. I will just continue with Commandant Papp, but I have questions for others as well.

With regards to icebreakers, I note that in the budget there is $8 million for predesign. But until new icebreakers are operational, what is your view of repairing and operating the *Polar Sea* to make the U.S. self-sufficient for polar icebreaking? You might recall we had testimony in front of us a few months ago with a—the idea that for a minimal—relatively minimal—cost in the grand scheme of building versus repairing, that we could get icebreakers operational. Can you talk a little bit about that, that cost? And have you actually crunched some numbers that you can share with us?

Admiral PAPP. For the *Polar Sea* or *Polar Star*? I think you said *Polar Sea*.

Mr. LARSEN. I am sorry, yes. The Star, yes, yes.

Admiral PAPP. The *Polar Star* is being reactivated right now.

Mr. LARSEN. OK.

Admiral PAPP. That is the one that was in moth balls, so to speak, in caretaker status.

Mr. LARSEN. Right.

Admiral PAPP. And it is in the process right now—Congress gave us about $80 million to reactivate that. And we will have that back in service in 2013.

The *Polar Sea* is—it is our intent to decommission it right now.

Mr. LARSEN. So—then we heard some testimony a few months ago that with a relatively minimal investment the Sea could be reactivated.

Admiral PAPP. Well, I think in this current budget situation, relatively minimal is a relative term. And I don't have room in my budget, regardless of what it is. I think a lot of people have underestimated how much it would cost to reactivate the *Polar Sea*. We are actually having to use parts of *Polar Sea*——

Mr. LARSEN. Right.

Admiral PAPP [continuing]. To reactivate *Polar Star*. So I think there are some people who are enthusiastic about the potential for getting *Polar Sea* back out there. But the fact of the matter is I don't have the money to operate it. And I think it is much more expensive to reactivate it than some people are giving, in terms of estimates. It would say it is probably in excess of what we are spending on *Polar Star* right now, would be to get her back out there.

So, you know, we have gotten through the last couple of years with just the *Healy*. My bridging strategy was get *Polar Star* back out there good for another 10 years. We were lucky this year with *Healy*. And once I have an additional Polar icebreaker out there, I am comfortable that—now I am really grateful we have gained traction with the Administration in terms of getting money to start building a new icebreaker.

So I think we have reasons for optimism in our icebreaker fleet, and we need to keep that momentum going.

Mr. LARSEN. With that in mind, what would be your estimate on the operational capability of a new Polar icebreaker, if in fact $8 million is a start?

Admiral PAPP. Well, yes, sir. That is survey and design work. And, frankly, what we need to do now—once again, I am very grateful. I have been talking about this for about 2 years now. In fact, the Coast Guard has been talking about it even longer.

Mr. LARSEN. Right.

Admiral PAPP. And we finally gained some traction. What we have done in the capital investment plan is put rough numbers that we got from a business case analysis that we prepared for the Congress on the feasibility of keeping *Polar Sea* and *Polar Star* going.

Mr. LARSEN. Right.

Admiral PAPP. So those are rough numbers right now. We will need to refine those, as well as reach out across the intergovernment, the interagency, to determine the requirements.

National Science Foundation has significant requirements that we need to meet. Department of Defense has needs for icebreakers from time to time. So we need to reach out, gather the requirements, determine what we are going to build, and then refine the numbers, as we go forward.

And, oh, by the way, I think industry and other people —obviously, the State of Alaska benefitted from *Healy* this year. I would be interested in looking at some sort of cost sharing on this, rather than having the Coast Guard budget absorb it completely.

Mr. LARSEN. So you—at least in your mind now, you are thinking that—to build an additional icebreaker, starting with what you have in this budget, that actually constructing it might end up being a partnership among agencies and potentially at least one State?

Admiral PAPP. Well, as Commandant of the Coast Guard, I would certainly like to see other people share in this, because we have a lot of other needs within our budget. But what we have right now is we have estimated what we think it will cost, which is probably in the range of about $800 million.

Mr. LARSEN. Right.

Admiral PAPP. That is spread out in our 5-year plan right now. And we are very anxious to step out smartly on this, and get it constructed.

Mr. LARSEN. OK. I see that in the plan here. I have it here with me.

On that continued point with regards to the Arctic—recent article discussing the budget climate and choices you may have to make to get an operational footprint, even a temporary or a part-time footprint in the Arctic, can you briefly explain how the expansion of operations there would affect other Coast Guard districts?

Admiral PAPP. They are not going to affect other districts. I think what we will be doing this summer is, because of the lack of shore infrastructure, we need to put helicopters up there, we need to have rescue boats. There is going to be about 600 more people. Shell will bring about 600 people up there, 33 ships. Obviously, the

potential for search and rescue, environmental response, security—because we know there are groups that are seeking to probably disrupt the operations up there—so we have got the full spectrum of Coast Guard missions that will be employed up there. But we don't have any fixed infrastructure. In fact, there is not hangar space at the Nome airport to put any of our helicopters.

So, what we are going to do is what we have done throughout our history. We will take one of our major cutters, one of the new National Security Cutters, which can handle and hangar two helicopters, it can launch three small boats, it has worldwide command and control and communications, and we will station it. It is essentially a mobile Coast Guard district that can launch aircraft and launch boats that will provide for all our needs up there this next summer.

You know, people worry about icebreakers, but the fact of the matter is the human activity will be up there as the ice recedes.

Mr. LARSEN. Right.

Admiral PAPP. So we need conventional Coast Guard cutters up there during the summer months to carry out these duties.

Mr. LARSEN. Right. Yes, good. Mr. Chairman, just a few more questions, but—for Mr. Lidinsky, and then I will yield back, if you don't mind.

Just to clarify, Mr. Lidinsky, the cargo diversion study, you expect to have a preliminary or final report by late spring or early summer?

Mr. LIDINSKY. Final.

Mr. LARSEN. Final? A final report by——

Mr. LIDINSKY. Yes.

Mr. LARSEN. In that timeframe?

Mr. LIDINSKY. Yes.

Mr. LARSEN. OK, good. And can you follow up with us a little bit on the Korea Free Trade Agreement? What impact do you expect the agreement is likely to have on our containerized exports?

Mr. LIDINSKY. A very favorable impact. As I mentioned, nearly 80 percent of containerized cargo will now receive duty-free treatment on the receiving end in Korea. We noticed increased requests for boxes. The shipping lines there are very excited about this prospect. So I think this is one bright spot on our export front.

Mr. LARSEN. Do you anticipate, because of that increased demand for boxes, that you are going to have to do some—use the term loosely, not in the legal sense, but adjudicating among shippers and——

Mr. LIDINSKY. Well, we have continued to watch that situation since the shortages occurred in 2010.

Mr. LARSEN. Right.

Mr. LIDINSKY. And the industry now admits there are adequate boxes out there. So we keep a very close watch, and will take appropriate measures if we have to.

Mr. LARSEN. Right. Yes, good, all right. Thank you. I will have a second round, Mr. Chairman. Appreciate that. Thank you.

Mr. LOBIONDO. Thank you, Mr. Larsen. And now, in the most honorable tradition of the Coast Guard, our honorary Master Chief, Mr. Coble.

Mr. COBLE. Master Chief. I am glad he said "honorary." That way I won't be challenging you for your job. Thank you, Mr. Chairman. Gentlemen, good to have you all with us today.

Admiral, the Administration proposes to close two air facilities which house the HA–65, the Dolphins. During the months of summer in Waukegan, Wisconsin, and Muskegon, Michigan. What will be the fiscal savings, as a result of these two proposed closures?

Admiral PAPP. Well, both of those are only open—both of those stations are only open about 103 days a year, just during the summer months. And we reap about 14.6—almost $15 million in savings by closing them.

Mr. COBLE. Is Air Station Traverse City capable of reaching these areas in a timely manner for emergency rescue? And if so, what is the response time difference?

Admiral PAPP. OK. What we have—I need to digress a little bit, because I have got personal experience here. I was the Ninth District Commander. And while I was the Ninth District Commander up on the Great Lakes I advocated for this, because we are challenged at Air Station Traverse City.

Many years ago we used to have larger helicopters there, the H3 helicopter. And then the decision was made to put the smaller helicopters, the H–65s, up there as we transitioned. The challenge is they have—the H–65 is shorter duration. It is a slower helicopter, and it does not have de-icing. So, in the extreme other 9 months of the year up there, particularly the winter, the H–65 does not serve as well.

Plus, it is not just Lake Michigan that Traverse City serves, it is also Lake Superior, which is huge. The helicopters that are up there right now, if they have to prosecute a search and rescue case in Lake Superior, often times have to fly, refuel, and then prosecute the case. Whereas, with H–60s, H–60s double the endurance time. They are faster. They can get there faster, they can stay on station longer, and they have de-icing, which is safer for my people, who have to prosecute these cases throughout the entire year, not just the summer months.

So, having said that, it takes about an hour-and-a-half to get from Traverse City in an H–60 down to the extreme limit of southern Lake Michigan. But I think the focus has been all on aviation. Most of our SAR cases are not handled just by aviation, they are also in concert with surface forces. And we have four—and if you want to stretch it around, five—search and rescue stations just around southern Lake Michigan, all of which we have capitalized with much more capable, heavy weather capable Response Boats over the last couple years that can prosecute most of the cases down there, as well.

So, I think, in my estimation, both as a former operational commander up there and as Commandant, southern Lake Michigan is well served by Coast Guard resources. And looking at the helicopters in isolation, particularly the two AIRFACs, is a little bit misleading.

Mr. COBLE. And Admiral, again, the savings? You said $15 million?

Admiral PAPP. For closing the air facilities?

Mr. COBLE. Yes.

Admiral PAPP. Yes, sir.

Mr. COBLE. Master Chief, as a former member of the enlisted workforce, I would be interested in knowing. What do you regard the most pressing challenge, as applicable to the enlisted workforce in the Coast Guard?

Master Chief LEAVITT. Thank you, Mr. Coble. It is good to see you, by the way.

Mr. COBLE. Good to see you, sir.

Master Chief LEAVITT. It hasn't really changed since the last time I testified last year. Housing and child care is one of the number one issues out there for our workforce. And we are making great strides to, like I said, to shore up that parity between the DOD.

But there is other things out there that are on the minds of our workforce, too. And they read. They take a look at the reductions that the Department of Defense is looking at, with regards to personnel, and then kind of wondering, the Coast Guard, how is that going to relate to them. Last year there was talk in regard to pay and benefits and including retirement, what that is going to look like. And there was a lot of anxiety in regards to that.

And then last year we went through a continuing resolution. And it is to a point where people didn't know if that was going to affect their pay or not. And there are same concerns this year with the type of—the way we are going forward.

So these are the main things in our folks' mind out there, sir.

Mr. COBLE. I thank you, sir. Mr. Chairman, my red light is about to illuminate, so I yield back.

Mr. LOBIONDO. We thank you very much, Mr. Coble. Mr. Bishop?

Mr. BISHOP. Thank you very much, Mr. Chairman, and thank you for holding this hearing. I have two questions for Mr. Matsuda, and the first has to do with the maritime security program.

First off, I think we are all pleased to see that the maritime security program is—full funding for it is requested in the President's budget. I think we all agree that this is a very cost-efficient way for the U.S. Government to sea lift the assets that it must during times of war and national emergency.

I am, however, concerned about the level of foreign involvement in the maritime security program. It is my understanding that 49 of the 60 maritime security program contracts are controlled by foreign companies. And it is my further understanding that this is clearly at odds with congressional intent.

And so, my question is, what is MARAD doing to ensure that U.S. companies have greater access to this program?

Mr. MATSUDA. Well, thank you, sir. The maritime security program, we believe, provides a tremendous value to the Federal Government, and certainly our partners in the military. There is no requirement in the law that any one of these companies must be a U.S.-owned versus foreign owned. All of them are companies incorporated in the U.S. that hire U.S. mariners.

But they—we do make sure that any time there is a new slot that comes available because a vessel falls out or no longer is able to fulfill its commitment, that we do offer a preference to U.S.-owned companies——

Mr. BISHOP. If I may, my understanding is that in 2003 the number of contracts were expanded from 47 to 60 and that, at that time, Congress insisted that all of the newly issued 13 contracts go to U.S. companies.

And so, I guess my specific question to you: has that been complied with? Have all 13 contracts newly issued since 2003 gone to U.S. companies?

Mr. MATSUDA. Let me verify that.

[Pause.]

Mr. MATSUDA. Not all 13 are currently held. The expanded slots are currently held by section 2 companies. The law does give priority to them, but we also need to take into account the military usefulness of the types of vessels that are offered.

Mr. BISHOP. All right. I think that, Mr. Chairman, this is an issue that I, at least, am concerned about. And can I ask that this committee look at the issue of perhaps the authorizing legislation, and perhaps look at the issue of how a U.S. company is defined at some future point?

Mr. LOBIONDO. It is an excellent point. But we will double-check, Mr. Bishop. It may be House Armed Services jurisdiction. If it is our jurisdiction, we will certainly look at it. If not, we will figure out a way to get Armed Services to look at it.

Mr. BISHOP. Thank you very much. My second question has to do with the merchant marine academy. And I will speak just for myself.

Each year, one of my happiest duties as a Member of Congress is to get to nominate young men and women, outstanding young men and women, to the Merchant Marine Academy, and even happier duty is when I get to call them to tell them that they have received an appointment.

But I am also dealing, frankly, with a steady stream of Merchant Marine Academy alumni who are deeply concerned about the way in which the academy is administered, in their view. And I have to confess that I don't have any independent knowledge. But I mean, when I have an alumnus stop me on the street—I am used to getting stopped on the street to talk about health care, let's say, but when an alumnus stops me on the street and wants to talk about the current state of affairs at the Merchant Marine Academy, it raises concerns.

My understanding is there has been three superintendents in the last 4 years. My understanding is there has been a very controversial decision to phase out a program called the GMATS program. So, can you—I am running out of time, but can you quickly sort of bring us up to date on your sense of the state of affairs at the Merchant Marine Academy? Are there issues that need to be attended to? Is there micromanagement from Washington, in terms of day-to-day affairs at the academy?

Can you quickly—I am sorry, I am running out of time, but if you could quickly respond, I would appreciate it.

Mr. MATSUDA. Happy to. And let me just take those briefly, that when we came into this Administration and took a look at the challenges at Kings Point, there were a number of challenges, including the lack of internal controls, the handling of finances that the Gov-

ernment Accountability Office suggested we take a very close look at and review.

We have also attempted to make sure that we have the leadership in place that there is no need—we certainly have—I can tell you this. Nobody in Washington wants to micromanage anybody, or certainly when it comes to the academic and success of the school.

We have attempted to address each of the recommendations made by the Government Accountability Office. One of them was to go through and look at how each of the non-appropriated fund entities, including this one called GMATS—it was essentially a separate school operating on the academy campus—about how the finances were managed, and how they were operating with respect to the academy. After a thorough, it became very clear that this entity wasn't necessarily serving the school, the midshipmen, or the community there. So it was decided to transition the GMATS entity. Eighty-five percent of its customers were outside of the academy all together. They were either the Federal agencies or other customers.

So, we are in the process of making that transition. I know it has been rough. There have certainly been a number of folks who have put a lot of hard work into it over the years, but it just does not meet the criteria to be, you know, working on the campus and serving the midshipmen of the academy.

Mr. BISHOP. I thank you for that—and, Mr. Chairman, just very quickly—would you be willing to meet with me so that we could pursue some of these issues? And I make that request in an effort to be helpful, so——

Mr. MATSUDA. Be happy to, sir.

Mr. BISHOP. Thank you very much. And thank you for indulging, Mr. Chairman.

Mr. LOBIONDO. Mr. Cravaack?

Mr. CRAVAACK. Thank you, Mr. LoBiondo, for having such an important, vital meeting that we are having here today. I like to see Merchant Marine Academy guys here, women here, so welcome aboard. Good to have you here. And, Admiral Papp, I would like to express my condolences to the great men and women of the Coast Guard family for their recent loss of helicopter crew. So our prayers are out with your crew.

Admiral PAPP. Thank you, sir.

Mr. CRAVAACK. I am very concerned with the President's budget and spreading Americans' sea services too thin, and preventing them from being able to engage the various threats out there that they face on a daily basis. I am also concerned with the fate of the 1,701 Service personnel that will be losing their positions if the President's budget is enacted.

As such, I am particularly interested today to hear about how we can protect our maritime fleet. Because I know that is a vital resource of this country, American flag vessels. And I am very concerned with that, and making sure that our young men and women have a very solid merchant fleet available to them. Because I consider this an essential asset of the United States.

I am concerned that we need to protect American jobs at Great Lakes, and provide the Coast Guard the resources needed to fulfill its responsibilities among the emerging maritime threats, while at

the same time we need to find areas of efficiencies and reduced cost. But we cannot put our Nation unduly at risk.

So, my question to you, Admiral, sir, would be to—what is America risking right now, if we go forth with these—the budget in our maritime forces right now?

Admiral PAPP. I would say that this budget is probably the last year I have where we are able to keep up our performance before we start eating into frontline operations.

I think this 1,000-plus person thing is a little bit of a red herring, because about 700 of those are associated with units that are being decommissioned, and we have already brought crews online for the units that are replacing—for instance, one example would be our Fast Response Cutters. We only have one, which is going to be commissioned next month, the *Bernard C. Webber*. But we have—this budget will have 10 crews standing by, ready to man the ones that are on the production line right now.

And as a Service chief in an unconstrained environment, I would love to keep every crew on board until we have the crew trained up and the ship commission to replace them. Unfortunately, within the constraints of the current budget, I can't afford that luxury. So what we are doing is a reasoned, balancing risk decommissioning schedule for some of the older units as we bring on the new ones.

We have four crews on board right now for the National Security Cutters. We only have three that are out there in commission. So we are decommissioning some of our High Endurance Cutters to free up trade space within the budget so we can maintain those new crews. So that is about 700 of them.

The remaining people are doing a reassessment of where we are at. For instance, we are closing—we are doing away with some recruiting billets. Well, we have got people standing in line waiting to come to Coast Guard. Some people say they are waiting 12 months before they can go to boot camp, because we have so many people that want to be employed. So we don't need the recruiting effort that we needed 10 years ago right now. We can afford to use—to cut some of those billets right now.

There are other things, intelligence billets, other things that we built up strongly after 9/11 that, now that we have 10 years of experience, we can adjust, we can reassess and redistribute a little bit to make sure we are acting efficiently.

With the constraints of this budget, we have to look at each and every thing we do, and make sure we are doing it efficiently. As far as turning people loose or cutting them, we are not going to be doing that, as far as I can determine right now, because we foresaw this about a year ago. We put a hiring freeze into effect. I think most of this will be able to be taken care of through attrition. Some of those military billets are on the books and will be transferred to other units or some of the new units that are coming on, and we will adjust our officer promotions and our intake at our recruit training facility to make sure that we are providing a balance, and that we don't have to put people out on the street.

Mr. CRAVAACK. Thank you, Admiral. And my time has just about expired here. I will yield back and wait for a second round.

Mr. LOBIONDO. Thank you very much. Admiral Papp, last year we—oh, I am sorry, Mr. Cummings. I apologize, Mr. Cummings.

Mr. CUMMINGS. No problem. First of all, good morning, everyone.

Admiral Papp, in recent years the Coast Guard Academy has made significant strides in expanding diversity. And I know you—that has been a majority priority of yours, and I appreciate that. I want to know what steps are being taken to maintain these gains, and will the budget cuts impede your ability to continue the expanded outreach and recruitment initiatives that have been so critical to the success?

Admiral PAPP. Well, thank you, Mr. Cummings. And I appreciate the work of this subcommittee over the last couple of years to really push us in the right direction and make sure that we are reaching out to all Americans. That remains one of my highest priorities, to make sure our entire Service—but in particular, our academy, where we weren't doing a very good job—make sure that we are spreading the word, and making it, the opportunity, available to all Americans.

As you know, our percentages of underrepresented minorities and women continue to increase. I am very pleased with that. And I have stated to my staff that there will be no cut-backs in our efforts to recruit, particularly to come to the academy, and we are going to keep that effort up.

All things, however, have to be reassessed on a year-to-year basis, as we go forward, to stay within the limits of this constrained budget. That would be one of the ones that we look at. But most of our recruiting efforts right now that I talked about earlier are confined to our enlisted side of the house, where we have some of the highest retention that we have ever had in the history of the Service right now.

Mr. CUMMINGS. Now, Mr. Matsuda, Administrator Matsuda, let me tell you I want to briefly review the situation at MARAD. Is the deputy administrator's position still vacant?

Mr. MATSUDA. Yes, it is.

Mr. CUMMINGS. I can't hear you.

Mr. MATSUDA. It is, sir.

Mr. CUMMINGS. Is the chief counsel's position still vacant?

Mr. MATSUDA. No, no. We have a chief counsel.

Mr. CUMMINGS. Can you keep your voice up? I can't hear you.

Mr. MATSUDA. Yes, we have a chief counsel, sir.

Mr. CUMMINGS. OK. Do you—do we have any idea when that deputy administrator's position might be filled?

Mr. MATSUDA. We do not. We continue to look for strong candidates.

Mr. CUMMINGS. And what does that mean?

Mr. MATSUDA. Well, you——

Mr. CUMMINGS. "Continue to look"?

Mr. MATSUDA. Well——

Mr. CUMMINGS. You could be looking for the next 10 years.

Mr. MATSUDA. Well, it is a political appointment.

Mr. CUMMINGS. Right.

Mr. MATSUDA. It is something that the President needs to make, and we work with the White House to try and identify strong candidates——

Mr. CUMMINGS. Are you involved in that process?

Mr. MATSUDA. Yes.

Mr. CUMMINGS. All right. And what is the status of the superintendent's position at the Merchant Marine Academy?

Mr. MATSUDA. Well, thank you, sir. The superintendent's position is vacant. It is current being advertised for being filled, and we are looking for the very best candidates to come apply. We have already received a number of applications, and we look forward to a strong and a thorough process. An inclusive one, as well, where we work with all of the academy stakeholders, the midshipmen, faculty, staff of the school to participate, as well as outside stakeholders, to make sure that all views are included, as we——

Mr. CUMMINGS. How long as that vacancy existed?

Mr. MATSUDA. The vacancy itself has been advertised starting the past month.

Mr. CUMMINGS. No, no, no, no, no, no. You are not answering my question. I said how long has the——

Mr. MATSUDA. Roughly since October 2011.

Mr. CUMMINGS. All right. Let me go into something else. There is significant talk about the potential of releasing oil from the strategic petroleum reserve as gas prices continue to rise. Fiscal year 2012 appropriations legislation prohibits the use of appropriations to waive the Jones Act unless steps are first taken to ensure that oil release from the SPR is transported on Jones Act-qualified vessels.

Additionally, the Secretary of Transportation must provide a list of U.S. flag vessels that, singly or collectively, have the capacity for carrying releases from the SPR.

Is MARAD prepared to implement these requirements in the event a drawdown is announced?

Mr. MATSUDA. Yes, we are.

Mr. CUMMINGS. In October, MARAD released a report comparing the competitiveness of U.S. flag vessels with vessels—other flags. As you know, I encouraged the preparation of this report. The report identifies the factors that raise the cost of operating under the U.S. flag, many of which, frankly, have been well-known for some time.

Now that the report is complete, what does MARAD intend to do to help improve the competitive position of the U.S. flag fleet and our actions—and are action plans being developed? And when can we expect to see specific initiatives?

Mr. MATSUDA. Well, sir, after that report was released, we did receive feedback from other stakeholders in the industry, besides those who were surveyed.

As you know, we look to the CEOs of the carriers, the maritime carriers, the ones who make the decisions whether to flag in the U.S. flag or not, try and get a sense of what their concerns were and what their views were of the impediments to flagging in the U.S. We have reached out to other stakeholders in the industry to get their feedback on the report, and are still waiting to hear from several of those.

Mr. CUMMINGS. All right. Thank you very much.

Mr. LOBIONDO. Thank you, Mr. Cummings. The gentleman from coastal Louisiana, Mr. Landry.

Mr. LANDRY. Thank you, Mr. Chairman. Mr. Cummings took my lead-in, but I am going to be a little more direct, then.

Are you saying that if the SPR is open again, that you promising this committee that we are not going to witness another round of record Jones Act waivers?

Mr. MATSUDA. Sir, I am committed that we will be in compliance with the law.

Mr. LANDRY. Well, I mean, are you saying that once again this Administration is going to favor giving jobs to foreign workers over American workers?

Mr. MATSUDA. Sir, I can tell you that last summer, during the drawdown of the SPR, it was the first time ever in recollection that a U.S. flag vessel was able to carry fuel release from the SPR. And it was because of the very process taken, not issuing a blanket waiver from the President.

Mr. LANDRY. Well, I think me and Mr. Cummings have a—we may—we agree, but disagree with you on that, just, you know, for the record.

Let me ask you. Last year—I commend you all, because MARAD, for the first time since 2008, properly focused on vessel sales instead of acquisition contracts, which reaped the taxpayers millions of dollars. They made nearly $8 million in fiscal year 2011, and nearly $10 million in fiscal year 2012, for a total of $18 million of sales revenue. And in fiscal year 2012, you already removed and sold 10 vessels from your fleet with only $2.5 million in appropriated funds, generating nearly $10 million in revenue.

And so, could you explain why you need $7 million in the budget to dispose—for vessel disposal for fiscal year 2013? What about all the money you made in the prior years? Why do you need any more money?

Mr. MATSUDA. Well, these—the funds received from prior years by law are designated to several different accounts. One is actually for the benefit of the State maritime academies. We can take a portion of those proceeds and help fund the needs at the various maritime academies and their training ships, their excess fuel costs—as you know, the cost of fuel has been, you know, on the rise. The other portions go toward maritime historical preservation, and we work with the Department of Interior to help decide where those funds can be spent. They have a grant program that they use. And the remainder goes back to the national defense reserve fleet.

Mr. LANDRY. So none of the money can be used to operate the program, is that what you are saying? Is that something by law, that none of those funds——

Mr. MATSUDA. That is correct. The funds we receive from Congress are the ones that help us get the ships out the door and sold to the private——

Mr. LANDRY. And none of those revenues can be used to help continue to promote the program? You can use none of those revenues derived off of those sales to help future—to help create future contracts and future sales? Is that what you are saying?

Mr. MATSUDA. If—I believe it is only for upkeep of the fleet. If you have a specific suggestion, we are happy to consider——

Mr. LANDRY. Well, I mean, look. I come from a business community—and I am not blaming you, because it wouldn't be you, of course. Not surprisingly, it would probably be Congress that would set up something so backwards as that.

I mean but when you think about it, in business you tend to budget and put money back into those things that are actually making you money, so that they don't continue to cost you money. And I am not saying that the other areas of the budget that this money is going to is not needed or is not proper. But maybe we should be looking at making sure we are returning some of those dollars into the programs that are keeping those dollars flowing into those other programs. Does that make sense to you?

Mr. MATSUDA. Yes, sir.

Mr. LANDRY. OK.

Mr. MATSUDA. It is something I am happy to take a look at and work with you on. We feel that the funds are very well spent, if they go to the State maritime academies and the future——

Mr. LANDRY. But suppose we don't have the $7 million to give you? Then those academies and those areas are not going to get that money to begin with? We got the tail wagging the dog here, is my point. You know, again, those programs are good, and they like that money going in there. But if all of a sudden we say, "You are not getting your $7 million," how much are they going to get next year?

Mr. MATSUDA. Well, all I know is that if we continue to make sales out of this program——

Mr. LANDRY. Well, but you can't make sales unless we appropriate the money. And if we don't appropriate the money, you can't make the sales and they can't get the money. And so, over the past 2 years you all made, like, $18 million and none of that has gone back to giving us an opportunity to continue these sales. That is my point.

Mr. MATSUDA. We put them where the law tells us to put them.

Mr. LANDRY. No, I know, I know, I got to clarify that so everybody understands. I appreciate it, thank you. Mr. Chairman, I yield back.

Mr. LOBIONDO. OK. Mr. Matsuda, before I go back to Admiral Papp, Mr. Cummings and Mr. Landry raised the issue, and I thank you, Mr. Cummings, for first raising it.

Just so there will be no misunderstanding, in a very bipartisan way we will be paying very close attention to compliance with the Jones Act. There is obviously concerns of some things that—how it was handled in the past. And it is something that we feel very, very, very strongly about. So just sort of a word of advance notice, that if this does come about, you know that it is going to be under a magnifying glass.

Mr. MATSUDA. Thank you, sir. And I can tell you that I am actually meeting later this afternoon with a broad swath of stakeholders from the industry who want to continue to express concerns and offer ideas for moving forward.

Mr. LOBIONDO. OK. Admiral Papp, we spent—I am not sure it was an entire hearing, but certainly a portion of it with the subcommittee regarding the testimony that was given from the Department that assured us that an increased cost associated with St. Elizabeths would not impact frontline operations. It seems that the budget request proposes to cut hundreds of military positions involved in such frontline operations such as intelligence, airborne use of force, patrol boat missions.

Could you give us some insight of how the Administration justifies the $24.5 million for the new headquarter building when its—these frontline operations are obviously going to be affected?

Admiral PAPP. Well, I was deeply involved in this, so I am defending my Secretary on this one. We, as you know, you all understand the budget process, this budget started out much smaller than it is right now. And the Secretary didn't get any additional funds for the Department. The Secretary went across the Department and found funds in other agencies to help the Coast Guard out this year. So she went to bat for us. And there is no doubt there.

And my budget was completed, and then we went back to her and asked her for the money above and beyond what we ended up with. It is about $25 million to pay for the additional cost at St. Elizabeths. And she—the Department added that back into our budget.

So, out of fairness to the Department, the Secretary has worked hard for us this year. Nowhere near where we would like to be. Once again, as a Service chief, I always want more for my service. But at the end of the day, after a long battle and working this budget through the Administration, she went to bat for us time after time. And then, after our top line was fixed, she put the $25 million in to pay for the additional costs over there.

Mr. LOBIONDO. I understand that. And I know that the current conditions are unacceptable, and that we had to look at something else. But I will just—will tell you that I don't think these will be the last questions that you get, or the Secretary or the Department will get. When you have—I don't care how you slice and dice. You got critical frontline missions that we don't have money for. We are reducing the numbers, we are reducing all kinds of things because you have to fit the budget within what you were given. And I don't want to begin to think of what $24-plus million would do to Coast Guard housing or frontline operations or a whole wide variety of things. So, don't—you know, understanding everything that is involved here, there is kind of a big flag that is yellow or red, depending on how you look at it.

Master Chief, I know we have had private discussions, and you have been a tireless advocate on the housing issue for servicemembers. Can you tell us what the status of the Coast Guard housing report is? And do you have a time table when we might see that?

Master Chief LEAVITT. Yes, Mr. Chairman. The assessment, the national housing assessment, should be completed at the end of May. And we take a look—there are some preliminary findings. But as you know, the assessment takes a look at the whole Nation on all of our housing. And some of the areas we have, we have—you know, there is more housing than what we need, due to occupancy levels. In other areas we are challenged. And with the new authorities you gave us in housing, what we want to do is be careful about how we—where we put those monies into. And so we got to take a look. And this is going to give us a great plan forward of what that looks like.

So, after May, we will have a good plan. We have about $8.8 million that we have already diverted into the housing fund. And we

sold six houses in Maui, three properties here in the national capital region. We sold housing up in Clyde Hill in Seattle. And we—and the properties there in Buxton, North Carolina. So we are moving forward on this housing authorization. But I think it is really important right now that we put a round turn on the direction forward, until we figure what the direction is. And so, I am really optimistic about this, and I think that is really going to help us focus those monies in the right area.

And another thing we also did too this year is there are some tools we are using too, in regards to—we may not necessarily need housing-housing. We have options like leases we can get into, which we did up in Juneau just recently. We got five leases for our folks, very difficult area to get our folks into. So we are using some of the other tools we have out there, too, in regards to that.

Mr. COBLE. Mr. Chairman?

Mr. LOBIONDO. Another issue that we have had public discussions on and some private discussions that is particularly offensive to me, and that is the parity issue, where Coast Guard men and women are, in some cases, treated differently than DOD servicemember benefits. This is a fight I guess we are going to continue for a while.

Can you identify for us what is the single largest issue still facing the Coast Guard, in terms of parity? Or the top couple of issues, for that matter?

Master Chief LEAVITT. Well, I think some of the issues—obviously, you already looked into the housing and our child care. We had—parity last year was about 12 percent—excuse me, about 14 percent versus 5. But authorities, and with that approval of last year's budget, we are probably going to build a—bridge that gap, like I said on my statement.

We hired seven folks, training care curriculum specialists for our CDCs. We hired—we haven't hired, excuse me, we are looking at—about 12 weeks out we are hoping to get that job description out. But we are also looking at the regional daycare specialist. And these are folks that—when I talked last year, I talked about our folks out in the remote regions of the high-cost areas. And I am really optimistic about this, because when we put these folks out there, they are going to help. A lot of our spouses like to babysit, like to do in-house child care, but they are unable to break some of the red tape we have, in regards to getting their houses inspected, in regards to getting the first aid training they need, and all those types of things like that. So these are the folks that help them do it in these different regions. And that is going to help us bridge those numbers.

Just last February we advertised the new program and our subsidies that they approved, and—because we had more money in there. And the 370 existing families that are now using our CDCs, we had—with 450 children, we updated theirs. And right now, as you and I speak, the—we have—150 new families have already put in for the new subsidies. And with 129 applications that are—right now, that are pending. And so about every day we are getting 20 more applications in. And now we are getting ready to submit the—we are going to market this to our ombudsman program to get all that information out there.

So, in regards to child care, we are going to start bridging that gap, I am confident of that. It is going to take a little time to do it, because we got to get these things out in the field.

The other ones that—in the housing piece right there, obviously when you look across and you see the public-private ventures of the DOD, we are trying to partner in those areas, too, with our DOD. And we are able to do this in some of the regions that we have. But the reality is not all our folks in those remote regions are able to get in that kind of housing. And you know, you have seen some of the housing that we have. So it won't be the same. So we got a little bit of parity in there, but we are going to work forward with the new authorizations and the authorizations you gave us.

The other one which was brought to my attention is in regards to the Reserve. Our reserve program is under title 14, and our DOD counterparts are working under title 10. And if I can just remind you that during Deepwater Horizon, there are some significant issues and differences in those two, and I am sure you are well aware of those. Medical—Deepwater Horizon, we had our Coast Guard men out there working side by side with our DOD counterparts, doing the same exact job. But one is under title 10, and title 10 gives you a lot more benefits in regards to health care. There is education benefits in that. There is a resource income replacement program for that. In other words, it takes care that—you may lose pay going to those types of things, so they got those types of programs, where our folks in title 14 don't have those same benefits, but yet they are doing the same job.

So when you take a look at maybe—to see if we can shore up some of that, and see if we can bridge that parity in regards to the 14 and 10, title 10.

Mr. LOBIONDO. Well, thank you. That is helpful. And as we approach the national defense authorization bill through the hearings with HASC, we want to continue to work closely with you to identify these areas where parity is not in place. And while we may not be able to solve it all in one fell swoop, we want to make sure that folks understand that this is unacceptable, as far as the Coast Guard is concerned, and it is really sort of a disgrace that we don't have parity, and that we will keep on this. So any insight you have, as we move forward, will be very much appreciated.

I wanted to go to Mr. Matsuda, but I want to respect the other Members here. So, Mr. Larsen, I will come back to you.

Mr. LARSEN. Thank you, Mr. Chairman. Admiral Papp, some questions about the Offshore Patrol Cutter. Obviously, we are a little bit—a ways before that is operational. And I have a question about whether or not the requirements for the OPC will prioritize one set of factors over a different set of factors. Sea-keeping and endurance, that might be more helpful in the Pacific versus speed, armament, and other requirements. How are you approaching the setting requirements for the OPC?

Admiral PAPP. Well, sir, realizing that this was going to be the largest acquisition project that the Coast Guard has ever done, and recognizing that these ships are going to last us 40 years, we are taking the long view on this.

And I realize there are some people that feel like we have dragged our feet a little bit, or pushed this to the right a little bit.

And I would say that is just not the case. It is a little delayed from where we started out. But when I came in as Commandant, I realized that we were going to be facing constrained budgets. So I had the staff take a look at the OPC once again, scrub the requirements with a direction that the primary requirement is affordability. We just could not afford everything that was in the requirements before. So we set new thresholds for it.

But the most important is the sea-keeping capability, because with a reduced number of National Security Cutters, if we only have 8 National Security Cutters replacing the 12 Hamilton-class cutters——

Mr. LARSEN. Right.

Admiral PAPP [continuing]. We have to have a ship that is capable of going up into the Gulf of Alaska, the Bering Sea, the Western Pacific. Our Medium Endurance Cutters right now—and speaking as a captain of a 270-foot cutter—those ships cannot perform in the extreme weather conditions that you find sometimes in the North Atlantic, much less the Arctic and the Bering Sea.

So, keeping the requirements for sea state 5, for helicopter launching and boat launching and the endurance were most important. And I am really pleased to say that we have finally passed that hurdle. We went through acquisition decision event number two with the Department of Homeland Security last week, and they approved our requirements. So we are stepping out smartly now and moving ahead.

Mr. LARSEN. So you are able to move ahead. Good. Thank you.

Mr. Matsuda, a couple questions about some of these programs that, at least to our eye, seem to be not funded. First off, the small shipyard assistance grant. Can you give us some thinking about—give us some of MARAD and the Administration's thinking about the lack of funding for assistance to small shipyards? Because I think you will find that there have been a lot of successes in this particular program. There may be some hiccups, but a lot more successes.

Mr. MATSUDA. Well, sir, I would have to agree with you. It has been very successful. I see the results of these grants in the form of new equipment at our small shipyards, or in new training programs put in place. We continue to administer and oversee $153 million of—and 133 grants, including a large portion of them that were awarded as a result of the Recovery Act. And we are continuing to make investments in the—our U.S. shipyards.

Overall, the Federal budget provides some $15 billion worth of spending on new vessels and shipyard work. Our own fleets require the types of service and repair work that many of these shipyards have really developed niche, you know, areas of expertise in. And so we are continuing to make progress there. But overall, this has, you know, become a tough budget year. And we certainly want to make sure we highlight the types of priorities that we are able to fund.

Mr. LARSEN. Well, you have made a great argument for funding this program. And yet it is not. So do I hear you—do I just hear you saying despite the relative success of it, it is just not a high-enough priority?

Mr. MATSUDA. Well, we are, like I said, continuing to make investments in the shipyard industry. We believe that the funds that we are currently administering and overseeing are being well spent, and we are monitoring those as appropriate.

Mr. LARSEN. With regards to marine highways initiative, I couldn't find any mention of this program in MARAD's budget or in the DOT's budget request. Can you explain what is the current status of the maritime highways initiative?

Mr. MATSUDA. This is—remains one of our top priorities. We see it as a great potential to move additional cargoes on the water that are currently not going that way. There is containers, trailers can be moved much more environmentally efficiently. We are relieving congestion on our surface routes. And so we have done quite a bit of focus to make sure we can get these services up and running.

The—starting 2 years ago, Secretary LaHood identified 18 corridors around the country where these types of services would make sense economically and certainly to—as a policy matter. We followed that up by providing funding for individual corridor analyses and studies, where people can kind of bring it from the chalkboard into, you know, conferences, to actually get together and focus, on a regional level, what it is going to require to start these services in the individual areas.

We have also funded these projects through the TIGER grant program, where, as I mentioned, a total of $276 million has gone to ports and marine highway projects, to try and get the infrastructure needed, again, to get them up and running.

Mr. LARSEN. So the lack of conversation in your budget request or in the DOT's budget request about the maritime highways initiative should not lead us to think that you all have let it go by the wayside?

Mr. MATSUDA. Oh, not at all, sir. It is—it remains a key priority. It is also one that is intended to get a private sector business service up and running, where these are private entities with their—you know, their own capital, their own investments, their own risks. We are trying to encourage it from the Federal Government and, to be honest, sir, many stakeholders who suggest that it is not a matter of throwing at it, but making the policy decisions to make sure that there is a climate that would induce folks to use water transportation.

Mr. LARSEN. With regards to title 11, I guess I am a little surprised to see the Administration request for $3.75 million for administrative expenses for a program that seems to be going unfunded in this year's—in the 2013 request. Can you explain this—I guess my disconnect? There must be a connect somewhere.

Mr. MATSUDA. Well, we are obviously—we are continuing the program. We have a large number of carryover funds we are continuing to utilize. We are processing and receiving new applications. And currently we have sufficient funding to guarantee over 300—towards $400 million worth of shipbuilding projects.

Mr. LARSEN. OK.

Mr. MATSUDA. But no new funds were requested this year.

Mr. LARSEN. OK. One final question. And Mr. Michaud, again, couldn't be here, Mr. Chairman. I just wanted to ask this question on his behalf—and many others. But Congressman Michaud

brought up the issue of State maritime academies, and explained—could you help us understand the budget request that cuts direct support assistance by $1.1 million to the State maritime academies? He is very concerned about it.

Mr. MATSUDA. Overall, we—over the past several years, the State maritime academies in our budget has seen an increase 10 percent higher over 2009 levels, and 20 percent higher over 2008 levels. We believe that the difference will be more than made up for by additional funds we were able to get awarded to the State maritime academies through examples such as our successful ship disposal program, as your colleague discussed. That is due to our ability to get ships sold on the market and take those funds—it not only cleans up our fleet sites, but also makes investments back into the future of this industry.

Mr. LARSEN. Well, I recommend some followup from you to Mr. Michaud and his office.

Mr. MATSUDA. Pleased to do so.

Mr. LARSEN. Thank you, Mr. Chairman.

Mr. LOBIONDO. Mr. Cravaack.

Mr. CRAVAACK. Thank you, Mr. Chairman. You know, being retired Navy, I find it a bit ironic, sitting on this side of the desk, and here we are, cutting your budget and telling you to do more. It just boggles my mind that we can't give you the assets you need to actually complete your mission.

And so, Admiral, I guess what I am asking from you, sir, as the Service chief, do you have enough money to complete your mission, take care of your people, and properly execute and protect the United States of America?

Admiral PAPP. Well, Mr. Cravaack, any Service chief will tell you we never have enough money to do everything that is asked of us. At the end of the day I have got a budget to live within, and what I get paid to do is to make the determinations what the highest priorities are, and apply the money against that.

So what I would say is that we have invested heavily in our inshore and in our ports over the last decade or so. We have recapitalized our small boat fleet 200 percent—I am sorry, by 20 percent—and they are all new boats now. Our patrol boat fleet, we have built 73 87-foot patrol boats within the last 10 years or so. We are building the Fast Response Cutters. We have put more people at our stations. So I am comfortable along the coastal zone.

But as I said in my opening statement, you don't want to discover the threats in your coastal zone or in your ports. What you want to do is you want to play offense. You want to have a—have your major cutters that can intercept things on the trade routes and in the trafficking zones. And that is where I see the greatest risk right now. That is why I am so intent on building out our major cutter program, the program of record of 8 National Security Cutters and 25 Offshore Patrol Cutters, so that we can recapitalize those 40-year-old ships that are out there that are getting increasingly expensive to maintain, and are really not serving us well, in terms of effectiveness.

Mr. CRAVAACK. Homeland Security Secretary Janet Napolitano recently testified that the Administration made the budget cuts in light of what the Navy is doing. Now, could someone in the Coast

Guard Department and Homeland Security explain this, what this means, to me?

Admiral PAPP. I am not sure where that quote is from, because I read her testimony. I read it verbatim. And what she—and I don't have it, the exact quote, myself, but I am going to paraphrase. What she said was that in light of the current budget situation, the constraints that we find ourselves in, each and every acquisition project that we are working on needs to be reassessed on a yearly basis.

And part of her responsibility and my responsibility under title 14 U.S. Code is to work with the Navy to make sure that we are building complementary assets, not redundant assets. And that is just part of the process. And we do that on a regular basis. She has committed to me to meet with Secretary Panetta and with Secretary Mabus. I meet with Admiral Greenert almost weekly, sometimes twice a week, and we are following each other's progress very closely.

Admiral Greenert is reassessing his shipbuilding program. There are certain things he is not going to be able to build. And we want to make sure that the things that we are building, that we are investing in heavily, are going to serve us in our Western Hemisphere operations, and can complement the Navy when a crisis comes up.

Mr. CRAVAACK. My concern, sir, is that with the shrinking Navy, the Coast Guard is supposed to cover more water. And you are telling me that your forward assets are diminished as well. I see a huge gap. So I am concerned with that, I am very concerned. But thank you, sir.

Do you have a comment, or——

Admiral PAPP. Well, thank you for your support, sir. I mean we absolutely need it. We need to press that threat offshore. And in the past we have been able to depend upon Navy vessels as well. As you know, they are retiring the Perry frigates, which we have been using down in the Caribbean with our law enforcement detachments. So we have diminishing resources down particularly in the transit zones in the Eastern Pacific and the Caribbean to interdict those multiton loads of cocaine before they get into Mexico and get broken down into smaller loads which easily make it across the border.

Mr. CRAVAACK. I share your concern, sir. I truly do.

Just real quickly, if I can, dovetailing on Mr. Larsen's comments, intercoastal waterways, Mr. Matsuda, basically an underutilized asset. But for the second year in a row you have requested to zero out the maritime highway feasibility grants. Could you kind of give us some light to what does the agency plan to do to promote or incentify the use of short sea shipping?

Mr. MATSUDA. Well, as we discussed, marine highways have been successfully funded through the Department's TIGER grant program, where we have been able to get far more resources toward these types of projects and through the amount of funding we have had available to us directly.

So, we—a total of $276 million has gone toward these port and marine highway projects over the past three rounds of the TIGER program, and we are seeing differences, now that some of these

grants are coming to fruition, in developing not just new, you know, pieces of infrastructure, but they have helped lead to development of new services. And that is operating jobs, that is jobs on board the vessels, as well as in the ports. And so those are investments that we like to see.

Mr. CRAVAACK. OK. Thank you, sir. My time has expired. I yield back, sir.

Mr. LOBIONDO. Thank you, Mr. Cravaack. The first question you asked the Commandant—Commandant, we understand your difficult position, but the reality is that the Coast Guard does not have enough money to do everything they are asked to do. And what I think we on the subcommittee and maybe many other of us are worried about is we have seen this movie before in the 1990s. And the Congress continued to ask the Coast Guard to do more. Admiral Papp, you saw that maybe too up close and personal. And we continued to reduce your resources, we continued to reduce your personnel. When the tragedy of September 11th hit, things opened up a bit. And I really have a tremendous fear that if we are not careful we are going to repeat some terrible mistakes of the past.

So, I don't expect you to comment on it, but it is a big concern that we are going to continue to try to watch carefully.

Mr. Cummings?

Mr. CUMMINGS. Thank you very much, Mr. Chairman. Admiral Papp, according to the material circulated by staff, the Coast Guard needs more than 100,000 additional patrol boat hours to carry out its missions. At this time, what missions are not being conducted due to a lack of available patrol boat hours?

Admiral PAPP. Sir, I get into these discussions often. And just as the 1,000 person reduction is a little bit of a red herring, so are patrol boat hours.

The fact of the matter is we have more patrol boats today than we have ever had in our history, and they are more capable patrol boats. And we need each and every one of them. And I would love to have more, because there are more things we can do. But every facet of the Coast Guard never has enough resources to do 100 percent of the missions.

Major cutters—we are reduced right now in major cutters, because our High Endurance Cutters are only about 70 percent effective. We are not getting our National Security Cutters quickly enough. Our Medium Endurance Cutters need replacement. So we are not doing 100 percent there. We are not meeting our hours for major cutters, either.

But as I said in my opening statement and I repeated before, in the coastal zone patrol boats is a relatively good new story, because we have built 73 87-foot patrol boats just in the last dozen years. With the 2013 budget, we will have money for 20 Fast Response Cutters. And by the end of—in fact, while we will take a short-term reduction during fiscal year 2013 because with decommissioning of some of the older patrol boats, by the end of 2013 we are actually going to have more patrol boats out on the water. We will go from 114 up to 118 by the end of 2013.

So, these are just risk-based decisions that I make. I am confident that we are managing the risk within the coastal zone, and

that my highest risk area is offshore, where we need the larger cutters.

Mr. CUMMINGS. Particularly following the recent tragic loss of another Coast Guard helicopter, have you examined the cause of the recent aviation accidents? And are there trends or notable findings? Has a lack of funding contributed in any way to these accidents?

Admiral PAPP. I can say unequivocally, no, funding has not. As you probably recall, the loss of 14 aviators, which included the early part of my watch, as well, due to accidents over about a 2-year period had me distressed, deeply concerned. And we kicked off the aviation safety assessment action plan study.

And what we found there is there are a mix of things, both human, and mission tasking, and really, I think most importantly to me, is a leadership issue, getting our senior leaders, our commanding officers at the air stations, back into the traditional modes of leadership, which have them meeting with their junior officers, keeping them focused, passing on their experience and using their mentorship to keep everybody's heads in the game. Because the one consistent theme that we saw in these accidents that we suspect is probably complacency which crept into the cockpit during routine operations. Almost all those accidents were doing either training missions or transit missions, not while executing a search and rescue case in heavy weather, or something like that.

The most recent accident, I can't say. It would be premature for me to say, because we just haven't had enough time to analyze it. The accident happened just a little over a week ago. We have two independent investigations that are looking at it. I am—I need some answers very quickly, because if it is a mechanical issue that caused the crash we need to know that so that we can look at our entire fleet. But if it was a human error, we will find that out as well, and identify that. But right now it is just too early to determine.

Mr. CUMMINGS. All right. Chairman Lidinsky, the FMC recently released a study of the repeal of the liner conference exemption from the European Union's competition law. While the study recommends further review of trends following the 2006–2010 time period, does the FMC recommend any changes at this time to U.S. policy regarding regulation of competition among liner services?

Mr. LIDINSKY. We do not, Mr. Chairman. We view our—Mr. Cummings, we view our role is to offer Congress facts and figures, and our perspective on the situation. But this policy decision has to be taken after a great deal of steps take place. So the report makes no recommendation in that regard.

Mr. CUMMINGS. All right. I see my time is up. Thank you very much.

Mr. CRAVAACK. [presiding.] Thank you. Mr. Cummings yields back.

I just have a couple quick questions, if you don't mind, sir. Regarding your sea-going capabilities, with the—to meet those full capabilities when you have basically half the crew for these ships—is that correct? So basically you are operating half the time. Would that be a correct statement?

Admiral PAPP. No, the concept that we are going to experiment with is there will be four crews for every three ships.

Mr. CRAVAACK. So——

Admiral PAPP. It is called a crew rotation concept. Conventionally, crewed ships, generally our standard is about 185 days away from home port. What we are hopeful of getting is 235 days away from home port by rotating crews through.

[U.S. Coast Guard insert for the record:]

> The correct days away from home port are 230 days, vice 235.

But it is not two crews for every ship. We couldn't afford that. What we are going to do is have four crews for every three ships, and then put them through rotation.

Mr. CRAVAACK. OK, so you will just be—OK. I understand that.

Without the VUAV capabilities as well, that kind of limits your ability to have a larger operating area. Would that be a correct statement?

Admiral PAPP. It does, and we are anxiously looking forward to continued work with the Navy to come up with a solution to that. We—it is one of those things that is very expensive for us to try and do on our own.

We have been following fire scout development with the Navy. And, in fact, this summer we are going to experiment with ScanEagle off our—one of our National Security Cutters. Actually, that holds a lot of promise for us, as well. But whatever we do, we need to be linked up with the Navy on this.

We acknowledge right up front that it limits our capabilities by not having it. On the other hand, the National Security Cutter, as constructed, has much better sensors. And by using organic helicopters on board, we are gaining better command and control and ISR, just by having that new ship out there.

Mr. CRAVAACK. Excellent. Thank you. I appreciate that, Admiral.

Mr. Matsuda, our Nation's cargo preference laws generally require the Government impel cargo to be carried on U.S. flag vessels. Last year MARAD was successful in ensuring the Department of Energy abides by these laws for cargo financed through Energy's loan guarantee program. Does MARAD actively oversee the shipping practices of all governmental agencies, to ensure they abide by the cargo preferences laws?

Mr. MATSUDA. Sir, I can tell you that we search wherever we can to find that there are cargos available for the U.S. flag fleet to carry. In this instance we are chasing with our limited resources the largest sources of cargo within the Federal cargo preference program to better ensure compliance. And we are trying to gain further access in—by, you know, letting all agencies know exactly what the rules are.

But we have made great progress in—so the civilian agencies, including Department of Energy and also with the Export-Import Bank. And the maritime industry has responded as well. Since—in the past year alone, the fleet of heavy-lift ships has nearly doubled under the U.S. flag. And I think that is in result to a lot of the promise of cargoes that could be exported under—through the

U.S. Export-Import Bank. And we have worked very closely with them under the—Secretary LaHood's leadership and Chairman Hochberg, to try and clarify what the rules are and how they would apply.

We have also worked directly with the shippers, the exporters, and I think that we have seen a better understanding of the rules, and also a better appreciation for how to comply with them.

Mr. CRAVAACK. You kind of dovetailed on my next question. The Cargo Preference Act requires the Secretary of Transportation to annually review the administration of the cargo shipping programs of other Government agencies to ensure the adherence to the law. Can you tell us whether these reviews occur on an annual basis, and whether any agencies have been found in violation of the act?

Mr. MATSUDA. Well, last year we did hold, for the first time, a conference among Federal shipper agencies. As far as I know, nothing like that had ever taken place to begin that dialogue. Each agency is required to report cargoes that are shipped—that are subject to the cargo preference program, and we continue to make those results available in our annual reports.

Mr. CRAVAACK. OK. All right, thank you. And the chair recognizes Mr. Larsen.

Mr. LARSEN. Mr. Chairman, I just have a unanimous consent request to allow Mr. Cummings' opening statement to be entered into the record.

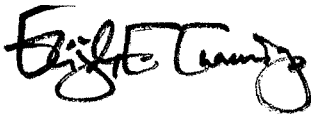
Mr. CRAVAACK. Without objection, so ordered.

[Please see the table of contents section entitled "Prepared Statements Submitted by Members of Congress" for the prepared statement of Hon. Elijah E. Cummings.]

Mr. CRAVAACK. The chair would like to recognize a former Federal maritime commissioner. Michael Khouri is in the audience. I would like to welcome you on board. And Rebecca Dye, former subcommittee staff director. So I would like to welcome you, as well. Good to have you on board, ma'am.

So, if there are no further questions, I would like to thank the witnesses very much for their testimony and their commitment to the service of this great Nation, and Members, for their participation as well. This subcommittee stands adjourned. Thank you.

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



Statement of Congressman Elijah E. Cummings

"Protecting Maritime Jobs and Enhancing Marine Safety in the Post-Budget Control Act Fiscal Environment: A Review of the Administration's Fiscal Year 2013 Coast Guard and Maritime Transportation Budget Request"

March 7, 2012

Thank you, Mr. Chairman – and I thank you and Ranking Member Larsen for convening this hearing to enable us to review the budget requests for the Coast Guard, Maritime Administration, and Federal Maritime Commission.

In 1981, the then-Subcommittee on Coast Guard and Navigation of the Committee on Merchant Marine and Fisheries issued a now well-known oversight report entitled "Semi-Paratus: The United States Coast Guard, 1981."

The introduction to the "Semi-Paratus" report notes that the Subcommittee's decision to develop the report "was made in response to a widespread impression that a serious and growing imbalance existed between the Coast Guard's resources and its responsibilities under the law."

Unfortunately, that sentence describes the situation that still exists today, more than 30 years later.

The 1981 oversight report concluded: "[T]he Coast Guard needs approximately 14,600 additional people to maintain its current level of services through the coming decade" and then added "that an increase of 35,000 personnel – almost a doubling in size – would be necessary [for the Coast Guard] to function at the optimal level by 1991."

The Coast Guard concluded fiscal year 1981 with an end-strength of 38,804 military personnel. It concluded fiscal year 1991 with an end-strength of 37,380 military personnel – 1,424 fewer military members than the end-strength a decade earlier.

Today, the Coast Guard has assumed significant additional homeland security responsibilities that it did not bear in 1981 or 1991 – and yet it has only approximately 42,300 active duty members, and the current budget proposes to cut the service's end strength by more than 1,000 active duty positions.

This budget also proposes extensive cuts to the service's capital account. No funding was requested for the acquisition of National Security Cutters 7 or 8, and this budget will slow the acquisition of the Fast Response Cutters that are replacing the 110-foot patrol boats.

The President's request for the Coast Guard for fiscal year 2013 is $9.96 billion – approximately 5.7 percent less than the fiscal year 2012 enacted budget.

By comparison, the fiscal year 2013 Base Budget request for the Department of Defense would provide $525.4 billion, a reduction of $5.2 billion from the FY 2012 enacted level of $530.6 billion.

With a mere $10 billion, less than two percent of the DOD's base budget, we are expecting the Coast Guard to ensure the safety of our maritime

transportation system, guard both coasts and now assume significant new missions in Alaska, respond to any oil spills that may occur, rescue thousands in distress at sea each year, enforce our fisheries rules, intercept drugs and migrants at sea, and carry out a number of other duties essential to the safety and security of our maritime domain.

I believe we need to be honest about the funding the Coast Guard needs to carry out the missions it has been assigned – and we need to provide that funding level.

Or, if we refuse to provide that funding, if we continue to refuse to invest in our own nation, we need to decide which missions the Coast Guard should no longer be expected to perform.

As I have repeatedly said, our Coast Guard is our thin blue line at sea. The members of the Coast Guard do all that we ask of them – and more – every single day.

However, we cannot continue to stretch this line and just assume it will never break.

The strains on the service are obvious – as are the risks associated with continuing to demand that we do more and more and more with less and less and less.

Today, we will also hear from the Maritime Administration and the Federal Maritime Commission regarding their budget requests.

I certainly have concerns about the Maritime Administration's budget request and frankly do not believe MARAD is utilizing every available opportunity to champion the commercial success of

our U.S.-flagged fleet, but I will address those issues in my questions.

With that, I yield back.#####

U. S. Department of Homeland Security

United States Coast Guard

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

ON THE
COAST GUARD FISCAL YEAR 2013 BUDGET REQUEST

BEFORE THE
HOUSE SUBCOMMITTEE ON
COAST GUARD AND MARITIME TRANSPORTATION

MARCH 7, 2012

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, including the funding provided in the Fiscal Year (FY) 2012 Consolidated Appropriations Act to recapitalize the aging fleet and sustain front-line operations.

This year marks our 222nd year of protecting Americans on the sea, America from threats delivered by the sea and the sea itself. Throughout this period, our unique authorities, capable assets and determined personnel have adapted to meet the Nation's evolving maritime safety, security and stewardship needs. We are locally based, nationally deployed and globally connected.

I am here today to discuss the Coast Guard's FY 2013 Budget Request. Before discussing the details of the request, I would like to take this opportunity to discuss some of the Coast Guard's recent operational successes, our value and role in the Department of Homeland Security, and in service to the Nation.

Over the past year, Coast Guard men and women – Active Duty, Reserve, Civilian and Auxiliarists alike – continued to deliver premier service to the public. In the Midwest, Coast Guard Disaster Assistance Response Teams were among the first responders to residential areas impacted by severe flooding. In the Western Caribbean, Coast Guard Medium Endurance Cutters and Seagoing Buoy Tenders interdicted and supported the multi-agency recovery of Self-Propelled Semi-Submersible vessels. These "drug subs" are designed for one specific purpose – to deliver multi-ton loads of pure cocaine bound for our shores, streets and schools. While the use of drug subs is increasingly popular in the Eastern Caribbean, these interdictions mark the first time we have encountered drug subs in the Western Caribbean. In the Arctic, the Coast Guard icebreaker HEALY and her crew broke their way through 800 miles of Bering Sea ice to enable the *Motor Vessel Renda* to deliver 1.3 million gallons of fuel to the 3,600 people of Nome, Alaska after extreme weather and ice formation precluded safe delivery of this vital commodity.

Last year, the Coast Guard responded to 20,510 Search and Rescue cases and saved over 3,800 lives; seized over 75 metric tons of cocaine and 18 metric tons of marijuana destined for the United States; seized 40 vessels, detained 191 suspected smugglers; conducted over 10,400 annual inspections of U.S. flagged vessels; conducted 6,200 marine casualty investigations; conducted more than 9,000 Port State Control and Security examinations on foreign flagged vessels; and responded to 3,000 pollution incidents.

I am pleased to advise you that the Coast Guard recently accepted delivery of the lead Sentinel Class Fast Response Cutter, the BERNARD C. WEBBER. Sixty years ago, on February 18, 1952, Boatswain's Mate First Class Webber and his three-man 36-foot motorized lifeboat crew rescued 32 souls, one by one, from the 503-foot *Tank Vessel Pendleton* after it broke in two in a Nor'easter off Cape Cod featuring 60-foot seas, 70-knot winds and blinding snow. Petty Officer Webber's seamanship, courage and leadership serve as an enduring reminder of the Coast Guard's value to the Nation.

The FY 2013 Budget represents a critical inflection point – the ships, boats and aircraft we are investing in today are vital to ensuring the Coast Guard remains ready to respond to maritime threats and hazards, well into the future. Indeed, these resources will not just shape, but in a large part will define the Coast Guard's next fifty years of capability. We are also exercising resource and operational stewardship while simultaneously preparing for the future. We recently completed a review of doctrine, policy, and our operations and mission support structure to ensure we are focusing resources and forces where they are most needed. This prioritization is reflected in our FY 2013 budget submission, which focuses on balancing current operations with our need to recapitalize for the future. However, we must do so in a manner that sustains our capability to safeguard lives, protect the environment and facilitate safe and secure commerce throughout our Maritime Transportation System – a system which carries 95 percent of all U.S. foreign trade and accounts for nearly $700 billion of the U.S. gross domestic product and 51 million U.S. jobs.

The Coast Guard's value and role:

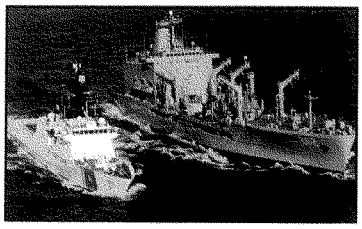
- We protect those on the sea: *leading responses to maritime disasters and threats, ensuring a safe and secure Maritime Transportation System, preventing incidents, and rescuing those in distress.*
- We protect America from threats delivered by sea: *enforcing laws and treaties, securing our ocean resources, 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.*

FY 2013 REQUEST:

In recognition of the current fiscal environment, the Coast Guard's FY 2013 Budget strikes the optimal balance between current operations and investment in future capability to sustain the Coast Guard's ability to execute its missions, and address the most pressing operational requirements. This budget request includes investment in new assets which are critical to ensure the Coast Guard remains capable of carrying out its missions today and well into the future. Accordingly, the Coast Guard's FY 2013 Budget priorities are to:

- Responsibly Rebuild the Coast Guard
- Efficiently Preserve Front-line Operations
- Strengthen Resource and Operational Stewardship
- Prepare for the Future

Highlights from our request are included in Appendix I.



The Coast Guard Cutter WAESCHE conducts at-sea refueling operations for the first time in the ship's history.

Responsibly Rebuild the Coast Guard
The Coast Guard continues to focus resources on recapitalizing cutters, boats, aircraft, and Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance systems, critical to sustaining the ability to accomplish missions well into the future. This budget request fully funds the sixth National Security Cutter, strengthening the Coast Guard's long-term major cutter recapitalization effort to replace its aged, obsolete High Endurance Cutter fleet as quickly as possible. The FY 2013 investments are critical to replacing and sustaining aging in-service assets, and are key to maintaining future capability.

Efficiently Preserve Front-line Operations
To ensure the Coast Guard remains ready to meet the Nation's safety and security requirements, the FY 2013 Budget request provides a balance between sustaining front-line operational capacity and rebuilding the Coast Guard. The FY 2013 Budget provides funding to operate and maintain Coast Guard assets and sustain essential front-line operations. Key investments include funding the operation of new assets delivered through acquisition programs and investment in military workforce pay and benefits.

Strengthen Resource and Operational Stewardship
The FY 2013 Budget meets essential mission needs while simultaneously preparing for new and exigent demands. Through a comprehensive internal review of doctrine, policy, operations and mission support structure, the Coast Guard has focused resources and forces where they are most needed, while recognizing the current fiscal challenges. The FY 2013 budget also proposes administrative and programmatic reductions to improve efficiency and service delivery, while continuing investment in Coast Guard activities that provide the highest return on investment.

Prepare for the Future
The Coast Guard continuously identifies and prepares for emerging maritime threats facing the Service and the Nation. The FY 2013 Budget request recognizes the criticality of the Arctic as a strategic National priority, given increasing presence and interest by other Nations, the preponderance of natural resources available in this region, and increasing maritime commercial and recreational activity.

CONCLUSION

The role of the Coast Guard has never been more important. As we have done for well over two centuries, we remain "*Always Ready*" to meet the Nation's ever-broadening maritime needs, supported by the FY 2013 request. I request your full support for the funding requested for the Coast Guard in the President's FY 2013 Budget. Again, thank you for the opportunity to testify before you today. I am pleased to answer your questions.

Appendix I - FISCAL YEAR 2013 BUDGET REQUEST

RESPONSIBLY REBUILD THE COAST GUARD

Surface Assets
$879.5M (0 FTE)

The budget provides $879.5 million for surface asset recapitalization and sustainment initiatives, including:

- **National Security Cutter (NSC)** – Provides production funding for the sixth NSC; NSCs will replace the aging fleet of High Endurance Cutters, first commissioned in 1967. The acquisition of NSC-6 is vital for performing DHS missions in the far off-shore regions, including the harsh operating environment of the Pacific Ocean and Bering Sea, as well as providing for robust homeland security contingency response.
- **Fast Response Cutter (FRC)** – Provides production funding to procure Fast Response Cutters (FRC) 19-20. These assets replace the aging fleet of 110-foot patrol boats, and provide the coastal capability to conduct Search and Rescue operations, enforce border security, interdict drugs, uphold immigration laws, prevent terrorism, and ensure resiliency to disasters. Hulls #17 - 20 will be procured in FY 2013 using FY 2012 and FY 2013 funds, maintaining FRC production at the current rate.
- **Offshore Patrol Cutter (OPC)** – Continues 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.
- **Medium Endurance Cutter (MEC)** – Completes the Mission Effectiveness Program for the 270-foot MECs at the Coast Guard Yard.
- **Survey and Design** – Initiates survey and design work for a mid-life availability on the 175-foot Coastal Buoy Tender class.

Air Assets
$74.5M (0 FTE)

The budget provides $74.5 million for the following air asset recapitalization or enhancement initiatives, including:

- **HC-144** – Funds production of the 18th HC-144A Maritime Patrol Aircraft. The HC-144A fleet will provide enhanced maritime surveillance and medium airlift capability over the legacy HU-25 aircraft that they replace. The HU-25s will all be removed from service by the end of their planned service life, in FY 2014.
- **HH-65** – Funds sustainment of key components requiring recapitalization.

Asset Recapitalization – Other
$76.5M (0 FTE)

The budget provides $76.5 million for the following equipment and services:

- **Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR)** – Deploys standardized C4ISR capability to newly fielded NSCs, C-130s and MPAs, and develops C4ISR capability for other new assets.
- **CG-Logistics Information Management System** – Continues development and prototype deployment to Coast Guard operational assets and support facilities.

- **Nationwide Automatic Identification System (NAIS)** – Continues recapitalizing the existing interim NAIS system in 58 ports and 11 coastal areas by replacing it with the permanent solution design and technology via the core system upgrade.

Shore Units and Aids to Navigation (ATON)
$69.4M (0 FTE)

The budget provides $69.4 million to recapitalize shore infrastructure for safe, functional and modern shore facilities that effectively support Coast Guard assets and personnel:

- **Station New York Boat Ramp** – Constructs a boat ramp for launching small boats at Station New York, NY, for both the Station and Maritime Safety and Security Team New York.
- **Air Station Barbers Point** – Constructs an aircraft rinse rack facility to properly and effectively rinse C-130 aircraft at Air Station Barbers Point.
- **Major Acquisition Systems Infrastructure** – Commences construction of piers and support facilities for three FRC homeports; construction of an MPA training facility at Aviation Technical Training Center in Elizabeth City, NC; construction of MPA maintenance facility hangar at the Aviation Logistics Center at Elizabeth City, NC.
- **ATON Infrastructure** – Completes improvements to short-range aids and infrastructure to improve the safety of maritime transportation.

Personnel and Management
$117.4M (842 FTE)

The budget provides $117.4 million to provide pay and benefits for the Coast Guard's acquisition workforce.

EFFICIENTLY PRESERVE FRONT-LINE OPERATIONS

Pay & Allowances
$88.9M (0 FTE)

The budget provides $88.9 million to fund the civilian pay raise and maintain parity of military pay, allowances, and health care with the 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, which includes pay and personnel benefits for the military workforce.

Annualization of Fiscal Year 2012
$54.2M (260 FTE)

The budget provides $54.2 million to continue critical FY 2012 initiatives.

Operating and Maintenance Funds for New Assets
$47.6M (139 FTE)

The budget provides a total of $47.6 million to fund operations and maintenance of shore facilities and cutters, boats, aircraft, and associated C4ISR subsystems delivered through acquisition efforts. Funding is requested for the following assets and systems:

- **Shore Facilities** – Funding for the operation and maintenance of shore facility projects scheduled for completion prior to FY 2013.

- **Response Boat-Medium** – Funding for operation and maintenance of 30 boats.
- **Interagency Operations Center (IOC)** – Funding for the operation and maintenance of the Watch Keeper system.
- **Rescue 21 (R21)** – Funding for the operation and maintenance of the R21 System in Sector Sault Ste. Marie and Sector Lake Michigan.
- **FRC** – Operating and maintenance funding for FRCs #8-9 and funding for crews #9-10. These assets will be homeported in Key West, FL. Funding is also requested for shore-side maintenance personnel needed to support FRCs.
- **HC-144A MPA** – Operating and maintenance funding for aircraft #14-15 and personnel funding to operate and support aircraft #15-16.
- **Air Station Cape Cod Transition** – Funding to complete a change in aircraft type allowance, and programmed utilization rates.
- **Training Systems for Engineering Personnel** – Funding to support NSC and FRC training requirements at Training Center Yorktown.
- **HC-130H Flight Simulator Training** – Funding to support aircraft simulator training for HC-130H pilots, flight engineers, and navigators.

St. Elizabeths Headquarters Consolidation
$24.5M (0 FTE)

Provides funding to support the Coast Guard's relocation to the DHS consolidated headquarters at the St. Elizabeths Campus in Washington, DC. Funding supports the systematic move of equipment, employees, and work functions to the new headquarters location, beginning in the third quarter of FY 2013.

STRENGTHEN RESOURCE AND OPERATIONAL STEWARDSHIP

ASSET DECOMMISSIONINGS

In FY 2013, in addition to the planned decommissioning of legacy assets, the Coast Guard will make targeted operational reductions to prioritize front-line operational capacity and invest in critical recapitalization initiatives.

High Endurance Cutter (HEC) Decommissionings
-$16.8M (-241 FTE)

The Coast Guard will decommission the fourth and fifth of the original fleet of twelve HECs. With the average cutter age at 43 years, the HEC fleet has become increasingly difficult to maintain and sustain operationally. The decommissioning of two HECs is critical to support ongoing major cutter recapitalization efforts. National Security Cutters, including the sixth NSC which is fully funded by this budget request, replace the aging HEC fleet.

110-ft Island Class Patrol Boat Decommissionings
-$2.0 M (-35 FTE)

The Coast Guard will decommission three 110-ft patrol boats in FY 2013. The 110-ft patrol boats are being replaced by the FRC.

High Tempo High Maintenance Patrol Boat Operations
-$33.5M (-206 FTE)

The Coast Guard will terminate the High Tempo High Maintenance (HTHM) operations program that facilitates augmented operation of 8 in-service 110-foot patrol boats. Termination of this program coincides with commissioning of new FRCs which will mitigate this lost capacity.

Close Seasonal Air Facilities
-$5.2M (-34 FTE)

The Coast Guard will improve the efficiency of domestic air operations by closing Seasonal Air Facilities and realigning rotary wing capacity to provide three medium-range H-60 helicopters to the Great Lakes region to replace the H-65s currently in service. Due to limited demand for services and improved endurance from the H-60, the Coast Guard will discontinue operations at two seasonal Coast Guard Air Facilities at Muskegon, MI, and Waukegan, IL.

HU-25 Aircraft Retirements
-$5.5M (-20 FTE)

The Coast Guard will retire the three remaining HU-25 aircraft assigned to Coast Guard Air Station (CGAS) Cape Cod to allow for the transition to HC-144A aircraft. In FY 2013, the Coast Guard will deliver and place in full-operational status three HC-144A aircraft at CGAS Cape Cod.

MANAGEMENT EFFICIENCIES

The budget proposes administrative and programmatic efficiencies to improve service delivery, while continuing investment in Coast Guard activities that provide the highest return on investment.

DHS Enterprise-Wide Efficiencies
-$56.3M (-24 FTE)

The Coast Guard will seek efficiencies and cost reductions in the areas of IT infrastructure, government vehicles, professional services contracts, non-operational travel, GSA leases, permanent change of duty station relocation costs for military personnel, and logistics services by consolidating/centralizing functions in geographically concentrated areas.

Programmatic Reductions

In FY 2013, the Coast Guard will make targeted reductions in base program areas. These base adjustments recognize changes in requirements for selected activities and redirect resources toward higher-priorities, including critical recapitalization projects and essential frontline operations.

Headquarters Personnel and Support Reduction
-$12.7M (-131 FTE)

The Coast Guard will eliminate 222 Headquarters positions through attrition and implementation of a civilian hiring freeze in the Washington, D.C. area. This reduction preserves the Coast Guard's critical capabilities to conduct front-line operations; mission support; and development and implementation of national policies and regulations.

Recruiting Program Reduction
-$9.8M (-39 FTE)

The Coast Guard will make reductions to the Recruiting program and Selective Reenlistment Bonuses, which are not needed based on the current employment outlook.

Other Targeted Program Reductions
-$6.2M (-62 FTE)

The Coast Guard will make targeted reductions to the Intelligence workforce, Organizational Performance Consultants, and non-reimbursable Detached Duty billets.

Targeted Operational Reductions
-$3.7M (-32 FTE)

Based on an internal review and assessment of operational risk, the Coast Guard proposes to make targeted operational reductions by reorganizing the international Mobile Training Team, consolidating PWCS Airborne Use of Force (AUF) capability at Elizabeth City, NC; and San Diego, CA, and eliminating the Vintage Vessel National Center of Expertise.

PREPARE FOR THE FUTURE

Polar Icebreaker
$8.0M* (0 FTE)

Initiates survey and design of a new Polar Icebreaker to ensure the Nation is able to maintain a surface presence in the Arctic well into the future.

Alaska Shore Facilities
$6.1M* (0 FTE)

Provides funding to recapitalize and expand helicopter hangar facilities in Cold Bay, AK, and recapitalize aviation re-fueling facilities at Sitkinak, AK. These investments will sustain the Coast Guard's ability to establish effective presence in the Bering Sea and Aleutian Chain - the "gateway" to the Arctic.

* Note: Funding amounts within this section are included in totals listed within the *Responsibly Rebuild the Coast Guard* section.

Question#:	1
Topic:	HH-60 1
Hearing:	Coast Guard's FY2013 Budget Request
Primary:	The Honorable Frank A. LoBiondo
Committee:	TRANSPORTATION (HOUSE)
Witness:	Admiral Robert Papp, Jr. – USCG Commandant
Organization:	U.S. Department of Homeland Security

Question: The budget request proposes to transfer HH-60's from Air Stations Clearwater, FL and Elizabeth City, NC to Traverse City, MI. Additionally, the Coast Guard proposes to remove three of the HH-65s from active service and transfer the remaining to two air stations that recently suffered HH-65 casualties.

How much was spent per aircraft over the past 10 fiscal years to reengine and provide other upgrades to the three HH-65s proposed to be removed from active service?

The two HH-60s based in Clearwater are used in Caribbean drug interdiction missions, how will the Coast Guard make up for the loss of these assets to carry out their responsibilities in this region?

Has the Coast Guard considered acquiring additional used HH-60's from the U.S. Navy's Sundown program and missionize them as has been done in the past?

Response: The proposed aircraft will all be MH-65C aircraft, which have completed re-engining (designated HH-65C) and "A" kit modifications for the Airborne Use of Force (AUF) mission (designated MH-65C). The fleet-wide re-engining effort was completed in 2007 and the final seven HH-65C aircraft are currently at Coast Guard Aviation Logistics Center undergoing AUF modifications. The AUF project will be complete in FY 2012. The total amount spent on each of the aircraft scheduled to be removed from service was approximately $4.25 million, as detailed in the table below.

Discrete Segment	Per Aircraft Cost ($M)	Total Cost for 3 Aircraft ($M)
Re-engining	$3.50	$10.5
AUF	$0.75	$2.25
Total	$4.25	$12.75

As a measure to provide for more efficient mission execution, the Coast Guard will move three H-60 aircraft to Air Station Traverse City, MI and remove five H-65 aircraft from operational service. This proposal will allow the Coast Guard to more effectively and efficiently cover the Great Lakes region. The addition of the H-60 aircraft to District 9 (Great Lakes region) will provide Operational Commanders with an aircraft that has anti-icing capability, increased endurance, and a heavy lift capability.

Question#:	1
Topic:	HH-60 1
Hearing:	Coast Guard's FY2013 Budget Request
Primary:	The Honorable Frank A. LoBiondo
Committee:	TRANSPORTATION (HOUSE)
Witness:	Admiral Robert Papp, Jr. – USCG Commandant
Organization:	U.S. Department of Homeland Security

In the Caribbean region, the Coast Guard operates new HC-144s and C-130Js with vastly improved on-scene endurance, intelligence, and surveillance capabilities. These aircraft will fly more hours than the legacy aircraft they replaced and provide for more efficient mission execution. Additionally, the Coast Guard will continue to deploy assets, including helicopters, from the eastern U.S. to the Caribbean region to meet aviation mission demands, and will continue to assign resources to address the greatest risk areas in alignment with national priorities.

The FY 2013 proposal provides the Great Lakes region with a more capable aircraft, while reducing operational expenses. By replacing five H-65 aircraft with three H-60 aircraft, the Coast Guard will realize savings while increasing capability in the Great Lakes region based on the H-60's increased endurance and anti-icing equipment.

Question#:	2
Topic:	CIP
Hearing:	Coast Guard's FY2013 Budget Request
Primary:	The Honorable Frank A. LoBiondo
Committee:	TRANSPORTATION (HOUSE)

Question: The President's budget includes a Capital Investment Plan (CIP) which forecasts anticipated funding level requests for Coast Guard acquisition projects over the next 5 fiscal years.

Has the Administration expressed its support for providing out-year budget requests at the level reported in the CIP?

How will the 18.5% cut to the AC&I account proposed by the President impact the Service's efforts to complete the legacy Deepwater acquisition programs of record by the current anticipated completion date?

Has the Coast Guard developed a contingency plan if further cuts to the acquisition budget are necessary?

To what extent if the Service using its Fleet Mix Analyses and DHS Cutter Study to inform plans for its future fleet?

To what extent does the CIP represent a reconsideration of commitments to DoD such as for the NSC?

Response: Yes, the Coast Guard has worked closely with the Administration over the past several months to develop a realistic Budget that addresses the Service's greatest needs.

The FY 2013 President's Budget Capital Investment Plan meets the Coast Guard's priorities to responsibly rebuild the Coast Guard and prepare for the future while balancing allocation between front-line operations and recapitalization to most effectively address the Coast Guard's operational needs in the current fiscal climate.

The Coast Guard continually evaluates the best way to balance front-line operations against our recapitalization priorities to meet our statutory missions now and into the future. The Coast Guard will continue to re-evaluate and adjust in response to the fiscal climate.

In light of the new Department of Defense Strategy, DHS is reviewing the Coast Guard's major cutter acquisition programs in 2012. This review will be informed by the DHS Cutter Study, Fleet Mix Analysis and all other studies completed to date, as well as trade-

Question#:	2
Topic:	CIP
Hearing:	Coast Guard's FY2013 Budget Request
Primary:	The Honorable Frank A. LoBiondo
Committee:	TRANSPORTATION (HOUSE)

offs necessary to fund requirements within a constrained top-line. DHS will work very closely with the Department of Defense and other partners to determine impacts to operational planning on the National Fleet Plan as threats evolve, and evaluate acquisition priorities of all Homeland Security and National Security policies to ensure we are building complementary, non-redundant capabilities.

Question#:	3
Topic:	NSC 1
Hearing:	Coast Guard's FY2013 Budget Request
Primary:	The Honorable Frank A. LoBiondo
Committee:	TRANSPORTATION (HOUSE)

Question: The Coast Guard's budget request includes $683 million to complete construction of the sixth National Security Cutter (NSC), but no funding is included in the five year Capital Investment Plan for the acquisition of NSCs #7 and #8.

Is it still the Service's intention to follow the Program of Record and complete eight NSCs?

What is the strategy going forward to acquire the last two NSCs?

The Congressional Justification notes that the Secretary of Homeland Security will engage the Secretary of Defense to discuss the need and funding for NSC's 7 & 8. When will this conversation occur and why is it necessary?

When do you estimate the final NSC will be completed?

Response: Recapitalization of the Coast Guard's fleet is a top Departmental priority and the FY 2013 budget fully funds NSC 6. Given the uncertainty in the fiscal climate, the Coast Guard's FY 2013-17 out-year CIP portrays acquisition priorities for the next five years assuming the limits of budgetary growth set by the Budget Control Act of 2011. In light of the new Department of Defense Strategy, DHS is reviewing the Coast Guard's major cutter acquisition programs in 2012. This review will be informed by the DHS Cutter Study, Fleet Mix Analysis and all other studies completed to date, as well as trade-offs necessary to fund requirements within a constrained top-line. DHS will work very closely with the Department of Defense and other partners to determine impacts to operational planning on the National Fleet Plan as threats evolve, and evaluate acquisition priorities of all Homeland Security and National Security policies to ensure we are building complementary, non-redundant capabilities.

Question#:	4
Topic:	A-11
Hearing:	Coast Guard's FY2013 Budget Request
Primary:	The Honorable Frank A. LoBiondo
Committee:	TRANSPORTATION (HOUSE)

Question: OMB has apparently granted a waiver to the Service from its Circular A-11 full funding requirement to acquire a new Polar icebreaker.

Did the service request an A-11 waiver for the NSC in FY 2013?

Why is there a discrepancy in application of A-11 between the NSC and Polar icebreaker acquisitions?

How much of the $683 million request for NSC #6 is for post-production activities and will any of this post-production funding be spent in FY 2013?

Response: The Coast Guard did not require a waiver for A-11 for National Security Cutter (NSC) #6. During formulation of the FY 2013 President's Budget, Congress appropriated funding for NSC-6 Long Lead time Materials and the 2013 Request was adjusted for this action.

The funding plan projected for the Polar Icebreaker reflects a strategy to acquire this ship in the most efficient manner. We look forward to building this ship as soon as practicable. That said, we are still working on the pre-acquisition plans for this ship, and will do so in concert with our interagency other governmental agencies and other stakeholders. Our funding plans will be updated once this work is complete.

Of the $683 million requested for the National Security Cutter (NSC) project in FY 2013, $658 million will complete funding requirements for NSC #6. $72 million of the $658 million requested for NSC #6 in FY 2013 is planned for Post Delivery Activities. The NSC project currently plans to obligate approximately $7 million of the $72 million in FY 2013.

Question#:	5
Topic:	NSC 2
Hearing:	Coast Guard's FY2013 Budget Request
Primary:	The Honorable Frank A. LoBiondo
Committee:	TRANSPORTATION (HOUSE)

Question: Funding is included in the budget to acquire small boats for the NSC, but no plan exist to provide expanded geographic area coverage that was to be supplied by the VUAV and no plans exist to keep the NSC at sea for 220 day or more.

When will the Coast Guard provide a plan to the Subcommittee to accomplish these two capabilities that were cited by the Service over a decade ago to justify the cost of the NSC?

Response: The Coast Guard recently submitted its report "Impact of Unmanned Aircraft Systems Absence to National Security Cutter Mission Performance" as required by Senate Report 112-74 that accompanies the *Consolidated Appropriations Act, 2012* (P.L. 112-74).

The Coast Guard is pursuing the most cost beneficial and efficient means of achieving more than 185 days away from homeport. With three NSCs "Ready for Operations" in the Alameda, CA homeport, the Coast Guard will be able to move forward with this analysis.

Question#:	6
Topic:	RB-M's
Hearing:	Coast Guard's FY2013 Budget Request
Primary:	The Honorable Frank A. LoBiondo
Committee:	TRANSPORTATION (HOUSE)

Question: The Coast Guard has requested no funding for the 45-foot Medium Response Boats. The Program of Record calls for the acquisition of 180 RB-M's to replace the aged, slow and obsolete 41-foot utility boats.

Why has the Coast Guard jettisoned plans to acquire the last 14 of the 180 Medium Response Boats?

How does the Service plan to fill the readiness gaps its small boat fleet will suffer by failing to acquire the last of the RB-M's?

The Service has a citing/homeporting plan approved in 2009 based on an acquisition of 180 RB-Ms. Has the Service updated the citing plan to account for a reduced fleet of 166 RB-Ms and which stations would not receive boats as a result?

Response: A 166-boat RB-M fleet is adequate to meet Coast Guard operational needs. Moreover, the Coast Guard has significantly mitigated its risk in the inland and coastal operating areas since September 11, 2001 through acquisition of a greater number of more capable aircraft, boats and patrol cutters, a commensurate increase in the workforce to operate these assets, and the availability of partner agencies to assist the Coast Guard in performing its missions.

The Coast Guard is evaluating siting strategies for a 166 - RB-M fleet, including the revised placement of RB-Ms at heavy weather and schoolhouse locations, the availability of relief hulls for maintenance and repair, as well as optimization of other inland and coastal assets to mitigate the effects of this change. The final location of all of the RB-Ms will be determined when these evaluations are complete.

Question#:	7
Topic:	HH-60 2
Hearing:	Coast Guard's FY2013 Budget Request
Primary:	The Honorable Frank A. LoBiondo
Committee:	TRANSPORTATION (HOUSE)

Question: The budget proposes to zero out funding for upgrading the HH-60 helicopter fleet until 2017. This project would have provided critical upgrades to radar sensor systems.

Will cancelling funding for the conversion project limit the types of missions the HH-60s can be deployed for?

What will the operational impact be of not having the forward surface search radar on these helicopters?

Response: The funding plan projected for the radar sensor systems for the H-60 helicopter would not limit the types of missions to which the aircraft can be deployed.

By delaying the installation of this increased radar capability, the Coast Guard's fleet of H-60 aircraft would still maintain their current capability.

Question#:	8
Topic:	UAS
Hearing:	Coast Guard's FY2013 Budget Request
Primary:	The Honorable Frank A. LoBiondo
Committee:	TRANSPORTATION (HOUSE)

Question: The budget requests no funds for the development of Unmanned Aerial Systems, opting instead to use previously appropriated funds to continue work to test and evaluate UAS platforms for potential use aboard cutters.

What is the status of the UAS acquisition program? When does the Service expect to acquire a cutter based UAS?

How have delays in the UAS program impacted the operational effectiveness of the NSCs delivered to date?

Response: The Coast Guard, utilizing Research, Development, Test and Evaluation funds, is procuring Fire Scout Ground Control Segment (GCS) long lead time components, including Ground Control Station, Tactical Control Data Link, and UAV Common Automatic Recovery System in FY 2012. Additionally, contracts are being developed and refined to secure required Navy technical assistance for Fire Scout shipboard analysis, equipment maintenance, and installation aboard a National Security Cutter (NSC). The Coast Guard projects the GCS equipment will be delivered and installed on an NSC in FY 2014.Completion of these elements will facilitate an at-sea technical demonstration once a Fire Scout air vehicle becomes available for Coast Guard use.

Concurrently, the Coast Guard Research and Develop Center is also executing a research and development project to conduct a technical demonstration of the Scan Eagle small Unmanned Aircraft Systems (sUAS) aboard CGC STRATTON. Shipboard engineering and aviation certification processes are underway to support a mid-June 2012 system installation with a follow on flight and systems capability demonstration in June-July 2012.

The Coast Guard is preparing to employ small UAS (sUAS) as a logical, cost-effective interim capability. This strategy allows the Service to build critical UAS skill sets, support the NSC fleet, and evolve into the larger, more complex objective systems in development such as the Navy's MQ-8B Fire Scout.

Through the use of manned helicopters in coordination with maritime patrol aircraft, and a stable boat launching platform the NSC is effectively meeting primary law enforcement mission demands. Additionally, the Sensitive Compartmented Information Facility helps the NSC to exploit national technical means and new collection capabilities to detect and interdict suspect vessels

Question#:	8
Topic:	UAS
Hearing:	Coast Guard's FY2013 Budget Request
Primary:	The Honorable Frank A. LoBiondo
Committee:	TRANSPORTATION (HOUSE)

When UAS is added to a baseline NSC (i.e. an NSC without any other air or surface intelligence gathering assets), accredited modeling and simulations estimate a 225 percent increase in surveillance coverage within an 80 mile radius of the cutter, and predicts a 90 percent increase in the number of prosecutions (i.e. interdiction of a suspect vessel carrying contraband). When UAS is added to an NSC outfitted with one helicopter, there is a 70 percent increase in surveillance coverage (i.e. detection/locating a suspect vessel) over what can be provided by a helo alone.

The UAS allows NSC boarding teams to covertly view suspect vessels before boarding them, and allows the tactical commander to maintain over-watch while boarding operations are in progress.

UAS also provides the NSC fleet with a persistent airborne surveillance capability that could be employed in conditions that would be hazardous to crews of manned aircraft, including darkness, adverse weather, and chemical/biological/radiological/nuclear/explosive events.

Question#:	9
Topic:	Russian icebreaker
Hearing:	Coast Guard's FY2013 Budget Request
Primary:	The Honorable Frank A. LoBiondo
Committee:	TRANSPORTATION (HOUSE)

Question: We again had to rely on a Russian icebreaker to resupply our McMurdo research station in Antarctica. Exploratory drilling for oil and gas off Alaska's Arctic coast is expanding as is research on the Alaskan Arctic continental shelf. We appear to have a greater demand for polar icebreaking services now than when the Coast Guard had three or more polar icebreakers. The Coast Guard's FY13 budget request includes funding to operate only two polar icebreakers, the Healy and the soon-to-be renovated Polar Star, and to start the process of designing a new polar icebreaker.

Until new icebreakers are operational, wouldn't repairing and operating the Polar Sea make the United States self-sufficient for polar icebreaking?

What would that cost?

Why would we want to continue to export icebreaking work and the jobs that support it to Russia?

The Coast Guard's FY13 budget request includes $8M to start the survey and design process for acquiring a new polar icebreaker. When do you project that this new polar icebreaker would likely be operational?

Response: The Coast Guard is not considering returning the POLAR SEA to service. POLAR SEA was placed in an "inactive pending decommission" status in November 2011, based on its current mechanical state, cost to repair, and expected end of service life of 2014. The Coast Guard plans to complete the decommissioning and transfer the ship to MARAD for disposal by the end of 2012.

The estimated cost to repair the existing casualties to POLAR SEA, return it to operations, and extend its service life by seven to ten years is estimated to cost $100 million. This estimate excludes recurring operational costs.

The FY 2013 Budget includes resources in FY2013 to begin a new polar icebreaker acquisition project. The current expectation is that the acquisition will be fully funded within the next five years and will deliver the icebreaker within the next ten years.

Question#:	10
Topic:	WLM buoy
Hearing:	Coast Guard's FY2013 Budget Request
Primary:	The Honorable Frank A. LoBiondo
Committee:	TRANSPORTATION (HOUSE)

Question: The Coast Guard's FY13 budget request includes $2.5M for survey and design of a mid-life availability for the 175-foot WLM buoy tenders, that a similar survey and design project is already being developed for the 225-foot WLB buoy tenders, and that the Coast Guard intends for all of this work to be completed at the Coast Guard Yard in Baltimore, MD. Eleven of the Coast Guard's 30 WLB and WLM buoy tenders are homeported in the Pacific, which is a long way from Baltimore. Wouldn't performing this work on those eleven buoy tenders in a commercial shipyard on the West Coast reduce the impact on the operational fleet and support additional American jobs?

Response: The use of both the Coast Guard Yard and commercial shipyards will be considered in the execution of In-Service Vessel Sustainment projects. Factors such as operational impact and costs associated with extended transits would be compared against the management complexity required to supervise multi-year, multi-hull projects at more than one location in addition to the work capacity of the Coast Guard Yard. The Coast Guard's intentions are to use the Coast Guard Yard to complete work on the lead cutter of these class-wide overhaul projects in order to refine the design and develop commercial specifications as appropriate.

Question#:	11
Topic:	Cutters
Hearing:	Coast Guard's FY2013 Budget Request
Primary:	The Honorable Frank A. LoBiondo
Committee:	TRANSPORTATION (HOUSE)

Question: The Coast Guard intends to replace the two High Endurance Cutters in the Atlantic with two National Security Cutters and replace the ten High Endurance Cutters in the Pacific with four National Security Cutters. This would seem to require stationing several new Offshore Patrol Cutters in the Pacific to perform missions currently performed by High Endurance Cutters, including Bering Sea and Arctic Ocean operations. Will the soon-to-be-released OPC requirements prioritize the seakeeping and endurance needed to operate in these areas over speed, armament, and other requirements?

Response: The Offshore Patrol Cutter's (OPC) requirements support small boat and helicopter launch and recovery operations in Sea State 5, which are the conditions frequently encountered in the Gulf of Alaska, Bering Sea, Arctic Ocean, and North Atlantic. Additionally, the OPC is required to have the operational range to reach these areas, and the endurance to maximize on-scene presence. Seakeeping, range, and endurance are Key Performance Parameters in the OPC operational requirements document.

Question#:	12
Topic:	OPC
Hearing:	Coast Guard's FY2013 Budget Request
Primary:	The Honorable Frank A. LoBiondo
Committee:	TRANSPORTATION (HOUSE)

Question: Admiral Papp, has stated several times that the Offshore Patrol Cutter acquisition will be the largest and most expensive in the Coast Guard's history. Given the history of the National Security Cutter's requirements changes and cost increases, it seems to me that the Coast Guard will need to exercise extraordinary discipline in controlling OPC requirements to control the OPC program's costs and obtain the number of OPCs needed to meet Coast Guard mission requirements. How does the Coast Guard plan to do this?

Response: OPC Affordability is a top priority for DHS and the Coast Guard. As such, the Coast Guard conducted numerous technical reviews during the development of the specifications, and continues to assess and modify the draft Request for Proposal (RFP) for affordability. In addition, in order to control cost and maintain affordability, the Coast Guard has taken the following steps based upon lessons learned and best practices from Department of Homeland Security, Department of Defense, Government Accounting Office and previous Coast Guard acquisitions:

- Use fixed price incentive contracts rather than cost plus contracts, similar to the contracts which have stabilized the cost and production of recent NSCs.

- The OPC Project's two phased approach, awarding up to three contracts for Preliminary and Contract Design (P&CD) keeps us in a competitive environment for as long as possible before awarding to a single shipbuilder.

- The approved Operational Requirements Document will result in stable requirements.

- Use of common Coast Guard and U.S. Navy C4I Programs of Record (POR) reduces risks and lowers acquisition cost.

- The OPC Project's schedule is event driven, as per the Coast Guard's Major Systems Acquisition Manual (MSAM) and the DHS Systems Engineering Life Cycle (SELC), not time driven. As such, construction of the first OPC will begin after successful completion of a Production Readiness Review (PRR) which will occur at the 80% completion point of the Detail Design.

- The Coast Guard will be the Systems Integrator and be in control of the Technical Requirements.

Question#:	12
Topic:	OPC
Hearing:	Coast Guard's FY2013 Budget Request
Primary:	The Honorable Frank A. LoBiondo
Committee:	TRANSPORTATION (HOUSE)

- OPC will be American Bureau of Shipping (ABS) Naval Vessel Rules (NVR) classed and utilize a detailed SOW.

- The OPC Project will use commercial standards and specifications wherever appropriate.

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 7, 2012

Mr. Chairman and members of the Subcommittee, thank you for this opportunity to present the President's Fiscal Year 2013 budget for the Federal Maritime Commission.

The President's budget for the Federal Maritime Commission ("the Commission" or "FMC") provides $26,000,000 for Fiscal Year 2013. This represents an increase of $1,900,000 over the enacted Fiscal Year 2012 appropriation and funds 131.6 full-time equivalent employees. It is $265,000 less than requested in the President's budget for Fiscal Year 2012.

Our Fiscal Year 2013 budget request contains $18,940,000 for salaries and benefits to support the Commission's programs. This figure includes funds for all salaries and benefits for the 132 positions expected to be on board at the end of fiscal year 2012 and includes a January 2013 pay increase of 0.5%.

Official travel has been reduced to $230,000. This funding level is $10,000 below the Commission's 2012 funding level and represents a 20% reduction below the Commission's 2010 travel expenses. The ability of our staff to travel to meet with the international industry we regulate and our foreign government counterparts remains an essential part of our effort to provide better service to the ocean transportation industry and to accomplish our oversight duties more effectively.

Administrative expenses to be funded in Fiscal Year 2013 support our customary business expenses, such as for rent, security, telephones, litigation, postage, commercial and government contracts, and supplies and are increased $828,000 from the enacted Fiscal Year 2012 funding level. This includes modest increases for telephones and mobile data services, postage, and supplies, and an increase of $35,000 for printing of documents, including mandatory printing of Commission documents in the Federal Register. It also includes an increase of approximately $100,000 associated with a new GSA lease for office space effective in October 2012. The remaining $650,000 increase is for government and commercial contracts, including the costs of facilities and data security, funding to establish and maintain disaster recovery for IT systems through sharing with another agency's data center, and technology

investments to improve efficiencies and maintain mission-critical computer applications. The Commission is working on improved technology to efficiently disseminate public information by providing web-based and social media-based accessibility to enhance Commission services and facilitate public interaction while adding greater efficiencies to internal business processes.

In summary, the Commission's budget represents spending levels necessary to conduct the Commission's basic day-to-day operations and to meet the responsibilities Congress has entrusted to this agency. The Commission will continue its efforts to use its limited resources wisely.

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. During its fifty years as an independent agency, the Commission has cultivated 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.

In my testimony to the Committee last year, I reported that from late 2008 to late 2009 the international container shipping industry endured its worst year in its 45-year history, but that in 2010 we saw an almost equally astonishing recovery. In 2011, the industry continued its recovery, but at a slower pace.

Total U.S. container volumes in 2011 expanded by 4 percent to reach 29.5 million twenty-foot equivalent units ("TEUs"), compared to 28.3 million TEUs in 2010. The total volume of U.S. liner exports increased by 6 percent, a bit less than the 8 percent expansion in 2010. But this increase meant that 2011 was a record year for volume of U.S. containerized exports, which surpassed their previous high in 2008 by more than 3 percent. The growth in the total volume of liner imports to the U.S. slowed considerably, increasing by 3 percent in 2011 after a 13 percent increase in 2010. After impressive gains in 2010, modest growth in 2011 left total U.S. container volumes at 1% below their 2007 pre-recession peak.

For ocean carriers, 2010's strong recovery was followed by a disappointing 2011. Vessel capacity growth outstripped relatively weak demand growth. Normally, the peak season for container imports lasts from July through October, as retailers stock up for the Christmas season. But economic softening in mid-2011 meant that last year's import peak season was almost non-existent. Disappointing import demand and weak shipping rates led several carriers in the Transpacific trade to suspend some services during the slack winter months or leave a market entirely. In late 2011 the number of idled containerships worldwide roughly doubled to 246, or 4 percent of global containership fleet capacity. (By contrast, in December 2009, when the worst of the global recession was being felt, over 570 ships were laid up, accounting for almost 12 percent of worldwide containership fleet capacity.)

So far in 2012, carriers' financial outlook remains uncertain, as rates thus far have remained low by historical standards, even in the export market that has shown continued growth. We received isolated reports of container shortages surrounding the Chinese New Year

holiday in late January, but otherwise shipping capacity has met or exceeded demand. Ocean carriers in the Transpacific announced they are seeking rate increases in March and May, but it is unclear whether or to what degree rates may rise in the coming months.

Despite a relatively difficult operating environment, liner shipping companies continue to order new vessels. Today, carriers have orders for 621 new containerships worldwide, with an aggregate capacity of 4 million TEUs, equivalent to 28 percent of existing worldwide capacity. Almost all of these vessels are scheduled for delivery over the next three years. Approximately half of this new capacity will be delivered in the form of ultra-large containerships that are 10,000 TEU or larger in size.

Concentration among ocean carriers has increased, most likely as a result of the largest global carriers expanding their share of capacity as they receive delivery of ultra-large vessels ordered a few years earlier. At the end of 2011, the top 10 carriers accounted for 65 percent of the world's containership capacity, compared to approximately 61 percent at the end of 2010.

While still experiencing mainly positive growth, our nation's ports did not enjoy the robust expansion in cargo volumes they experienced in 2010. On the West Coast, Los Angeles increased container volumes by 1 percent, Oakland rose by less than 1 percent, and Tacoma increased by slightly more than 2 percent. Long Beach and Seattle each saw declines of about 3 percent. On the East Coast, the Port of New York-New Jersey increased 5 percent, Savannah rose by more than 3 percent, Jacksonville grew 3 percent, and Charleston and Hampton Roads each grew by just over 1 percent.

Transpacific Trades

In 2011, 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 Asia continued to account for over half of U.S. containerized imports and exports.

Slower import growth caused the total Transpacific trade to grow more slowly in 2011 compared to 2010, increasing by less than 3 percent. In 2010, trade grew at a much faster clip of 12 percent. Container imports grew by less than 1 percent in 2011, compared to 14 percent in 2010. But container exports continued to grow by nearly 7 percent after a similar increase in 2010. Nevertheless, imports from Asia continue to dominate the Transpacific trade; for every container exported to Asia from the United States, just over two were imported.

Despite modest growth in 2011, Transpacific capacity increased by 14 percent in 2011. With shipping capacity outstripping shipping demand, shippers generally experienced little difficulty booking space on ships. In the larger inbound leg of the trade, average revenue per container fell about 9 percent during the year. Declining rates in the Transpacific, as well as in other major trade lanes, caused most carriers to incur significant losses in 2011. Although sizeable, the carriers' 2011 losses were not as severe as the ones they incurred in 2009.

The ten members of the outbound rate discussion agreement, the *Westbound Transpacific Stabilization Agreement* (WTSA), had a combined market share of around 64 percent. The fifteen members of the inbound rate discussion agreement, the *Transpacific Stabilization Agreement* (TSA), had a combined market share of 89 percent. Following problems with

capacity and equipment shortages that U.S. shippers experienced in the Transpacific in 2010, the Commission increased its monitoring of these carrier agreements. In 2011, the Commission extended this heightened monitoring of the nation's largest trade lane through April 2012.

U.S.-North Europe Trades

In 2011, container cargo volume grew in each direction of the trade between the U.S. and North Europe. Compared to 2010, U.S. liner exports grew by 6 percent in 2011, and liner imports from North Europe grew by 12 percent.

Several service and agreement changes added vessel capacity to the trade. Compania Sud Americana de Vapores S. A. (CSAV) entered the trade by launching a weekly loop service with CMA CGM, and Orient Overseas Container Line Limited (OOCL) opted to charter space on the new service. Compania Chilena De Navegacion Interoceania, S. A. (CCNI) also entered the trade by forming a weekly loop service with Hamburg Sud. Hapag Lloyd resumed its suspended Atlantic Express Shuttle. Mediterranean Shipping Company (MSC) upgraded the size of its vessels in both of the service loops that it operates in the trade. By the end of the year, total annualized vessel capacity increased by about 9 percent, and the average utilization for the year was reported in the 80 percent range in both trade directions. With added capacity, freight rates weakened, especially in the outbound direction, and carriers were unable to obtain rate increases they had announced for the fourth quarter of 2011.

On other agreement matters, the *World Liner Data Agreement* (WLDA), a new carrier information exchange agreement, replaced and expanded the scope of the *Container Trade Statistics Agreement* (CTSA). WLDA provides for information exchange among its carrier members in all of the U.S. liner trades worldwide.

U.S.-Mediterranean Trades

Among Eurozone nations in South Europe, U.S. export growth was hampered by the financial turmoil and fears of another recession affecting the region. Overall, the volume of container exports to the Mediterranean declined slightly in 2011 compared to 2010. However, there was increased foreign demand for specific container exports. In particular, U.S. exports of cotton to the region rose due to production losses in other parts of the world. Much of the cotton was shipped to textile manufacturers in Turkey. Container imports from the Mediterranean grew by 12 percent.

A number of notable service and agreement changes occurred in 2011. MSC initiated a new weekly loop service between the U.S. Pacific Coast and South Europe with port calls in Panama. Maersk Line and Hapag Lloyd entered into an agreement to exchange vessel space on their services between the U.S. Atlantic/Gulf and South Europe. But Maersk Line also terminated the U.S. leg of its pendulum service between the U.S. Pacific Coast, Asia, and the Mediterranean, and removed vessel space from the trade.

U.S.-Oceania Trades

U.S. container exports to the Oceania region (Australia, New Zealand and the Pacific Islands) grew by 12 percent in 2011 compared to 2010. In the inbound trade, container imports

fell by 3.5 percent. Overall, U.S. exports exceeded imports; for every container imported from the Oceania region, more than 1.7 containers were exported.

Carriers providing direct service in the trade are linked through a network of agreements. Two main rate discussion agreements cover the trade. In the outbound direction, six carriers with a combined market share of 78 percent participate in the *United States/Australasia Discussion Agreement* (USADA), and in the inbound direction, five carriers with a combined market share of 89 percent participate in the *Australia and New Zealand-United States Discussion Agreement* (ANZUSDA). A sizable portion of the trade is made up of carriers who provide service through transshipment arrangements. In addition, five carriers serving the Pacific Islands participate in the *Pacific Island Discussion Agreement*. The carriers that participate in these rate discussion agreements are also involved in a series of vessel sharing agreements.

Given this network of agreements, the Commission closely monitors the activities of the agreement carriers to ensure their compliance with the standards of the Shipping Act. However, positive developments have occurred in the trade. In 2011, the trade attracted a degree of new competition in direct service carriers with the entry of Pacific International Line and MSC.

U.S. – South America Trades

In the U.S. and South America trades, U.S. liner exports and imports increased by about 6 percent over the preceding calendar year. The trade continued to be relatively balanced in 2011, with one million TEUs moving southbound and over 800,000 TEUs moving northbound.

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 rate 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 2011, CMA CGM, the world's third largest containership company, joined the agreement, while Maersk Line, the world's largest containership company, left it. As a result of those membership changes, the combined market share of WCSADA members fell in from 78 to 69 percent in the U.S. outbound direction and from 66 to 60 percent in the U.S. inbound direction.

COMMISSION ACTIVITIES

In the coming year, the Commission plans to continue its focus on what I believe is our top priority: assisting our economic recovery for job growth — both within our ocean transportation industry and among the exporting and importing businesses they serve. We are a small agency, but every one of our 130 employees knows that we are key stewards of our nation's international supply chain.

I believe that the two most important ways we can aid the economic recovery are: (1) working to ensure our maritime transportation system efficiently supports growing exports; and (2) providing maritime businesses regulatory relief so they and their customers can hire American workers. The Commission will also remain alert to foreign activities that harm the

U.S. maritime industry or their customers, and we will continue to protect the American importer, exporter, and consumer. I will also continue to look for opportunities, consistent with the Commission's regulatory authority, to work with all sectors of our maritime family to help them increase their efficiency and grow sustainably.

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. We recognize 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 will continue 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

Each of us at the Commission comes to work knowing that we play a vital role in the nation's push to increase exports. 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 94 percent of the United States' ocean container trade travels on ships controlled by foreign carriers. Perhaps more often than they like, I remind these foreign ocean carriers that what they call mere "backhaul," we call exports that are crucial to this nation's recovery.

This past year, we watched closely for any signs of a repeat of the problems of 2010, when strong demand growth outstripped vessel and container supplies, causing U.S. exporters and importers to experience supply chain disruptions such as cancelled bookings, cargo rolled to the next sailing, and rapid increases in rates and surcharges. As I reported last year, those problems prompted the Commission to launch a fact-finding investigation into vessel capacity and container shortages, led by Commissioner Rebecca F. Dye. Following the fact-finding team's recommendations, the Commission formed Rapid Response Teams to help U.S. exporters and importers cut through red tape and find prompt solutions to disputes with carriers. And we increased oversight of the TSA and WTSA rate discussion agreements in the nation's largest trade lane by requiring verbatim transcripts of their meetings.

In January 2011 we increased our monitoring of global vessel alliances by requiring them to provide meeting minutes, monthly capacity data, and advanced notice of planned changes in capacity through the end of 2012. These reporting requirements are intended to help ensure that the global alliances are not used as an alternative means to constrain vessel capacity. Throughout 2011, we continued our vigilance and assistance as the previous year's shipping capacity shortages gave way to excess capacity and softening of rates by the summer. In the fourth

quarter of 2011, ocean carriers responded to global oversupply by cutting back capacity more aggressively in the Transpacific than in other major world trades, and we extended our increased monitoring of the TSA and WTSA rate discussion agreements through April 2012. Though shipping capacity is currently sufficient, we will continue to watch closely for any signs of a recurrence of the shortages or disruptions we saw in 2010.

Despite abundant vessel capacity in 2011, our Office of Consumer Affairs and Dispute Resolution Services (CADRS) continued to assist shippers with a steady stream of issues. We received 438 cargo-related complaints in Fiscal Year 2011 that resulted in case openings for dispute resolution services. So far, feedback is that our Rapid Response Teams have been highly effective. I encourage parties to bring us their issues for resolution to avoid the cost and delays of litigation, so we can keep cargo moving.

In 2012, we will continue our efforts to assist U.S. exporters. Following requests from several agricultural exporters, our staff is currently exploring the concept of using our data on file to develop a container shipping rate index for a few targeted export commodities such as grains, cotton, hay, and frozen meat. Such indices could give exporters useful information to plan and hedge their transportation costs, which would allow them to make future export sales with less risk of shipping rate increases leaving them unprofitable. We look forward to hearing the views of industry and this Committee as we consider this idea. For small businesses that want to start exporting, as well as for individuals shipping personal goods, we are also developing a search tool on our website that will help them find a nearby licensed and bonded freight forwarder or non-vessel-operating common carrier (NVOCC).

In addition, the Commission has been closely following the ocean carriers' move out of the business of providing chassis to U.S. shippers, and has given the related agreement filings close review to ensure that the transition does not cause disruptions or anticompetitive harms for U.S. shippers. The Commission also continues to work with the U.S. Department of Agriculture and the International Trade Administration on projects aimed at better understanding and finding solutions to container shortages that plague U.S. exporters in rural areas.

Reducing Regulatory Burdens

The Commission has made regulatory relief and modernization a top priority. During the past year, we have taken several steps to reduce regulatory burdens and bring costs savings and flexibility to the shipping industry and customers they serve.

In February 2011, the Commission issued a final rule that relieved more than 3,500 licensed NVOCCs from the costs and burdens of publishing in tariffs the rates they charge for cargo shipments. Most NVOCCs are small businesses who could see significant savings from the exemption. Commission staff worked with NVOCCs to implement the new rule, and in December we issued a Notice of Inquiry seeking comments on ways to make the exemption more useful, including a possible extension of the exemption to include foreign unlicensed NVOCCs. The comment period for that Notice of Inquiry runs until March 26th.

The Commission has also been working hard on a project to reduce burdens on parties with administrative cases by modernizing the Commission's procedural rules to make them more

clear and efficient. In February 2011, the Commission issued a rule that reduced filing burdens on parties and clarified its procedures for informal small claims proceedings. Last month, the Commission issued a proposed rule to streamline and update its procedures for pleadings, motions, and discovery in administrative cases. The comment period runs until April 30th, and we hope to finalize the rule shortly afterwards.

During the same period, the Commission amended its rules to give shippers and carriers flexibility and certainty if they want to enter into contracts with rates that adjust based on an index. The Commission began seeing these contracts in the Spring of 2011, and some in the industry began engaging in derivative transactions based on containerized freight indices. In response, the Commission launched a Container Freight Index and Derivatives Working Group that studied how index-based contracts and derivatives impact the ocean transportation industry and comport with Commission statutes and regulations. Following recommendations by the Working Group, the Commission issued a proposed rule in October 2011. After a comment period, last week we issued the final rule clarifying that the Commission allows service contracts with rates that adjust based on container frieght rate indices.

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's most significant action in this area was last month's release by our Bureau of Trade Analysis of its *Study of the 2008 Repeal of the Liner Conference Exemption from European Union Competition Law.* The primary issue addressed in the multi-year Study was: What negative impact, if any, might Europe's repeal of the liner conference block exemption have on U.S. liner trades? The Study's primary finding is that through 2010, "The repeal of the block exemption does not appear to have resulted in any negative impact on U.S. liner trades." Rates "declined to the same degree in both U.S. and EU import trades," and "increased to a similar degree in both U.S. and EU export trades being compared." The Study also found that, following the EU repeal, rates in the Asia-Europe trade fluctuated slightly more than in the Transpacific. The Study recommended further review of trends following the 2006-2010 time period examined. I support that recommendation to look at 2011 and 2012, when market swings have been less extreme than those of 2009-2010. We will be happy to answer any questions the Committee may have about this Study. One decision we made early in the process is that, for the time being at least, objective facts and staff analysis would be more valuable to you than our policy opinions.

In November 2011, the Commission responded to requests from several West Coast Members of the House of Representatives and Senate by launching an inquiry into whether the Harbor Maintenance Tax and other factors may be causing U.S.-bound containerized cargo to be diverted from U.S. ports to Canadian or Mexican ports. The Commission solicited public comments and data, and has received 78 submissions on the issue as of last month. A team is currently working to gather additional data and information from industry and government sources, and we hope to be in a position to report back in late Spring or early Summer.

The Commission has also continued to work with our largest overseas trading partner, the People's Republic of China, to address potential obstacles to commerce between our nations. The Commission continued an ongoing dialogue in 2011 with key officials at the Shanghai Shipping Exchange and China's Ministry of Transportation. In April 2011, I met with Transport Minister Li Shenglin to discuss the interaction of our maritime regulations. In October 2011, the Commission hosted a delegation from the Shanghai Shipping Exchange led by President Zhang Ye. President Zhang provided the Commission and U.S. shipping community with assurances that the Shanghai Shipping Exchange would protect the confidentiality of sensitive rate information that must be filed with the Exchange. We agreed to share certain information to encourage compliance with licensing, bonding, and filing rules for NVOCCs and Freight Forwarders in both the China and the United States. The Commission also exchanged views with China's Ministry of Transport to address exchange rate and bonding issues for U.S. NVOCCs. Finally, the Commission's General Counsel was a member of the U.S. delegation hosting bilateral maritime discussions with Chinese officials in January 2012, where she discussed ways to ameliorate regulatory burdens U.S. NVOCCs encounter at Chinese ports. The Commission will continue to follow developments closely and work with our fellow U.S. Government agencies and major trading partners to ensure that no unreasonable conditions impair U.S. commerce.

Protecting American Consumers

The Commission's Mission includes service and protection for members of the public — including 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.

After receiving and responding to more than 2,500 complaints between 2005 and 2009 from individuals experiencing problems shipping their personal household goods overseas, the Commission in 2010 launched a fact-finding investigation led by Commissioner Michael A. Khouri. In May 2011, the Commission voted to adopt the fact-finding team's final report and recommendations. The Commission is working to implement the report's recommendations to strengthen consumer education by enhancing website content, leveraging social media technology, enhancing local community outreach, increasing FMC visibility on the internet, and encouraging NVOCC and freight forwarder websites to provide links to FMC consumer information. The Commission is also working with the industry and consumers to develop best practices, model shipping forms, update Commission licensing requirements for household goods shippers, and promote alternative dispute resolution services.

Commissioner Khouri's team recommendations led to an announcement this week that the Commission and the Federal Motor Carrier Safety Administration signed a Memorandum of

Understanding to leverage our resources and coordinate our efforts to protect household goods movers across the different modes of transportation we regulate. In April, the Commission will begin considering rulemaking updates for NVOCCs and freight forwarders that will include changes to address abuses in marketing and operations that often victimize household goods shippers.

In addition, the Commission has been working to strengthen financial protections for cruise passengers in our jurisdiction. Last fall, the Commission issued a Notice of Proposed Rulemaking to increase the maximum coverage requirement for larger cruise lines from $15 million to $30 million, adjust the maximum coverage requirement automatically to account for inflation in future years, and relieve smaller vessel operators by reducing their coverage requirements to account for alternative forms of financial protections available to their customers. The Commission has received comments on the proposed rule, and staff is gauging the likely small business impact before the Commission considers moving to a final rule.

Sustainability and Efficiency

The FMC has seen environmental issues continue to play an important role in the agreements and shipping practices it reviews. As ports and ocean common carriers adjust their business practices, equipment, and facilities to increase efficiency and grow in a sustainable manner, the Commission works to be a helpful partner.

After the Commission voted in 2010 to allow TSA members to discuss slow steaming deployments and environmental initiatives, the Commission in early 2011 solicited public input on how slow steaming has impacted ocean carrier operations, shippers' international supply chains, shipping costs, and greenhouse gas emissions. After the Commission received comments in April 2011, TSA and WTSA members announced that they were revising their formulas for bunker fuel surcharges so that they could pass some of the cost savings from slow steaming back to their customers. The Commission continues to monitor slow steaming trends for their effects on the nation's supply chain.

The Chairman's staff committee on environmental issues is also studying environmental initiatives at the nation's ports and is working to highlight the work being done in this area. In addition, the committee is following international climate change negotiations that could have a significant impact on the international maritime industry.

Enforcement: Stopping Fraud, Market Distortions, and Threats to Safety and Security

The Commission's Bureau of Enforcement, Area Representatives, and investigative staff continue their efforts to prevent practices that are unfair and deceptive. Targeted violations include unfair or fraudulent practices against household goods shippers, as well as 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. In Fiscal Year 2011, the Commission collected nearly $2.2 million in penalties for violations.

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 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.

FMC Area Representatives and investigative staff also confer with other federal agencies regarding ongoing matters of mutual interest, such as inaccurate descriptions of shipments and other malpractices. In one recent example, Commission staff recently assisted the Department of Commerce Bureau of Industry and Security (BIS) with information on additional transportation intermediaries who might be helping parties avoid a BIS temporary denial order seeking to block unauthorized exports destined for Iran. Also, the FMC and U.S. Census Bureau are jointly pursuing closer cooperation, and hope to conclude a Memorandum of Understanding that will memorialize this new working relationship.

Modernization and Technology

The Commission is pursuing several information technology ("IT") initiatives to comply with governing IT statutes and regulations, as well as examining FMC's business functions that require or could benefit from integration with existing data, technology, and systems to increase efficiency, productivity, and communication with the public, particularly in the licensing process. We believe enhanced information systems are essential 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.

Because technology is so central to running the FMC, the Commission proposes to implement new IT solutions that will streamline business processes and facilitate better coordination and communication between the public and the agency. In Fiscal Year 2011, the agency, in response to recent government-wide transformation initiatives, identified a new business productivity infrastructure and application platform that would be incorporated into its

new business processes model. 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.

In 2010, 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 will complete a comprehensive development program in 2012 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 and knowledgeable 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 2013 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

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

The Maritime Administration's
Fiscal Year 2013 Budget Request

March 7, 2012

Good afternoon Chairman LoBiondo, Ranking Member Larsen, and Members of the Subcommittee. Thank you for the opportunity to discuss the President's Fiscal Year 2013 budget priorities and initiatives for the Maritime Administration (MARAD). I am pleased to appear before you to highlight how the President's budget request will support maritime transportation and its contributions to the U.S. economy and to our National security.

MARAD's statutory mission is to promote and strengthen the U.S. marine transportation system - including infrastructure, industry and labor - to meet the economic and security needs of the Nation.

That is why the focus of the Fiscal Year 2013 budget is on economic competitiveness, environmental sustainability, and organizational excellence. MARAD's programs strengthen the U.S. maritime transportation system to foster economic growth and competitiveness and facilitate defense mobilization and emergency preparedness using U.S.-flag ships and U.S. citizen crews. MARAD continues to address marine transportation environmental sustainability and energy impacts, allowing the maritime industry to increasingly be environmental "good neighbors." In addition, MARAD continues to work toward organizational excellence by strengthening our management, internal controls, and accountability. The President's budget request for Fiscal Year 2013 meets each of these goals by balancing competing priorities in a fiscally responsible manner.

FY 2013 BUDGET REQUEST

The President's Fiscal Year 2013 Budget request for MARAD is $344 million, which will support the Agency's coordinated program of activities and initiatives advancing Departmental and national maritime transportation objectives. The budget includes increases for Ship Disposal and USMMA operational requirements.

KEY PRIORITIES

One of MARAD's key priorities continues to be providing support for the U.S Merchant Marine Academy (USMMA). Raising the profile and prestige of the USMMA and improving the institution both administratively and academically are MARAD imperatives. The President's FY 2013 Budget request for MARAD also supports a structured program of capital reinvestment in campus facilities.

Another key priority for MARAD is fulfilling its role in meeting the economic and security needs of the Nation. Maritime Security Program (MSP) funding is essential for the maintenance of a U.S. presence in ocean-borne foreign commerce. In addition to providing employment for 2,400 U.S. merchant mariners, the MSP fleet also ensures the military's ability to obtain assured access to commercial vessels and intermodal facilities and mariners. The President's FY 2013 budget includes a $10 million increase for MSP. Along with $2 million from carryover funds, this request will fully fund the MSP program at the authorized level of $186 million for 60 militarily useful ships.

The FY 2013 budget request provides strong support for critical environmental efforts by including a total of $10 million for the Ship Disposal Program. This is an increase of $4.5 million above FY 2012 enacted levels. As the U.S. Government's disposal agent for large commercial vessels, the Ship Disposal program provides continued acceleration of obsolete vessel disposal actions, with emphasis on vessels that are a high disposal priority, including those covered by the Suisun Bay Reserve Fleet (SBRF) judicial consent decree. The budget also requests $3 million for other environmental sustainability efforts such as management of ballast water discharges and vessel air emissions. MARAD is also exploring the feasibility of a new generation of biofuels for use in marine engines and using Liquid Natural Gas (LNG) for vessels serving the Great Lakes and other marine highways in the future.

Finally, another priority for MARAD in Fiscal Year 2013 is the continued oversight and stewardship of Recovery Act and TIGER grant funding for maritime projects.

ECONOMY

Maritime transportation is a vital industry, contributing more than $10 billion per year to the national economy. Maintaining the economic competitiveness and readiness of maritime transportation is the Agency's core mission, which commands the largest share of the budget request. Approximately 87 percent of the Fiscal Year 2013 request is devoted to programs supporting economic competitiveness and defense mobilization and preparedness to respond to emergencies.

MARAD's mariner training activities focus on training individuals for maritime careers while developing and maintaining a vital and viable U.S. merchant marine for commerce, emergency response, and national security. The USMMA and State Maritime Academies educate and graduate merchant marine officers ready to serve the maritime industry and Armed Forces. In addition, MARAD's work with shipping, shipbuilding, and port and

vessel operations supports the maritime industry, which comprises more than 260,000 jobs.

MARAD programs also support defense mobilization and emergency response readiness. The Maritime Security Program (MSP) helps to protect the Nation through a fleet of commercial U.S.-flag vessels capable of providing global sealift and intermodal capacity to support national security and federal emergency response requirements.

United States Merchant Marine Academy

The President's Fiscal Year 2013 Budget requests $77 million for the USMMA. This request includes a program increase of $5 million for Academy Operations. The program increase will support enhancements to midshipmen health coverage, Marine Transportation and Marine Engineering academic programs, and much-needed facilities maintenance and repair. Since 2010, the increase in capital improvement funding in addition to the 2013 request of $10 million will address the most critical facility modernization and restoration priorities which include renovating the pier, the dining hall and the two remaining barracks. In addition, MARAD has recently begun work on a new strategic plan that will develop long-term objectives and institutional goals.

Providing support and oversight to improve and strengthen the USMMA, both administratively and academically, remains a management imperative. To that end the budget request supports restoring staffing levels at the Academy. In fact, since the start of this Administration, nearly 50 percent of MARAD's new hires are Academy employees. Of that number, nearly 25 percent are veterans, underscoring our commitment to provide employment for former service members.

The Academy is also making significant progress in implementing management and process improvements responding to recommendations in the 2009 Government Accountability Office (GAO) audit report. Addressing these recommendations remains a top priority of the Academy and MARAD. Actions we have implemented address concerns GAO expressed about policy, oversight, and governance for Non-Appropriated Funding Instrumentality (NAFI) organizations. USMMA had 14 operating NAFIs when GAO began their initial audit in June 2008. Today, only two NAFIs are authorized to continue operations. The others were terminated or are in the transition process of closing because it was determined that they did not comply with governing NAFI operating principles. Also, with the funding provided in the Fiscal Year 2011 budget, 87 percent of eligible recipients have received reimbursements of Midshipman Fee overcharges from 2003-2008, and we continue to make progress locating and contacting the remaining eligible recipients.

State Maritime Academies

The President's FY 2013 budget requests $16 million for the State Maritime Academy (SMA) program. Of the $16 million request:

- $2.4 million will fund the Student Incentive Payment (SIP) program, unchanged from Fiscal Year 2012, enabling enrollment of 300 students to be able to meet identified Armed Forces reserve requirements.
- $2.5 million for annual direct payments to each of the six state maritime academies to provide for operational support; and
- $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 and support for their training ships as among the most important recruiting tools to encourage potential State Maritime Academy cadets to pursue careers as merchant mariners. MARAD anticipates approximately 600 students in the license program will graduate from the academies in 2013.

It is important to note that, under the National Maritime Heritage Act, the recycling of obsolete NDRF ships that result in a sales contract returns 25 percent of net sales proceeds to the Maritime Academies. In the past fiscal year, MARAD has provided more than $500,000 to the State Maritime Academies from the vessel scrap sales.

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 U.S.-flag fleet capable of supporting U.S. presence in foreign commerce, while also ensuring the military's access to a global intermodal system with sealift capacity and ready U.S. mariners. MSP vessel participants have the global, multi-modal reach that delivers cargoes supporting overseas deployments of U.S. forces. A terrific example of MSP return to the Nation is the Northern Distribution Network supporting operations in Afghanistan, and the fact that MSP carriers have moved more than 90 percent of the commercial U.S.-flag sealift for Operation Iraqi Freedom and Operation Enduring Freedom since 2002.

The President's Budget includes $184 million for FY 2013, an increase of $10 million from the FY2012 enacted level, for this critical, proven, and cost effective sealift program. Together with $2 million in unobligated carry-over balances, this request will provide full program funding of 60 authorized U.S.-flag vessel fleet at the authorized $3.1 million payment per vessel. This will achieve more than 19,200 ship operating days for MSP-enrolled vessels. 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 economic, homeland and national security needs.

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 U.S.-flag registry. The loan guarantees enable applicants with long-term financing at favorable interest rates, sustaining facilities for shipbuilding and ship repair within the U.S., and promoting system capacity and jobs. The current Title XI subsidy balance for new loans is $27.5 million. The President's FY

2013 budget requests $3.75 million for administration of the Title XI guaranteed loan portfolio to ensure compliance with the Federal Credit Reform Act. The current loan portfolio is $2.3 billion, covering approximately 360 vessels.

America's Marine Highways

Ports and Marine Highways are critical to MARAD's mission and to economic competitiveness. The Nation's ports are central to the economy. The America's Marine Highway Program focuses on increasing the use of water transportation within the U.S. to supplement road and rail where it is feasible. Demonstration Projects funded in 2010 are beginning to come to fruition. For example, a Marine Highway grant awarded to expand an operation between the Ports of Norfolk and Richmond in Virginia has doubled their service frequency and volume and sailing full each trip, supporting exports from the region and relieving congestion on Interstate 64.

To support the Department's strategic goal for economic competitiveness, existing programs like the Transportation Investment Generating Economic Recovery (TIGER) Discretionary grants and Assistance to Small Shipyard Grants are targeting federal resources to help improve the Nation's port infrastructure. The President's FY 2013 budget requests a total of $500 million for TIGER. To date, TIGER grants have funded 17 port and maritime-related projects, totaling more than $276 million in Federal dollars and supplemented by State and local funds. Thirteen of these projects are underway, and more than $82 million has already been expended. These grants are modernizing and adding capacity to ports, improving connections to inland markets such as adding rail lines between the dock and existing corridors, and improving the overall efficiency of freight movement. A fourth round of TIGER Grants is currently in progress, offering the promise of additional maritime support. In addition, $153 million in Small Shipyard Grants has been awarded to 133 projects across the country to support capital improvements at shipyards, improving their ability to compete for domestic and international ship construction.

ENVIRONMENT

MARAD environmental programs are aimed at reducing pollution and the adverse environmental effects of maritime transportation and facilities on communities and livability; focusing on obsolete vessel disposal, reducing marine air emissions, and treating ballast water. Approximately 4 percent of the President's FY 2013 request will fund programs supporting environmental outcomes.

Ship Disposal

The President is requesting a total of $10 million for the Ship Disposal Program in FY 2013. The request is comprised of $7 million for ship disposal costs and $3 million to support nuclear license management for the Nuclear Ship SAVANNAH. This is an increase of $4.5 million above the FY 2012 level. The FY 2013 request will allow continued acceleration in the removal of obsolete ships from the National Defense Reserve Fleet for disposal, with emphasis on vessels that are a high disposal priority,

most of which remain in the Suisun Bay Reserve Fleet (SBRF). There currently are less than 50 total non-retention ships remaining in MARAD's three fleet sites awaiting disposal, which is a historic low. With the requested funding level, MARAD will be able to continue this disposal momentum with the expedited removal for recycling of up to 15 obsolete ships from all three fleet sites in 2013, which will include approximately six SBRF vessels. The requested funding level is consistent with the requirements of the court ordered settlement with California.

Significant costs related to compliance with the National Invasive Species Act (NISA) and Clean Water Act (CWA) will continue into 2013, in particular for removal of SBRF ships that require drydocking for the cleaning of marine growth from the underwater hulls. Due to the presence of onboard hazardous materials such as residual fuel, asbestos and solid polychlorinated biphenyls on these ships, obsolete vessels 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 reducing costs.

The President's FY 2013 request includes $3 million for the inactive Nuclear Ship SAVANNAH, providing for the continuation of support activities including nuclear license compliance, radiological protection, ship husbandry and custodial care, decommissioning planning and preparation, and historic preservation.

Maritime Environment and Technology Assistance

Maritime transportation is an energy efficient mode for transporting people and freight; however, for a number of years now, our industry has been faced with substantial environmental challenges that go to the heart of its long-term sustainability. The most pressing environmental issues facing the maritime industry are invasive species in ballast water, energy use and air emissions. In the President's FY 2013 budget, $3 million is requested for environmental sustainability efforts for these areas. With this funding, we will continue to explore the feasibility of a new generation of biofuels for use in marine engines, with very promising results -- and using Liquefied Natural Gas (LNG) for vessels serving the Great Lakes and other marine highways in the future.

MARAD has been called upon by industry and government agencies to help address these environmental pollution issues, and we recognize that more must be done to transition toward a greener maritime future. MARAD recently launched a LNG feasibility study and engineering/design study on the Great Lakes to better understand the infrastructure needs, shipboard engineering concerns, safety and real costs of powering vessels with LNG. In addition to the study on the Great Lakes, MARAD also is working with EPA Region 10 as well as local agencies and industry to support activities associated with LNG use in the Pacific Northwest and elsewhere.

MARAD has been engaged for several years in research and study related to ballast water treatment facilities. MARAD has provided federal funds to support three facilities to

provide the Nation with the capability to test promising treatment technologies to IMO and U.S Coast Guard standards.

In addition, MARAD continues to test alternative fuels for ship use. MARAD also is working with Canada to update the Great Lakes Water Quality Agreement, looking at governance, toxic substances, nutrients, ship-source pollution, science coordination, aquatic invasive species, habitats and species, and climate change impacts.

The budget request will continue to advance critical research to develop a ballast water discharge standard, advance infrastructure and methodologies for certifying and verifying ballast water technologies, and improve vessel emissions data.

EXCELLENCE

MARAD's greatest asset is its people who are the cadre of maritime professional experts relied upon by the U.S. maritime industry and government agencies to provide policy, operational, educational and financial services in all aspects of the maritime industry. The Agency's expertise in the global logistics and commercial maritime industry, along with industry and international relationships developed over time, has proven invaluable to the operations of the Federal Government.

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 the past in enhancing military readiness, providing humanitarian and disaster relief assistance, investigating impacts to U.S. ports and providing training platforms for anti-piracy operations. These services supported by the Agency's core competencies provide a valuable asset to the country.

MARAD regards the effectiveness of our support and administrative programs and processes as essential to the effectiveness of our operating programs. Approximately 9 percent of our Fiscal Year 2013 budget request will support staffing of headquarters operating programs and the strengthening of human resource management, information management, financial management, and administrative services. The Fiscal Year 2013 budget includes investment in the Agency's workforce, including training, leadership, and succession planning. We will continue to shape our organization using feedback provided in the employee's survey, and advance MARAD as an employer of choice.

MARAD will continue developing our information technology (IT) operating and content environments, strengthen IT security and protection of identity information, and advance e-Government. In 2013, MARAD will continue to document and improve processes, strengthen internal controls and compliance, and improve financial reporting for use in guiding program development and decision-making. MARAD will work to resolve identified vulnerabilities and deficiencies, including the GAO recommendations for the USMMA. MARAD will do all of this with a view toward greater transparency, internally and externally.

Mr. Chairman, I wish to express my appreciation for the opportunity to present and discuss the President's FY 2013 request for MARAD, and for the Committee's continuing support for maritime programs. 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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