

MARITIME TRANSPORTATION: THE ROLE OF U.S. SHIPS AND MARINERS

(113-16)

HEARING
BEFORE THE
SUBCOMMITTEE ON
COAST GUARD AND MARITIME TRANSPORTATION
OF THE
COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES
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**Committee on Transportation and Infrastructure
U.S. House of Representatives**

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May 17, 2013

SUMMARY OF SUBJECT MATTER

TO: Members, Subcommittee on Coast Guard and Maritime Transportation
FROM: Staff, Subcommittee on Coast Guard and Maritime Transportation
RE: Hearing on “Maritime Transportation: The Role of U.S. Ships and Mariners.”

PURPOSE

On Tuesday, May 21, 2013, at 9:30 a.m., in 2167 Rayburn House Office Building, the Subcommittee on Coast Guard and Maritime Transportation will meet to examine the contributions of U.S.-flagged vessels and American mariners to our economy and national security.

BACKGROUND

U.S. Maritime Industry Statistics

Currently, there are more than 40,000 non-fishing related commercial vessels documented (flagged) in the United States. The vast majority of these vessels are engaged in domestic waterborne commerce, moving over 100 million passengers and \$400 billion worth of goods between ports in the U.S. on an annual basis. Each year, the domestic fleet carries over a billion tons of cargo through the inland waterways, across the Great Lakes, and along the coasts, contributing \$100 billion in economic output.

Of the 40,000 U.S.-flagged vessels, approximately 93 are currently employed in international commerce moving goods between U.S. and foreign ports. Over the last 35 years, the number of U.S.-flagged vessels sailing in the international trade has dropped from 850. The percentage of international commercial cargoes carried on U.S.-flagged vessels has fallen from 25 percent in 1955 to approximately 2 percent today.

There are currently 117 U.S. shipyards that build new vessels. There are over 200 additional facilities engaged in ship repair. Of the 117, only 6 are major shipyards

capable of building large naval vessels and oceangoing commercial ships. Since 1983, the U.S. has lost approximately 300 shipyards.

The U.S. maritime industry currently employs more than 260,000 Americans. This includes approximately 65,000 mariners, 95,000 port workers, and 100,000 shipyard employees. These jobs represent approximately \$29 billion in annual wages.

Throughout our history, the Navy has relied on U.S. flag commercial vessels to carry weapons and supplies and ferry troops to the battlefield. During Operations Enduring Freedom and Iraqi Freedom, U.S.-flag commercial vessels transported 63 percent of all military cargos moved to Afghanistan and Iraq. An additional 35 percent of the total cargo was carried on government-owned sealift vessels activated from reserve status and crewed by American mariners.

U.S. Maritime Laws and Programs

Since 1789, Congress has passed several laws to help keep the U.S. maritime sector competitive in the global economy and maintain a sealift and shipyard industrial capacity necessary for our national security. Current laws and programs include:

Jones Act

The Jones Act first came into effect as part of the Merchant Marine Act of 1920 to encourage a strong U.S. Merchant Marine for both national defense and economic security. The Jones Act contains a number of provisions designed to protect U.S. shipbuilding and mariner jobs:

1. U.S. Owned and Flagged - Chapter 551 of title 46, United States Code, requires that merchandise and passengers being transported by water between two points in the U.S. must travel on U.S.-citizen owned vessels flagged in the U.S. with a coastwise endorsement;
2. U.S. Built - Chapter 121 of title 46, United States Code, requires vessels seeking a coastwise endorsement to have been built in the United States. Chapters 551 and 801 of title 46, United States Code, also place restrictions on the involvement of foreign-owned, -built, and -flagged vessels in towing, dredging, and salvage activities in U.S. waters;
3. U.S. Crewed - Chapter 81 of title 46, United States Code, requires the master, all of the officers, and at least three-quarters of the crew to be U.S. citizens in order for a vessel to be documented in the United States; and
4. Rebuild/Reflag Prohibition - Chapter 121 also prohibits vessels that were once eligible to engage in coastwise trade and then later sold to a foreign citizen, or documented under a foreign registry, or rebuilt outside the U.S. from engaging in the coastwise trade (a vessel may be considered rebuilt when work performed on

its hull or superstructure constitutes more than 7.5 percent of the vessel's steelweight prior to the work).

The Coast Guard is responsible for reviewing applications from vessel owners seeking a coastwise endorsement to participate in the Jones Act trade. The Coast Guard determines whether the owners meet the U.S. citizenship requirements and whether the vessel was built in the U.S., or the extent to which it was rebuilt outside the U.S., before it will issue a coastwise endorsement. Customs and Border Protection determines whether the cargo to be moved on a vessel constitutes "merchandise" under section 55102 of title 46, United States Code, and is therefore subject to the Jones Act.

Section 501 of title 46, United States Code, provides a mechanism to waive the Jones Act and other vessel navigation and inspection laws. The Jones Act can be waived by the Secretaries of Defense and Homeland Security in the interest of national defense. Waivers by the Secretary of Homeland Security first require a determination by the Administrator of the Maritime Administration (MARAD) that U.S.-flagged, -owned, -built, and -crewed vessels are not available to meet national defense requirements.

Domestic Shipbuilding Programs

In addition to the Jones Act, the federal government supports the viability of the domestic shipbuilding industry through a combination of laws and programs including:

1. Tariffs – Under the Smoot-Hawley Act of 1930, U.S. vessel operators are liable for a 50 percent duty on maintenance and repairs performed on their vessels at overseas shipyards.
2. Capital Construction Fund – First established by the Merchant Marine Act of 1936 (46 U.S.C. 53501 et seq.), the Capital Construction Fund (CCF) enables U.S. vessel owners and operators to defer federal income taxes on their income by depositing the income in a CCF. Income deposited in a CCF may only be used to finance the construction, reconstruction, or acquisition of a vessel built or rebuilt in a U.S. shipyard. As of 2010, over 180 companies had established a CCF.
3. Title XI Federal Ship Financing Program – Established by Title XI of the Merchant Marine Act of 1936 (46 U.S.C. 53701 et seq.), the Title XI program provides federal government loan guarantees to (1) vessel operators for the purpose of financing or refinancing the construction or reconstruction of vessels in U.S. shipyards, and (2) U.S. shipyards for the purpose of financing advanced shipbuilding technology for a facility located in the U.S. Loan guarantees cannot exceed 87.5 percent of the project's actual cost.

The Title XI program has not received funding for new loan guarantees since FY 2011. No funds are requested in MARAD's FY 2014 budget request. There is currently \$38 million in Title XI loan subsidies available, which equates to

approximately \$420 million in available loan guarantees. MARAD has pending applications for \$525 million in loan guarantees.

4. Small Shipyard Grants – Section 3508 of the National Defense Authorization Act for Fiscal Year 2009 (P.L. 110-417) established the Assistance to Small Shipyards Grant Program. Under the program, U.S. owned and operated shipyards with less than 1,200 production employees are eligible to receive matching grants from MARAD to finance capital improvements and equipment purchases.

The FY 2014 budget does not include funds for the grant program. On March 23, 2013, MARAD posted a notice soliciting grant applications for the \$10 million the program received in FY 2013. Since 2010, the number of grant applications has exceeded the funds available.

Cargo Preference

To ensure sealift capacity and guarantee a skilled cadre of U.S. seafarers, several laws were enacted beginning in 1904 to require certain percentages of government impelled cargo to be carried on U.S.-owned, -flagged, and -crewed vessels. Government impelled cargo is ocean borne cargo moved either as a direct result of federal government involvement, or indirectly through financial sponsorship of a federal program, or in connection with a guarantee provided by the federal government. The following is a breakdown of the percentages of cargo required to be carried on U.S.-owned, -flagged, and -crewed vessels under the Cargo Preference Program:

1. Military Cargo – 100 percent (governed by Military Cargo Preference Act of 1904, 10 U.S.C. 2631);
2. Export-Import Bank – 100 percent (governed by Public Resolution 17, 48 Stat. 500);
3. Federal Civilian Agencies Cargo – at least 50 percent (governed by Cargo Preference Act of 1954, 46 U.S.C. 55301 et seq.); and
4. Agricultural Cargoes – at least 50 percent (governed by the Food Security Act of 1985, 46 U.S.C. 55311 et seq. Section 100124 of Public Law 112-141 reduced the level from 75%).

Food For Peace: Under the Food for Peace program, the U.S. Agency for International Development purchases agricultural commodities grown by U.S. farmers and distributes it to starving populations around the world. Pursuant to cargo preference laws, 50 percent of Food for Peace cargo must move on U.S.-owned, -flagged, and -crewed vessels. The President's FY 2014 budget proposes to restructure the Food for Peace program and cut funding available to purchase and transport U.S. agricultural commodities from 75 percent to 55 percent. This decrease in cargo is expected to reduce the number of U.S.-flagged vessels and jobs for American mariners. The President's FY

2014 budget proposes to offset some of the job losses by providing an additional \$25 million to the Maritime Security Program to support activities yet to be specified.

Enforcement: Section 3511 of the National Defense Authorization Act for Fiscal Year 2009 (P.L. 110-417) authorized the Secretary of Transportation to audit cargos shipped by other federal agencies to determine compliance with cargo preference laws and to impose penalties, including fines, on agencies and individuals found in violation. The provision required MARAD to promulgate regulations to carry out the new authorities. MARAD has yet to write such regulations.

Maritime Security Program:

The Maritime Security Act of 1996 (P.L. 104-239) established the Maritime Security Program (MSP), replacing the Operating Differential Subsidy Program established under the Merchant Marine Act of 1936. MSP provides direct financial assistance to the operators of U.S.-owned, -flagged, and -crewed vessels to make their vessels available to support military sealift during times of war or national emergency. Currently, 13 vessel operators operating 60 vessels receive \$2.1 million per vessel per year under MSP.

Section 3508 of the National Defense Authorization Act for Fiscal Year 2013 (P.L. 112-239) reauthorized MSP through FY 2025. MARAD recently informed MSP participants that due to the FY 2013 sequester, it will not be able pay the full monthly stipend in August 2013 or any stipend in September 2013.

Marine Highways Program:

Section 1121 of the Energy Independence and Security Act of 2007 (P.L. 110-140) directs the Secretary of Transportation to establish a short sea transportation program and designate short sea transportation projects to mitigate landside congestion or promote short sea transportation. Using this authority, the Secretary has designated 11 Marine Highway Corridors, 4 Connectors, and 3 Crossings.

In 2010, the Secretary designated eight Marine Highway Projects along the Corridors, Connectors and Crossings. Designated Marine Highway Projects may compete for Marine Highway Grants to acquire equipment and make other improvements to facilitate service along a designated Corridor. To date, \$7 million has been awarded to six entities for this purpose. MARAD's FY 2014 budget does not include funding for further Marine Highway Grants.

WITNESSES

Panel I

The Honorable John Porcari
Deputy Secretary
Department of Transportation

General William M. Fraser, III
Commander
U.S. Transportation Command

Panel II

Mr. Fred Harris
CEO
NASSCO
on behalf of
Shipbuilders Council of America

Joseph H. Pyne
Chairman and CEO
Kirby Corporation
on behalf of
American Maritime Partnership

Mr. Mike Jewell
President
Marine Engineers' Beneficial Association

Mr. Augustin Tellez
Executive Vice President
Seafarers International Union

MARITIME TRANSPORTATION: THE ROLE OF U.S. SHIPS AND MARINERS

TUESDAY, MAY 21, 2013

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

The subcommittee met, pursuant to call, at 9:35 a.m., in Room 2167, Rayburn House Office Building, Hon. Duncan Hunter (Chairman of the subcommittee) presiding.

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

The subcommittee is meeting today to review the current state of the U.S. maritime sector and examine the importance of U.S.-flag vessels and American mariners to our economy and national security.

The U.S. maritime industry currently employs more than 260,000 Americans, providing more than \$29 billion in annual wages. There are more than 40,000 commercial vessels currently flying the American flag. The vast majority of these vessels are engaged in domestic commerce, moving over 100 million passengers and \$400 billion worth of goods between ports in the U.S. on an annual basis. Each year, the U.S. maritime industry accounts for over \$100 billion in economic output.

Beyond the important contributions to our economy, a healthy maritime industry is vital to our national security. Throughout our history, the Navy has relied upon U.S.-flag commercial vessels crewed by American merchant mariners to carry troops, weapons, and supplies to the battlefield. During Operations Enduring Freedom and Iraqi Freedom, U.S.-flag commercial vessels transported 63 percent of all military cargo moved to Afghanistan and Iraq.

Since we cannot rely on foreign vessels and crews to provide for our national security, it is critical that we maintain a robust fleet of U.S.-flag vessels, a large cadre of skilled American mariners, and a strong shipyard industrial base. Unfortunately, over the last 35 years, the number of U.S.-flag vessels sailing in the international trade has dropped from 850 to less than 100. In the same period, we have lost over 300 shipyards and thousands of jobs for American mariners.

To make matters worse, the President has sent Congress a budget that proposes to restructure the highly successful Food for Peace program. Since 1954, the Food for Peace program has provided agricultural commodities grown by U.S. farmers and transported by

U.S. mariners on U.S.-flag vessels to those threatened by starvation throughout the world. The President's restructuring of Food for Peace will eliminate a vital program for our farmers, put U.S. mariners out of work, and undermine our national security by cutting the domestic sealift capacity on which our military depends. I hope my colleagues will join me in rejecting this misguided proposal.

We are joined today by the Deputy Secretary of Transportation. I thank him for being here.

As he is keenly aware, the Maritime Administration has faced very valid criticism in recent years over its handling of Jones Act waivers and enforcement of our cargo preference laws. I hope that the new leadership that will be taking over at both the Department and MarAd in the coming months take seriously their mission to promote and protect the U.S. maritime industry.

I hope to see a renewed commitment to programs like Title XI that help to grow jobs, expand our economy, and maintain critical shipyard industrial capacity. I also hope the new leadership at MarAd and DOT will work closely with industry to reduce Jones Act waivers. Finally, I hope they will stand up when other Federal agencies seek to disregard our cargo preference laws and use the authority Congress gave them to stop them in their tracks.

If we want to grow our economy and remain a world power capable of defending ourselves and our allies, we must work together to strengthen and preserve our maritime industry.

I thank the witnesses for appearing today and look forward to working with them to accomplish these important goals.

With that, I yield to Ranking Member Garamendi.

Mr. GARAMENDI. I thank you, Mr. Chairman. And thank you for your leadership on this critical issue and for scheduling today's hearing to examine the status and role of the U.S. merchant marine within the Marine Transportation System. Such an examination is both overdue and important.

Tomorrow is National Maritime Day. Since establishment in 1933, we pause on May 22nd to recognize the many selfless contributions made by the men and women of the U.S. merchant marines, both past and present, in meeting our country's economic and security needs in both wartime and peace. Such recognition is well-deserved, and it is appreciated by a grateful Nation.

Yet, despite the voluminous history of the U.S. merchant marine, the current challenges facing the maritime industry portend a future that offers anything but smooth sailing. Today, the U.S.-flag oceangoing fleet in foreign trade is comprised of fewer than 100 ships, a decline of over 80 percent from the 1979 fleet level of 576 vessels. As a result, of the 78 percent of U.S. exports and imports transported by water, less than 1.5 percent is carried under the U.S. flag.

The U.S. coastwise fleet has fared better and continues to provide vital maritime transportation within the U.S. coastal waters and inland waterways. Nevertheless, the Jones Act continues to come under attack by critics, despite the fact that Jones Act trade constitutes a substantial component of U.S. shipyard activity and is necessary for maintaining our national defense capability.

Cargo preference requirements continue to be whittled away, if not ignored, by Federal agencies, as if those requirements were a hindrance and not the law of the land. Not only does this reduce the number of job opportunities for U.S. seafarers, it denies important cargoes to U.S. carriers, which also provide invaluable sealift capabilities when our armed services are deployed abroad.

Mr. Chairman, your comments on P.L. 480, the Food for Peace program, are well-taken, and I agree with you.

In closing, Mr. Chairman, on National Maritime Day it is important that we celebrate our maritime heritage. But this year we would be wise to examine how we can reinvigorate the U.S.-flag fleet, what we might do to rebuild and expand the U.S. shipbuilding capacity, and what we can do to ensure that our maritime transportation remains prominent in the discussions of our national foreign policy.

I look forward to the hearing. I thank our witnesses, and let's get on with it.

Mr. Chairman, I yield.

Mr. HUNTER. I thank the ranking member.

On our first panel of witnesses today are the Honorable John Porcari, Deputy Secretary of Transportation; and General William Fraser, Commander of U.S. Transportation Command.

Deputy Secretary Porcari, you are recognized for your statement.

**TESTIMONY OF HON. JOHN D. PORCARI, DEPUTY SECRETARY,
U.S. DEPARTMENT OF TRANSPORTATION; AND GENERAL
WILLIAM M. FRASER III, COMMANDER, U.S. TRANSPORTATION
COMMAND**

Mr. PORCARI. I thank you, Chairman Hunter and Ranking Member Garamendi. I appreciate the opportunity to be here today to discuss maritime transportation issues.

A strong maritime industry is critical to America's national and economic security. President Obama and all of us at the Department of Transportation are committed to working with our public and private partners to train new mariners and provide support for our foreign and domestic trading fleets, U.S. ports, and shipyards.

The maritime industry is facing many challenges. In the wake of the global recession, low freight rates can still be found on many international trading routes. Preference cargoes have also begun to decline for U.S.-flag vessels that participate solely in foreign trade. These changes are due in large part to falling volumes of Department of Defense cargoes associated with the drawdown of military operations in Iraq and Afghanistan, as well as declines in agriculture preference cargoes. We expect that in the near term the industry will continue to adjust to the market.

Despite these ongoing fluctuations, U.S.-flag commercial vessels involved in military sealift are strongly supported through the MarAd-administered Maritime Security Program. The MSP, as you know, is a fleet of 60 privately owned vessels. These ships are active, commercially viable, and available to meet national defense and other security requirements. And thanks to the 2013 National Defense Authorization Act, which President Obama signed in January, existing MSP operating agreements have been offered through 2025.

The Department of Transportation continues to support compliance with the Jones Act, and ships that are trading under it continue to do well.

Likewise, the recent surge in domestic crude oil production has increased demand for domestic self-propelled tanker vessels. A recent industry projection foresees 10 to 14 new oceangoing tankers entering the fleet by 2018.

New containership orders being placed under the Jones Act are also encouraging. These containerships would be powered by U.S.-produced liquefied natural gas and would be among the most environmentally friendly forms of freight transportation on Earth.

The Nation's ports are also successfully preparing for the future. The American Association of Port Authorities reports that U.S. seaport agencies and their private-sector partners plan to invest a combined \$46 billion over the next 5 years in capital improvements to their marine operations and other port properties.

The Department of Transportation is complementing these investments. Since 2009, we have awarded more than \$350 million in TIGER grants that are helping to modernize our ports, improve rail infrastructure serving ports, and increase exports. We have also awarded more than \$149 million in small shipyard grants to 120 projects in 28 States and Guam. These investments have helped small shipyards get new contracts and have increased exports of commercially built vessels.

Additionally, the Maritime Guaranteed Loan Program, better known as Title XI, has helped leverage more than \$650 million in new investments in U.S. shipbuilding during the first term of the Obama administration. We currently have the budget authority to guarantee \$420 million worth of additional shipbuilding projects.

The Department of Transportation is also committed to educating and training the next generation of maritime professionals. As part of this commitment, we have placed a renewed focus on preparing thousands of young people to enter the maritime workforce through the U.S. Merchant Marine Academy and six State maritime academies.

As I said earlier, all of us in the administration are committed to a strong maritime industry. We are working to balance our long-term needs with the challenges of today.

As part of the President's 2014 budget request, we have proposed restructuring the Public Law 480 Title II food aid program to allow local and regional procurement of food and to improve the ability of U.S. food aid to reach emergency needs quickly and with less adverse impacts on markets and farmers in countries receiving the food aid.

Under the President's proposal, 55 percent of Title II food aid funds would still be spent in the United States. Of that, 50 percent of the cargoes would move on U.S.-flag vessels. In its initial assessment, DOD has stated that changes in the food aid program will not impact the maritime industry's ability to crew the surge fleet and deploy forces and cargo.

Furthermore, to mitigate any impact on vessels and mariners, the administration is proposing a \$25 million targeted operating subsidy for military-useful vessels. Preliminary planning for this funding envisions a three-pronged approach whereby some of the

funding would provide a stipend for militarily useful vessels not enrolled in the MSP, other sums would be used to reimburse eligible cost for mariners to retain or renew active U.S. Coast Guard-issued merchant marine credentials, and some funds would provide apprentice training for key merchant mariner skills. We will work with our key stakeholders and our Federal partners on how best to use this funding to minimize any impact.

I thank you, Mr. Chairman, for allowing me to share this time with you today. I look forward to answering any questions that you might have.

Mr. HUNTER. Thank you, Mr. Porcari.

General Fraser, you are recognized.

General FRASER. Chairman Hunter, Ranking Member Garamendi, and distinguished members of this committee, it is indeed an honor to be here with you today as the Commander of United States Transportation Command.

Our total force team of men and women, military and civilian, are dedicated to providing reliable, seamless logistical support to our warfighters and their families around the globe. The dedicated professionals at the United States Transportation Command simply could not accomplish this global mission without the capabilities provided by the United States strategic sealift fleet and our steadfast merchant mariners.

USTRANSCOM relies on both Government-owned vessels and those accessed via commercial industry. Our Government-owned fleet includes 60 total vessels from the Military Sealift Command's surge fleet and the Maritime Administration's Ready Reserve Force. All Government-owned and commercial vessels are critical for the Department of Defense's ability to surge to meet future global requirements. I am grateful to the Congress for your continued support of this global mobility requirement and capability, which is unique to the United States.

Although our organic assets are vital during contingency operations, the vast majority of the sealift needs during steady state and nonsurge periods comes from our commercial partners. Access to the commercial fleet is formalized through programs such as the Voluntary Intermodal Sealift Agreement, the Maritime Security Program, and the Voluntary Tanker Agreement. These programs allow us and the Department of Defense to gain access to United States commercial capabilities while ensuring the availability of a viable U.S.-flag fleet and United States citizen merchant mariner pool in times of the national emergency.

The Maritime Security Program provides access to a fleet of 60 military-useful commercial vessels that are operating in international commerce and exercising intermodal networks throughout the world and jobs for our United States merchant mariners. I also want to thank Congress for extending the MSP program an additional 10 years to 2025.

Maintaining a responsive sealift capacity and experienced merchant mariners to crew our ships in a time of need is essential to meeting the Nation's defense requirements. I am confident the U.S. maritime industry will continue to meet our defense needs with the capacity and the responsiveness that befits their heritage, and I will work closely with the Maritime Administration and our indus-

try partners to ensure we can rely on that capability for many years to come.

Chairman Hunter, Ranking Member Garamendi, distinguished members of this committee, I want to thank you again for your continued support of United States Transportation Command and our total force team. I am grateful for the opportunity to appear before this committee today and would ask that my written statement be submitted for the record. I look forward to your questions.

Thank you, sir.

Mr. HUNTER. Gentlemen, thank you very much. And let me start by saying, thank you both for your service to the country, whether it is in transportation or the military. We all appreciate it.

Mr. Porcari, let's start with this. You talked about the Title XI program. You talked about the small shipyards grants program. Yet the administration didn't fund either one of them. So I expect that the administration knew or thought that Congress would fill in the blanks for them on that.

So, if it is so beneficial, as you stated, why wouldn't the President request funding for it?

Mr. PORCARI. First, Mr. Chairman—it is a great question.

Mr. HUNTER. In fact, let me specify, too, the President has never requested funding for Title XI, ever.

Mr. PORCARI. Mr. Chairman, on Title XI, we currently have about \$420 million of authority for additional projects for—

Mr. HUNTER. That is about \$30 million, right?

Mr. PORCARI. It is—approximately. And, given what is in the pipeline, we believe we can process the applications that are currently in the pipeline. There may be need for additional capacity beyond that. It is a situation that we would like to be in.

But Title XI is one of the tools that we use. I would also point out, you mentioned small shipyard grants, which we have made good use of. Third, it is not strictly a maritime program, but the single biggest winner, in some ways, of our TIGER program has been the maritime industry because we have been focusing on the landside connections as well. Ports in the maritime industry only function as well as the intermodal connections. And we have been trying to remove bottlenecks, whether it is on dock, whether it is with the freight railroads or in other places. It is a holistic approach to trying to encourage the maritime industry.

We believe very strongly in a U.S.-flag fleet, and we will continue to do so.

Mr. HUNTER. I would agree, the landside improvements are vitally important as well.

Let me ask you this. I am seeking about \$70 million in Title XI funding to bring it up to \$100 million, which is about a billion dollars or more, \$1.3 or \$1.4 billion in funding. What do you estimate that would do to the shipbuilding industry if that over a billion dollars in funding was able to be made of use and granted to the industry to build commercial ships?

Mr. PORCARI. Should Congress provide those funds, Mr. Chairman, we would work to, first of all, make sure that we are improving the process of Title XI loans. We know that, in terms of the timing, the responsiveness, and the interaction with applicants, the

process can be and needs to be reengineered. And we would focus on that for a more responsive Title XI process.

We would also try to encourage, wherever possible, loan applications that most directly benefit both shipbuilding and long-term employment of U.S. mariners.

Mr. HUNTER. And for both gentlemen, my last question; then I will yield to Mr. Garamendi.

As the Food for Peace program gets slashed, you said, Mr. Porcari, that DOD has stated that right now that will not have an impact on the crewing of the vessels that are needed for military capacity.

But let's look out 5 or 10 years, and I would like you both to just tell us here very bluntly: What do you think the impact is going to be over the next decade if we cut the Food for Peace program and those ships go away and those mariners go away and that training pool for our ship drivers and ship crew goes away?

Mr. PORCARI. Mr. Chairman, first and foremost, we can't afford to lose that capacity, whether it is the actual vessels or, more importantly in some ways, the U.S. crews.

We know that the industry is changing. Food aid is only one component of it. What we want to focus on is things like energy transport, where we believe in the future there are growth opportunities in the industry for a U.S.-flag fleet and U.S. mariners.

Going out 5 or 10 years, I personally can't really project that, but I don't think that we should have overdependence on any portion of the cargo spectrum, including food aid.

Mr. HUNTER. Before General Fraser answers, I would venture that if you are going to offset this with energy or if we have other plans, that you do them simultaneously or maybe make sure one is in place first before cutting the, you know, current program. Otherwise, you are not going to have that capacity to move the energy stuff because it will be gone.

General Fraser?

General FRASER. Chairman, thank you very much.

As previously stated, DOD did take a look at this initially, and as it stands alone, it would not have a significant impact on our ability to reach into the merchant mariner pool to satisfy our military requirements.

As the global distribution synchronizer and provider of transportation for DOD, I do look at where industry has been, and what history has shown us. Both you and Ranking Member Garamendi spoke in your opening comments about how we have seen things change over time. I think that is something that, as we look forward to the future, and not being a predictor of the future, we need to take into consideration as we work together.

I promise to continue to work very closely with MarAd as we define what the military requirements are in the future in meeting our surge capacity and capability and those merchant mariners that are needed, which are great value to our surge capacity in the future. And we will do that.

Mr. HUNTER. General, did you use food aid mariners to crew ships whose capacity you used in Enduring Freedom and Iraqi Freedom?

General FRASER. Sir, when we actually go out and seek merchant mariners, I do not know where they come from. We work with MarAd as they man the ships—

Mr. HUNTER. To the best of your knowledge.

General FRASER [continuing]. Because there is a large pool of merchant mariners from which they reach to obtain both the licensed and the unlicensed personnel to crew these ships.

Mr. HUNTER. Would it be reasonable to say that you use those crews that crew the food aid ships?

General FRASER. Sir, I think that is something that I would have to dig into the details as to exactly where they came from. But I know that those who are working in the commercial industry who are maintaining their licenses, the skill sets of those merchant mariners from which we pull, are sailing on all kinds of ships that are in the commercial industry.

Mr. HUNTER. Thank you, General.

Mr. GARAMENDI, you are recognized.

Mr. GARAMENDI. Thank you, Mr. Chairman.

And, gentlemen, thank you for your service as well as for your testimony today.

I am not at all sure that we have an overall strategy to maintain the merchant marine capability and its direct effect upon national security. The trend lines are terrible. This industry, if one were to take a look at this as a—the overall trend lines, you have to say it is disappearing, perhaps to the point where we will not have the capability for national defense or to maintain a vital part of our economy.

I think what I would like to really focus on are some of the specific elements in it. I think the administration is dead-wrong with regard to Food for Peace for a variety of reasons. One of them is the loss of capacity within the United States. A second one is a breakup of the political support for the food program overall. That current support comes from farmers, the merchant marine industry, and those who are interested in making sure people around the world have food to eat when they don't have it otherwise available.

So I think the administration is wrong on this one. I am going to do everything I can to reverse the administration's position. I understand you two gentlemen are good soldiers and carrying out your task.

So, having said that, apparently there is a loss of capacity. Otherwise, the administration would not be proposing the \$25 million to somehow make up for that loss.

Mr. Porcari, how exactly is that supposed to work?

Mr. PORCARI. Well, first of all, the food aid proposal is designed to be more efficient, deliver more food aid, and minimize disruption on local markets.

The \$25 million that you refer to is a reflection of the fact that we know that the industry is changing. We need to preserve key skills. Doing that through potential concepts like aid to militarily useful vessels that are not currently in the MSP fleet; making sure the Coast Guard credentials, oceangoing credentials of mariners are maintained; apprenticeship training for specific skilled trades, for example, that are critical today and tomorrow in the merchant

marine fleet. Those are some of the ways that we think that this \$25 million proposed by the President can be used.

It is a reflection of the understanding that we know that the maritime world is changing and we know that we need to preserve the capacity both on the vessel side and, importantly, with the crews.

Mr. GARAMENDI. Is the \$25 million over and above the ongoing Food for Peace P.L. 480 program?

Mr. PORCARI. Yes. This is an additional \$25 million, Mr. Garamendi, that is specifically for assistance to the merchant marine—

Mr. GARAMENDI. Wouldn't we be better off if we put \$25 million directly into the P.L. 480 program and just have more capacity and more food aid around the world, rather than trying to carry on a program of maintaining the skill sets through what appears to be a hopeful program but not yet in existence?

We have \$25 million extra. Why don't we just provide more food where it may be needed around the world?

Mr. PORCARI. We know that with the steady loss of merchant marine capacity since World War II that we need to do things differently, that we need to actually make sure that we are building on things that work. We know, for example, the MSP program has worked, and it has worked well, with its 60 vessels.

Going beyond that to both vessels and crews that would provide additional capacity is something that we believe we can use this \$25 million usefully for. And we look forward to input from industry, our partners at DOD, and others to determine the best ways to use it. It is a way to pivot toward the future and start getting directly to some of the skilled trades and other needs.

Mr. GARAMENDI. Mr. Porcari, do you have a specific plan of action for the use of the \$25 million? You have mentioned several different ways it could be spent. Is there a specific program that you can give to us that you are going to—how you are going to spend that money?

Mr. PORCARI. These are potential options right now, the once that I mentioned. We do not want to move forward without specific input from industry from—

Mr. GARAMENDI. So the correct answer is "no."

Mr. PORCARI. The correct answer is "no."

Mr. GARAMENDI. Thank you.

It just seems to me, somewhere the administration has found 25 million extra dollars to backfill and to handle a problem that it is creating by changing the P.L. 480 program.

Wouldn't it be better to put that \$25 million directly into the P.L. 480 program, provide the additional support around the world for food and emergency relief, rather than to create what amounts to a welfare program for unemployed mariners and ships that are not being used?

Mr. PORCARI. The long-term prospects for food aid, because they are uncertain as a useful tool for the maritime industry, using the \$25 million and targeting what we know are needed skills and needed vessels, we believe, is a good option.

Mr. GARAMENDI. Well, I disagree. I will let it go at that and just say I strongly disagree, and I will do everything I can to see that

the \$25 million goes into providing food aid directly rather than in trying to find some way to educate, reeducate mariners that are not able to work because you have taken the program away from them and the farmers. And you have also created a very serious political problem, in that the support base for the Food for Peace is going to be significantly eroded.

Now, there are a bunch of other questions. I have occupied more than 5 minutes, but I like the way my clock runs, because it doesn't. But I think I had best let it go at that, Mr. Chairman, and come back with another round later.

Mr. HUNTER. I thank the ranking member.

Mr. Coble is recognized.

Mr. COBLE. Thank you, Mr. Chairman.

Good to have you gentlemen with us this morning.

Mr. Porcari, as you know, the Jones Act requires merchandise and passengers moving between two points in the U.S. to be carried only on U.S.-flagged, U.S.-crewed, U.S.-owned, and U.S.-built vessels.

The Coast Guard and Maritime Transportation Act of 2012 included language to improve the level of disclosure and accountability in the Jones Act waiver process. What steps has the administration taken to implement the requirements of the 2012 act?

Mr. PORCARI. We have, first of all, worked very closely with our partners at DHS and other agencies in the Jones Act waiver evaluation process.

I would point out that in previous opportunities with the Strategic Petroleum Reserve, a blanket waiver had always been issued. We took the unprecedented step of not issuing a Jones Act waiver with the last SPR release, with the idea that we could maximize the use of Jones Act vessels wherever possible.

That is something we take very seriously. We are obviously complying with the requirements that were put in place in 2012. We think, beyond that, doing work upfront, for example, with the Department of Energy, on sizing of vessels, the timing of any SPR release, just as one example, is very helpful in maximizing the ability of Jones Act vessels to compete.

We have recently during Hurricane Sandy issued, for the first time, because it was a true emergency, a limited blanket waiver of limited duration. And it was from point to point, so instead of a blanket waiver that would allow widespread use of non-Jones Act vessels, it was very much targeted for a short-term issue until the refineries, the pipelines, and the distribution system were back up and running in New York.

We think that kind of very specific, targeted use of the waiver process as a last resort where we have to is the way to go. We will work very closely on the notification process, as required.

Mr. COBLE. I thank you for that.

General, if there is a significant reduction in the number of trained American mariners and military-capable U.S.-flag commercial vessels, how would that impact the ability of TRANSCOM to successfully conduct its mission?

General FRASER. Well, thank you very much.

As I look at this particular PB that is put forward, P.L. 480 will not have a significant impact on our ability to reach into the merchant mariner fleet to satisfy our requirements.

As I take a look, though, at the trend that we have discussed here previously, I think that is something that we need to continue to work with the Maritime Administration to ensure that our requirements are met in the future.

We completed a Mobility Capabilities Requirements Study, which defines the amount of square footage that we need in order to meet our military requirements. Right now that is slightly in excess of 19 million square feet. We have those ships identified that meet that requirement, as well as the pool of merchant mariners that would help us fulfill the requirements to meet our military needs.

So we would continue to work with the Maritime Administration if further reductions were to take place.

Mr. COBLE. Thank you, gentlemen. Good to have you both with us.

Mr. Chairman, I yield back.

Mr. HUNTER. I thank the gentleman.

Ms. Hahn is recognized.

Ms. HAHN. Thank you, Mr. Chairman.

And I want to say that it certainly is timely that we are holding this hearing on the role of U.S. ships and mariners today, as tomorrow is National Maritime Day in this country. And until I came to Congress, I attended every single year a wonderful ceremony that we have in San Pedro, where we actually have a memorial to merchant mariners, and we honor them every year, a group of men and a few women.

More merchant mariners were lost in our wars than any other branch of the military. Our merchant mariners, by the way, still don't receive the benefits that they deserve, and I plan on reintroducing legislation that will maybe compel this Congress to pay the survivors the benefits that they deserve. This is a branch of our military that really, many times, goes unrecognized and unhonored as they should, so it really troubles me.

And I would like to associate my remarks with my friend and colleague from California, Ranking Member Garamendi, who says, as I do, that we completely disagree with the administration's attempt to restructure the Food for Peace program. It will reduce the amount of U.S.-flag vessels participating in this program.

In an industry that employs more than 260,000 American workers and contributes \$29 billion to our economy in their annual wages, I have serious concerns with what this could mean for our maritime workers. That is why I signed a letter, led by my friend, Congressman Cummings, opposing any changes that would ultimately lead to job losses in the American shipping industry.

While you two sit here today and talk about the \$25 million that will be used to reimburse the U.S.-flag vessel operators for this program, many of our merchant mariners and our maritime friends were walking the halls of Congress last month, going from office to office expressing their very deep concern of what this is going to do to this industry, to their lives, preserving the ships, preserving these kinds of skills.

So I still can't figure out—maybe, Mr. Porcari, you can address this—why the administration is pursuing a policy that will devastate the U.S. shipping industry and put American jobs at risk.

And is there a way that we could work with you to ensure your concerns—which I am not really clear on what the concerns are—without making these kinds of changes that will harm good American jobs?

I am kind of with John Garamendi. Why don't we take this \$25 million, put it toward the program and strengthen it?

Mr. PORCARI. Well, first, we are happy to work with you on this proposal.

For the Maritime Administration and the Department of Transportation, we see an essential element that we have to preserve. I mentioned earlier that the Maritime Security Program is successful by any standards.

It is important to point out that, in the current fiscal year, between the continuing resolution and then the sequester following it, for the first time we have been unable to honor our current commitments to the 60 vessels in the program.

And I know your question is related to food aid. I do want to point out that it is imperative that we have a program that we know works, that is preserving the jobs, that is preserving the capacity for urgent national needs in times of the emergency. And we want to make sure that we are continuing to fully fund it. The President has proposed that for fiscal year 2014.

On the food aid proposal, the administration proposal is aimed at being more effective and efficient in actually delivering food to needed recipients and minimizing the distortion on the local markets at the same time. We, in interagency discussions, have really focused on the ability to do that and make sure that we are not impacting the merchant marine industry.

And it has also provided us an opportunity to continue to outline how critical this capacity is for the Nation, from a jobs perspective, from a national defense perspective, and for responding to natural disasters.

Ms. HAHN. I know my time is up, and I will have more questions maybe on the next round. But, again, it seems like this is counterintuitive to the program that exists now. It is a successful program. It creates good American jobs. There is an apprenticeship program built into it.

It is also, you know, something we are proud of in this country. We love this Food for Peace program. This is our ships, our Americans. We are doing, you know, what America is known for. And it feels good that we are using ships and American crews to do something peaceful and something good instead of just always employing them in times of war.

So this is a program that I think the American people support, and I agree that it is a bad idea to get rid of it.

Thank you.

Mr. HUNTER. I thank the gentlelady. And we will have a second round.

Ms. HAHN. OK, good.

Mr. HUNTER. Mr. Rice is recognized.

Oh, he is not—I would like to add then, it almost seems—the upsetting part isn't that the Food for Peace program was canceled, but it almost seems like it was flippantly cancelled. Because you have an ongoing study on—or you haven't done a study yet on exactly how you are going to use the \$25 million in the MSP, but you are going to use it there somehow. DOD has an ongoing study. And you are able to say that right now there is not going to be any impact to be able to crew ships, but you can't tell me in 10 years what the impact is going to be. You haven't done a study on that; you don't know.

So it seems like Congress and different administrations sometimes have a very shortsighted view on things like national security, where it looks good right now and we realize in 5 years that it was a horrible mistake and it is going to cost us 20 times as much to recapitalize the fleet and to get more mariners so we can crew these ships.

So I would say that, at the very least, this was done flippantly without regard to knowing exactly how many people you need to have going into the future. This committee is not going to make the mistake of being shortsighted.

Mr. Cummings is recognized.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

It is good to see both of you here, and thank you for being here.

Secretary Porcari, MarAd has informed U.S. vessels that, due to sequestration, it will not be able to pay the full monthly MSP stipend in August 2013, which is, of course, right around the corner, and it will not pay any stipend in September 2013.

What will be the effect of these reduced or missed payments on the vessels participating in the MSP program?

Mr. PORCARI. Mr. Cummings, thank you for the question.

This is first time that we have not been able to honor the Maritime Security Program commitments. As you point out, the cumulative effects of first being funded through a continuing resolution, which kept the dollar number at \$174 million rather than \$186 million, and then taking an additional \$19.1 million out through sequester has had a very direct impact in the middle of a fiscal year.

In discussions with leadership of the companies that participate in MSP, we know it is going to have a very dramatic impact. We feel strongly that we owe consistency and predictability to the industry so that they can make investment decisions and they can grow. This directly cuts against that consistency and predictability.

We know it will have a negative impact. We will do everything we can to minimize it.

Mr. CUMMINGS. Well, if sequestration continues and the MSP program continues to be reduced, do you believe this may cause vessels to leave the program?

Mr. PORCARI. It certainly could happen.

It is important to point out that the President is requesting full funding of the MSP program for fiscal year 2014 in his budget. We believe very strongly that that for fiscal year 2014 and beyond is needed to stabilize the program.

Again, this is a program that we know works for the Nation's needs and is a very cost-effective investment for times of emergency.

Mr. CUMMINGS. Now, according to the talking points prepared by DOD, and I quote, "Military cargoes represent the preponderance of U.S. Government-impelled cargoes," end of quote.

Assuming you agree that this is the case, what is the impact of the drawdown from Iraq and now Afghanistan on the U.S.-flag fleet?

Mr. PORCARI. The drawdown in Iraq and now Afghanistan clearly has a negative impact on U.S.-flag fleet. Military cargoes, as you point out, are one of the most important parts of the cargo base that the U.S.-flag fleet relies on. This is happening at the same time that the MSP program is not fully funded. It is happening at the same time as other impacts on the industry.

We know that this argues for a strong maritime strategy across the board that fully utilizes all U.S. cargoes. We have been working with the Export-Import Bank, for example, to make sure that we are capturing cargo opportunities that we haven't before. We have been working directly with the Department of Energy to make sure that, where they have cargoes for wind energy projects and other things, that we are capturing cargoes wherever possible.

In sum, we know that the U.S.-flag fleet needs a stable base to grow on. We think the energy sector and others will be part of that base in the future, but we need to get there, we need to transition to that.

Mr. CUMMINGS. Uh-huh.

Let me ask you, General Fraser, how important is the maintenance of a viable U.S. merchant marine to our military?

General FRASER. Sir, the maintenance of merchant mariners is critical to our ability to meet the requirements that we have laid out in the Mobility Capabilities Requirements Study, as they would man those ships for us in a time of emergency response.

Mr. CUMMINGS. Let me ask you, finally, Secretary Porcari, MarAd is granted sole authority by section 3511 of the Duncan Hunter National Defense Authorization Act for Fiscal Year 2009 to ensure that shippers are complying with our cargo preference laws. Those who do not comply with these laws can face civil penalties for each day they remain in violation.

How many potential violations of cargo preference laws has MarAd investigated in the last year? And has any entity ever faced a civil penalty for violating the cargo preference laws?

Mr. PORCARI. Mr. Cummings, I am not sure if any shipper has faced penalties for that. I will check and respond for the record.

[Please see Mr. Porcari's response to Hon. Hunter's first question for the record on page 42 and Hon. Garamendi's first question for the record on page 43.]

Mr. PORCARI. I do know that we have a much higher level of engagement within the Department of Defense on this, with the idea of, before a violation would happen and before cargo transportation selections are made, engaging the appropriate people and making sure that both the letter and the spirit of the law is being followed. You can expect that we will be even more aggressive about that in the future.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Mr. HUNTER. I thank the gentlemen.

Mr. Rice is recognized.

Mr. RICE. Thank you, gentlemen, for being here.

And I am certainly no expert in maritime affairs; I am a tax lawyer. I am very concerned about U.S. competitiveness and United States jobs.

And I sit here and look at these statistics that were provided by the committee, and it says there are 93 currently employed ships, currently employed in international commerce, moving goods between U.S. and foreign ports. Over the last 35 years, the number of U.S.-flag vessels sailing in international trade has dropped from 850 to 93, I guess. The percentage of international commercial cargoes carried on the U.S.-flag vessels has fallen from 25 percent in 1955 to approximately 2 percent today.

Obviously, we are not doing something right. Do you guys have any suggestions for how we can make our American commercial fleet more competitive in the world?

Mr. PORCARI. If I may, sir, just to start, yes, we believe that, first of all, the Government-impelled cargoes that are currently carried by the U.S.-flag fleet form the foundation of the viability of the fleet.

And I would point out that the vast majority of nations that are engaged substantially in maritime trade do some version of the same thing, that some Jones Act-like provisions provide a base capacity for many of those nations.

We know that in the future the cargo mix is likely to be different, the types of vessels are likely to be a different mix. And, as I previously mentioned, focusing, among other things, on energy transport, given the rising domestic energy production, we think has real prospects for the Jones Act trade, both coastwise and inland. That is certainly a growth opportunity and one that we are going to work very hard to exploit.

Mr. RICE. This also says, since 1983 the U.S. has lost approximately 300 shipyards. Seems like the Jones Act is—it seems like we are backing up. I mean, clearly, this is not working. What can we do? How can we make ourselves more competitive?

I mean, I think what you just said is that the business provided by the Government provides a base for these 93 remaining vessels. If the Government wasn't providing them this business, would we be down to zero?

Mr. PORCARI. If we weren't down to zero, it would certainly be a substantial reduction. But that is one of the reasons we believe so strongly in cargo preference and the Jones Act.

Mr. RICE. Why are we not competitive today? What is it about our American fleet that makes it where we can't compete with the rest of the world and we are only carrying 2 percent of commercial cargo? How can we fix it?

Mr. PORCARI. Well, the U.S.-flag fleet, I would point out, follows safety standards that not everyone else in the world does. In terms of maritime worker training, we generally do more than others. There are other nations that subsidize, either directly or indirectly, use of maritime vessels. And those are, in that sense, competitive disadvantages.

That is why it is important to make sure, whether we are talking about the maritime crews, the ships, the shipyards, or all of the associated parts of the industry that are all vital, that we have to make sure that we are keeping a base of industry and U.S. crews that can serve the Nation in the future.

Mr. RICE. I guess, you know, the definition of “insanity” is to keep doing the same thing and expect a different outcome. We have lost almost 90 percent of our fleet in the last 35 years. I think we need to rethink our policies and do what we can to make our—I don’t know why in the world—America can compete in anything. We are the greatest Nation on Earth. And to sit here and watch our industry die makes absolutely no sense to me.

We need to start from the ground up, and we need to come up with policies where our mariners can compete.

Thank you very much for being here.

Mr. HUNTER. I thank the gentleman.

We are going to start one more round of questions. And we will try to do it quickly because we have a second panel we would like to get to, as well.

General Fraser, I have some stuff in front of me. Let me see if I can phrase this right, too. I have different quotes from different people.

General McNabb testified before Congress about the critical role cargo preference laws have in ensuring TRANSCOM has a domestic sealift capacity to successfully conduct its mission. He says, “While cargo preference laws and national defense sealift policies ensure the viability of a U.S.-flag commercial fleet”—and he also wrote a letter to Congressman LaTourette in 2011. And he says—this is from your predecessor—“The movement of U.S. international food aid has been a major contributor to the cargo we have moved under the cargo preference law that our U.S. commercial sealift industry depends on. Any reductions will have to be offset in other ways to maintain current DOD sealift readiness.”

There is no plan yet for the \$25 million in offset. So have things changed so that it is no longer needed and his concerns are no longer valid?

General FRASER. Sir, merchant mariners continue to be critical to our ability to meet our requirements.

And as we look at the size, if I might, based on the size of the merchant mariner pool that we have to pull from and the requirements as laid out in our requirements study, we have sufficient mariners to meet those requirements should we have to generate the surge fleet and the Ready Reserve Force.

As we continue to move forward and if there are other changes, we will continue to work very closely with MarAd to ensure that that requirement is not only understood but we are able to meet that requirement moving into the future and not increasing risk to our readiness.

Mr. HUNTER. General, let me ask you this. If you know that right now you meet the requirement, how much in excess over the requirement are we right now? So if you know what the requirement is and you know what that number is, then you should know the number of people that we are in excess of the requirement.

General FRASER. Based on the numbers that I have, the merchant mariner pool right now is slightly in excess of 15,000 mariners, of which at any time there are approximately 7,000 or so that are at sea doing their job. The others are maintaining certification, getting ready to go, doing these types of things.

So that, then, leaves a pool of which we need approximately 3,000 mariners to man our surge and Ready Reserve Fleet. So we would draw from that remaining pool of merchant mariners that are current, qualified, certified, licensed to fulfill that requirement.

Mr. HUNTER. So, out of those 15,000 then, as you say, 7,000 are active doing stuff, being mariners, the other 7,000 are not at any given time. And out of that 7,000 that are active, you pull 3,000?

General FRASER. The others are getting ready to go, maintaining their certifications, doing these types of things. They are part of the pool. We would pull from the pool. We would turn to MarAd, who would then reach out to industry based on the capabilities that we would need to man the ships, depending upon the types of ships that we were getting underway. They would then put this team, this crew together and then be ready to sail in minimum time.

Mr. HUNTER. So, as the cargo preference laws change, if they do, and the Food for Peace program gets slashed, what do those numbers go to? What is your estimate? You go from 15,000 to 10,000, 8,000? As those U.S.-flag vessels go foreign-flag, how many mariners do we lose?

Mr. PORCARI. I am—

Mr. HUNTER. I am sure the administration wouldn't cut the program without knowing how many mariners we would lose out of that pool.

Mr. PORCARI. Mr. Chairman, I don't have that number. I will be happy to provide the committee with what information we do have.

Mr. HUNTER. All right. I thank the gentleman.

Ms. Hahn, do you have more questions?

Ms. HAHN. Yes.

Mr. HUNTER. Ms. Hahn is recognized.

Ms. HAHN. I just want to say on this, about building more ships, more American-flag ships in this country, shipbuilding is such, again, another overlooked industry that can add to the economy. These are great jobs when we build ships. You know, these are, like, our machinists, our electricians, our metalworkers. I mean, these are great jobs and skills that we are losing in this country.

One of the areas that we are not involved in is the cruise industry. And according to a 2011 statistical snapshot taken last year by MarAd, the American cruise industry had a record year, with 71.8 million passengers. In fact, the North American cruise industry has been one of the bright spots in the shipping industry. It has consistently done well year after year, even as we remain in an otherwise sluggish economy.

However, except for a few small coastwise vessels and riverboats, nearly all of the 200 oceangoing cruise ships in the North American market are foreign-flag ships. This discrepancy is also evident in our cargo fleet, where only 2 percent of the international commercial cargo is carried by U.S.-flag vessels, down from 25 percent 60 years ago.

I represent the Port of Los Angeles, and I am supporting all ships that call on American ports and serve American passengers. I do wish we could focus more on how we could build more U.S.-flag ships for our cruise industries.

Why aren't we creating more U.S.-flag ships in this country? And what can we do to ensure that more of these ships are built and operated, owned and operated here? And is MarAd's policy to refrain from financing new cruise ships one of the major hurdles preventing U.S.-flag cruise fleets?

Mr. PORCARI. Well, first, if I may, the cruise ship industry, with its dramatic growth to and from U.S. ports, does present a potential opportunity, and we recognize that. And, further, with only one exception that I am aware of, they are not American-flag vessels.

It is an industry that we would like very much to encourage. There may well be opportunities in the future to do that. I am aware of only one potential proposal for a Title XI loan guarantee for a cruise vessel that in this administration never got beyond the discussion stage.

The speculative nature and financial viability of some of those vessels and companies is an open question. We have a fiduciary responsibility, as you know, in the Title XI program to make sure that the loan guarantees are being used for projects and employing people at shipyards with a very high degree of likelihood of success. And that is the tact we have taken.

I would put the cruise ship business on the opportunity list, along with some others that I have mentioned, again, including energy.

Ms. HAHN. So you are saying here today that you are not going to have a policy to refrain from financing new opportunities for cruise ships?

Mr. PORCARI. Current policy is not to finance cruise ships through the Title XI program. There have not—I have not seen or am not aware of any proposals that would drive us to change that policy, because—

Ms. HAHN. Well, there are probably not any proposals, because the policy exists.

Mr. PORCARI. Well, we actually have had at least one proposal that I am aware of, but again the financial viability of which was shaky at best.

Ms. HAHN. Well, I really think this is an opportunity and I would hope that MarAd would consider lifting this policy and looking to possibly finance. This is a huge opportunity. I mean, the fact that we have no U.S.-flag cruise ships, and as we have seen recently, there have been some major disasters at sea, it seems there is an opportunity to build a better cruise ship, one that is safer and more efficient.

We also have a problem, I know in Los Angeles, of detaining foreign crews from disembarking from the cruise ships in port because of the potential opportunity for folks who want to flee and come to this country. So there are problems that I think we could address with building U.S.-flag cruise ships.

Mr. PORCARI. If there is a—

Ms. HAHN. I mean, even Disney. I couldn't believe the Disney ship was not, I mean, U.S.-flag. That just hurt.

Mr. PORCARI. Well, first, I think U.S. industry and U.S. labor would certainly point out that a U.S. built and maintained and a U.S. Coast Guard certified cruise ship fleet is a safer, better alternative and more reliable.

What I will tell you is if we have a viable proposal on a cruise ship, we will certainly entertain that.

Ms. HAHN. OK. Thank you.

Mr. HUNTER. Mr. Rice is recognized.

Mr. RICE. Thank you, Mr. Chairman. You know, sitting here and listening and looking at these statistics, I don't think I have ever seen a more clear example of a failure of a protectionist policy, and I really don't want to sit here and continue what we are doing and watch our maritime industry disappear. So I would ask the chairman if we could convene another hearing with some maritime commercial shippers and ask them their opinion about what we can do differently to try to make our ship building business more competitive.

Mr. HUNTER. The gentleman is in luck. That is the next panel.

Mr. RICE. Great.

Mr. HUNTER. Yeah. In about 5 minutes. Does the gentleman yield back his time?

Mr. RICE. I do.

Mr. HUNTER. I would like to recognize the ranking member for one last question.

Mr. GARAMENDI. Thank you. I am really concerned here. The talk is good, that is, the direction that you want to go is good, but the programs and policies are going the opposite direction. General Fraser, in your testimony you talked about the need to recapitalize, yet money for recapitalization is not available. We talk about the need for encouraging the use of American shipping, and yet the administration calls for repeal of Public Law 480 that goes exactly the opposite direction. We have Title XI out there that is supposed to be used, but yet very little has been done in new programs, takes forever to get a loan approved, if at all. We just heard in response to Ms. Hahn's question that, no, we are not going to do the commercial—the tourist ships.

So it goes on and on, but there isn't an overall strategy and an implementation of a strategy. The pieces of the puzzle are disjointed and in some cases are taken off the board. So I think we really need to settle on do we want, do we need, must we have a domestic merchant marine available for national security purposes, General Fraser? If so, then what are we going to do to make that happen? How are we going to recapitalize? Where is the money going to come from? Do we want a commercial merchant marine for any number of reasons, for jobs, for enhancing the American economy? Do we want a ship building industry in the United States?

If the answer to these questions is yes, then we need to have a coherent national policy and the money to support it. We have seen five fiscal crises in the last 2 years. Each one has diminished the money available for Federal programs, including programs that are being discussed today.

So I would like to work with the administration, the Department of Transportation and, General Fraser, in your programs in developing a coherent national strategy that fully employs the commer-

cial marine base and meets the needs of national security. I don't think it exists today. I think it is incoherent, I think it is incomplete, and in many ways one hand is harming the other, so one program is harming the other program.

With that said, I am going to yield back my time. I want to thank the gentlemen for participating. Mr. Porcari and General Fraser, thank you very much for your testimony. I know that I, and I am sure the chairman, look forward to working with you on developing a coherent program, one in which every element necessary for national defense and for economic growth in this Nation is in place, vibrant and healthy.

I yield back.

Mr. HUNTER. Thank the ranking member.

Mr. Porcari, for the record, could you get back to us, too, on when the shipyard economic benefit study is due to be released, too?

Mr. PORCARI. I will be happy to. I know it is imminent. I will get you an exact date.

Mr. HUNTER. Thank you, gentlemen, for your time. If there are no further questions, so we will call the second panel of witnesses. Thank you.

Mr. PORCARI. Thank you.

Mr. HUNTER. All right. We will convene now. Is everybody ready? Thank you for being here. Our second panel of witnesses include Mr. Fred Harris, president of General Dynamics NASSCO, appearing today on behalf of the Shipbuilders Council of America; Mr. Joseph Pyne, chairman and CEO of Kirby Corporation, appearing today on behalf of the American Maritime Partnership; Mr. Mike Jewell, president of the Marine Engineers' Beneficial Association; and Mr. Augi Tellez, executive vice president of the Seafarers International Union.

And we will start with Mr. Harris. You are now recognized.

TESTIMONY OF FRED HARRIS, PRESIDENT, GENERAL DYNAMICS NASSCO, ON BEHALF OF SHIPBUILDERS COUNCIL OF AMERICA; JOSEPH H. PYNE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, KIRBY CORPORATION, ON BEHALF OF AMERICAN MARITIME PARTNERSHIP; MIKE JEWELL, PRESIDENT, MARINE ENGINEERS' BENEFICIAL ASSOCIATION; AND AUGUSTIN TELLEZ, EXECUTIVE VICE PRESIDENT, SEAFARERS INTERNATIONAL UNION

Mr. HARRIS. Chairman Hunter, Ranking Member Garamendi and members of the subcommittee, I am Fred Harris, president of General Dynamics NASSCO. We build U.S. Navy ships and large oceangoing commercial ships in San Diego. We repair and maintain Navy ships in San Diego, Norfolk, and Mayport. I am vice chair of the Shipbuilders Council of America, which represents shipyards and partners that supply and support U.S. vessel construction and repair.

It is a pleasure to testify regarding the industry and the important Federal policies, including the Jones Act and the Title XI loan guarantee program. Our Navy and Coast Guard are without equal and their strategic importance is unquestionable; however, our commercial maritime industry is often overlooked as a vital element of our Nation's maritime strength. It ensures skilled mariners

and ships are available in time of war or emergency to transport material by sea. From 2002 to 2008, U.S.-flag vessels carried 97 percent of sealift material to Iraq and Afghanistan. A significant portion of that material was transported by way of activating the ready reserve fleet.

The Jones Act is critical to our Nation's maritime strength. The act requires that cargo transported between U.S. ports be moved on U.S.-built, U.S.-flagged, and U.S.-crewed and -owned ships. It ensures that experienced U.S. mariners are available to crew ships in times of crisis or conflict, enabling the timely movement of supplies. Maintaining the Jones Act is vital to ensure America preserves its commercial shipbuilding industry and thus its naval shipbuilding industry and capability.

A number of U.S. shipbuilders are internationally competitive in the offshore support vessel marketplace and others are becoming world leaders in propulsion LNG technologies.

The Jones Act dry cargo fleet needs to be recapitalized. Also, projected demand is high for new crude and product carriers. The Jones Act ensures this work will be performed in the U.S., helping maintain our workforce of skilled engineers and trades people. In addition, it ensures development of innovative technologies and best practices that benefit both commercial and military shipbuilding.

General Dynamics NASSCO has proven we can dramatically lower the cost and reduce the time it takes to build high-quality naval vessels while also constructing Jones Act ships. Today we are achieving major efficiency gains and setting new standards constructing the mobile landing platform ships for the Navy. We recently signed a two-ship contract with TOTE, a forward-looking Jones Act owner, to construct the world's largest LNG-powered container ships, which will be dramatically more fuel efficient and exceed all emission requirements. Building those and other commercial ships will reduce the costs of U.S. Government shipbuilding.

Revitalizing the Maritime Administration's Title XI loan guarantee program is essential to modernizing the Jones Act fleet and sustaining the shipbuilding industry in the U.S. Title XI provides Government guarantees on private sector loans for commercial shipowners constructing new ships and offers better terms and low-interest rates, leveraging an average of \$11 of private investment for every \$1 of Federal guaranteed funds.

The program has provided strong support for the industry; however, the Title XI program must receive adequate congressional support to be beneficial to the commercial shipbuilding industry. First and foremost is sustained, dependable funding. No funds were appropriated to support this program in fiscal year 2013 and none are proposed in PB 2014. We are grateful for continued efforts in Congress to provide Title XI funding, including the efforts of Chairman Hunter and other Members.

Second, the loan guarantee process requires significant reform to restore the program's effectiveness as a timely aid to ship construction financing.

The shipbuilding subcommittee of the DOT Maritime Transportation System National Advisory Council has made thoughtful rec-

ommendations regarding needed reform, the details of which are in my written testimony.

Thank you again for the opportunity to address the committee. I look forward to your questions.

Mr. HUNTER. Thank you, Mr. Harris.

Mr. Pyne, you are now recognized.

Mr. PYNE. Thank you, Mr. Chairman. Chairman Hunter, Ranking Member Garamendi, committee members, good morning. My name is Joe Pyne. I am the chairman and CEO of the Kirby Corporation. Kirby is the Nation's largest maritime company. Kirby is a publicly traded New York Stock Exchange company with a market cap of about \$4.6 billion. We employ over 4,600 people, some 2,500 of them are Jones Act mariners, and we operate a fleet of over 1,300 Jones Act vessels.

I am here today on behalf of the American Maritime Partnership, AMP. AMP is the coalition that represents the U.S. domestic maritime industry.

The Jones Act not only helps ensure national security, but it also provides good paying jobs with good benefits for workers in America. The domestic maritime industry sustains approximately a half a million jobs. Our industry takes care of its people. At Kirby, entry-level vessel jobs pay an average of \$45,000 a year. With some hard work and training, which we provide at our training center, a high school graduate working for Kirby can earn over \$130,000 a year after a few years on one of our boats.

Many segments of the fleet are growing and recapitalizing. For example, my company, Kirby, has invested over \$2.1 billion in Jones Act assets in the last 5 years. TOTE, a west coast company, is building a new state-of-the-art LNG-powered ship for the Puerto Rican trade. Hornbeck Offshore is building a new generation of offshore supply vessels that will work in both domestic and international trades, demonstrating that American vessels can compete in world markets. And Crowley Marine has recently invested about a half a billion dollars in two new tankers and two large articulated tug barge units, each with a capacity of 330,000 barrels.

Year in and year out, the domestic fleet serves the needs of America. Nobody talks about waiving the Jones Act when the market for our services is soft. When the markets are tight and owners need to add capacity, even discussing waivers or changes to the Jones Act makes matters worse. It sends a chilling message to operators who need to build new vessels to support shippers' needs. It causes shippers to be less committed to supporting new Jones Act vessels to support their requirements.

The Jones Act is a key part of our national defense. The vessels themselves, the people who man them, the shipyards who build them each play a critical role. The Jones Act supports homeland security also. Our mariners are the eyes and ears of homeland security on the water. They safely and securely transport hazardous cargoes through many parts of our Nation and through populated areas. We do not want to turn these cargoes over to foreign workers on foreign vessels.

The Jones Act sustains American jobs, plays a vital role in national defense and helps protect the homeland. How can Congress support this? I suggest the best form of support is to maintain the

certainty that has been expressed by generations of American leaders that our domestic merchant marine is not for sale and the Jones Act will remain the law of the land.

Our industry is making a huge commitment to serve the future transportation needs of this Nation. Vessels are 30- to 40-year lived assets. In order to make these long-term investments, we need confidence that the Jones Act is secure.

On behalf of AMP, thank you for your support of the Jones Act and all that it represents for America. And thank you for the opportunity to be here today.

Mr. HUNTER. Thank you, Mr. Pyne.

Mr. Jewell, you are recognized for 5 minutes.

Mr. JEWELL. Chairman Hunter, Ranking Member Garamendi and members of the subcommittee, I am pleased to have the opportunity to appear before you on behalf of the American Maritime Officers, Master Mates and Pilots, and my union, the Marine Engineers' Beneficial Association.

History has repeatedly proven and policymakers have recognized that it is in the best interest of the United States to maintain and support a strong U.S. merchant marine. As stated in the Merchant Marine Act of 1936, it is necessary for the national defense and development of its foreign and domestic commerce that the United States shall have a merchant marine sufficient to carry its domestic waterborne commerce and a substantial portion of the waterborne export and import foreign commerce.

Today U.S.-flag commercial vessels and our American merchant mariners are responsible for transporting only 2 percent of our country's foreign commerce. Mr. Chairman, that is hardly a substantial portion.

We believe the best way to achieve the goals of the 1936 act is for Congress and the administration to fund and protect existing programs and promote forward-thinking policies that encourage new tonnage to operate under the U.S. flag.

Other nations around the world are now recognizing the value of their merchant fleets. Just yesterday it was reported that the Chinese are increasing the support to their maritime industry, implementing subsidies, encouraging long-term supply chain contracts and strengthening their influence within the marketplace.

The Maritime Security Program and U.S. cargo preference statutes are among the cornerstones of American merchant policy. In May of 2011, General Duncan McNabb, Commander of USTRANSCOM, stated, to date over 90 percent of all cargo to Afghanistan and Iraq is moved by the U.S.-flag vessels. He went on to note that the U.S. cargo preference laws have helped to ensure the continued viability of both the U.S. fleet and the pool of citizen mariners who man these vessels.

Sequestration is having a major impact upon the Maritime Security Program, because in August, the MSP funding runs out. This coupled with the fact that the U.S. military cargo preference cargoes continue to decline and the administration's budget proposal on the Food for Peace program has left our deep sea carriers in doubt if they can continue to fly the American flag.

We are deeply troubled by the administration's recent proposal to begin replacing the existing Food for Peace program with a pro-

gram that simply provides U.S. taxpayers' dollars to other nations to purchase foreign agricultural commodities and use foreign shipping services. Americans should be proud that the Food for Peace program not only demonstrates the generosity of the American people to help the world's most needy people, but also results in significant economic and strategic benefits for our country.

As Congress considers a broad overhaul of the U.S. tax policies, the competitiveness of the U.S. merchant fleet and U.S. mariners should be top priority. To this end, we believe changes should be made in our tax laws that can foster the growth of the United States maritime industry and equal the playing field for the U.S.-flag merchant marine as we compete internationally.

We would note that we greatly appreciate the support of the members of this subcommittee for the enactment of the 2004 tonnage tax legislation for U.S.-flag vessels.

Congress should enact policies to promote a vibrant short sea shipping industry. We ask the committee, through its formation of the Panel on 21st-Century Freight Transportation, to include maritime and short sea shipping as a top priority.

The export of liquefied natural gas and the growth of the cruise ship industry represent a very large and potentially booming industry for the U.S. merchant marine. Our unions supply LNG deck and engineering officers to crew and operate LNG ships. U.S. merchant marine officers are now working aboard LNG carriers operating in the international fleet. We ask the committee to encourage the employment of the U.S. merchant mariners aboard these vessels participating in the export of natural gas.

With regard to the cruise industry, 10 million passengers boarded cruise ships in the United States in 2012, yet U.S. mariners are notably absent aboard these cruise ships internationally. We ask Congress and the administration to encourage the employment of the U.S. merchant marine aboard these cruise vessels.

President Ronald Reagan once said that the maritime industry is a key contributor to our economic strength and security of our Nation when the Nation was founded. Its continued growth and prosperity is necessary to the overall growth of the economics in America, and we agree.

We look forward to working with you, Mr. Chairman, and your subcommittee in order to promote and expand the U.S. merchant marine.

Mr. HUNTER. Perfectly timed, by the way, Mr. Jewell. Thank you.

Mr. Tellez, you are recognized.

Mr. TELLEZ. Good morning. Thank you, Mr. Chairman, Ranking Member Garamendi, members of the committee. A special good morning to our friend, Lucinda. My name is Augi Tellez. I am the executive vice president of the Seafarers International Union, and I bring you greetings and salutations from my boss, Michael Sacco, president of the Seafarers International Union.

Thank you for holding this hearing. And a special thank you to Chairman Hunter for his excellent op-ed in the Washington Times earlier this month. I would also ask that my written testimony be added to the record.

Listening to the previous speakers, I am going to go off script and beg your indulgence while I do a little soapbox here.

My colleagues and I, the union officials in this room and throughout the country, are proud to represent thousands of patriotic Americans, men and women who ply their trades every day, along with others who are not represented by us, but they all do the same thing. They ply their trades on the rivers, lakes, domestic waters and international waters under conditions, whatever conditions nature or our enemies decide to throw at us. We do so every day with little or no fanfare unless we are attacked by pirates and Tom Hanks decides to make a movie about us.

We have been a critical component of our country's economic and national security from the founding days of the republic. We are a critical part of every armed conflict, from the Revolution to today's conflict in Iraq and Afghanistan, as mentioned before, carrying over 95 percent of all seaborne cargoes going into the theater.

We have rebuilt and fed the world since General Marshall had a plan, including the most recent disasters in—the tsunami and in Haiti, and we continue to feed the world under the current Public Law 480 cargoes program.

We are always there when the balloon goes up and we hope to be there whenever the balloon goes up, but in order to do that we need to have a strong foundation of a vibrant and viable commercial fleet. And unfortunately in this world, in order to maintain that, it has to be a public-private partnership.

The other speakers have mentioned the components of that three-legged stool, number one being the Jones Act. I won't expound on the Jones Act, because Mr. Pyne has done an admirable job both in his oral and his written testimony. I will add one thing, and it is a hot-off-the-press study indicating, contrary to assertions by folks that the Jones Act is responsible for a rise in gas price, the percentage of gasoline that is carried and impacted by the Jones Act turns out to be 6.7 percent of the gasoline in this country. The major impact happens to be the Tampa area, and the impact on price there is .015 cents. So for those who get up and bemoan the Jones Act and its impact on gasoline prices, they are just way off base.

MSP. MSP is critical to the efforts by TRANSCOM to support our troops. It ensures that 60 vessels, modern vessels, are there carrying that cargo. One of the objectives that is sometimes forgotten in the MSP program was to recapitalize our international fleet. So even though it is less than 100, the 60 ships in the MSP program, because of the way the program was set up, are new ships. Currently as we are speaking, I believe Mike can correct me if I am wrong, Maersk, Inc., has just replaced and recapitalized two of their vessels, if not three, with new vessels coming in as part—the beginning of their recapitalization program.

Public Law 480. You notice that when unencumbered by the administration's contrary view, past commanders of TRANSCOM attest to the value of the Public Law 480 program and its importance. So we will grant General Fraser our benefit of the doubt. He is a good partner and a good leader and a good soldier.

MarAd itself has an internal study that does in fact show that 10 years, when you take that long-term view, somewhere down the line there is a looming shortage in particular areas of the fleet, of the manpower pool, rather. When you couple that with less than

100 ships in international trade, then one ship, let alone eight or 10, is just one too many to lose. It will have an impact on our ability to man ships and create a manpower pool.

Congress has always saw fit to support the merchant marine and the United States maritime industry. We hope that you will continue that fight, and we look forward to working with you to ensure that the United States merchant marine is there whenever we are needed. I thank you for your time. I am prepared to answer any questions.

Mr. HUNTER. Perfectly timed, too, Mr. Tellez. You guys must have practiced this, I am guessing.

Well, let me say thank you for being here. And there is a good quote that I like to repeat as often as possible, and it is he who controls the oceans controls the world, whether you are talking merchant mariners, you are talking the U.S. Navy. You know, 20, 30 years ago we had over 400, I think 480 something, probably higher, naval ships that we operated. Now we are going to be dropping down probably below 300. The Navy comes out with study after study showing that as the world gets crazier and things get worse and worse, we somehow need fewer ships, not more.

So my question for all of you is, and if you can tell me there is—we have mentioned MSP, we have mentioned food aid, we have talked about Title XI. If you were to say what is the most important thing in the industry to keeping those shipyards rolling so that if we do have a need—which I think if you take the 50-year view, you are going to have another conventional war in the ocean again. You have a lot of smart Ph.D.'s from different military schools saying you are never going to have surface fleets fighting each other again on the open oceans. I would disagree. And you as commercial shipbuilders are going to be the ones who have to build those naval ships the way that GM used to have to make tanks. And if we get in a big protracted war again, that is what is going to happen.

You are vital to the Nation's security interests, and I would like to know the most important thing you think can be done in a private-public way with the U.S. Government's help to keep your industry going.

Mr. HARRIS. And by the way, Fred, I don't think that is a San Diego accent you have, is it?

Mr. HARRIS. Mr. Chairman, it is not.

Mr. HUNTER. OK.

Mr. HARRIS. Let me start by saying from the Government side, because we build both commercial and Government ships in this country, from the Government side, having a shipbuilding plan where you understood what was in front of you and was every year consistent and didn't change every month would be a big start to help the shipbuilding industry. The Government would like us to invest hundreds of millions of dollars in facilities. Generally, shipyards don't have a problem in doing that as long as they understand what the investment is and what the return may be in front of them. So sustained and steady shipbuilding, understanding the Government policy.

From the commercial side, I think the biggest value for American shipbuilding would be keep the Jones Act and then support Title

XI. How do you support Title XI? We need to have adequate funding on a yearly basis and we need to sustain that year after year after year. And I am not telling you that is a lot of money, because of the multiplication factors. I think in the neighborhood of \$50 million, \$60 million, in some years even less, but in that range would give the shipbuilding industry and the owners the ability to go borrow money and build and recapitalize the fleets.

The other thing that has to go on is, and some of it was mentioned this morning, is that the Maritime Administration has to get to be much more streamlined and much more responsive to loan applications. I can design a ship and build it before an owner will get notification he either is or is not approved for a loan. Design it and build it, 2 years. That is really not healthy, because how could you as an owner go forward to plan your recapitalization if you are not sure if you are going to get a loan or not in that time-frame?

Now, it is not just MarAd's fault. It is also sometimes the owners don't provide all the information, but it is a combination, and a restructuring or review of that policy would be a good thing for the American commercial shipbuilding industry here. And again, as I said, maintaining the Jones Act and keeping the Jones Act strong and safe will help American shipbuilding.

As you mentioned, in this country 300 shipyards have gone out of business since 1953. There are somewhere around 400,000 people involved directly in U.S. shipbuilding, either Government or commercial, doing supplies, equipment, or building ships themselves.

It takes us a good 5 years in the shipbuilding business to learn the skill of shipbuilding. When you take our high-end trades, our electricians, our welding specialists, it is a 5-year journey. Losing them and trying to revitalize or reconstitute the industry would never work. I have been involved in a number of different evaluations in different countries, like the U.K. They have lost their shipbuilding industry. It is gone. And once it is lost, it will be very difficult, if ever, regained again. And in the U.K., for example, they recently just went and bought three tankers for their Royal Navy Auxiliary, and they bought them from Korea. No one in the U.K. was able to bid on them and build those ships. So it doesn't take long for the industry to go away. If it does, it will be very difficult to recapitalize or to reconstitute.

So keeping the Jones Act strong and getting Title XI funding fixed are important. And I think also the point you made earlier about a national maritime policy. We do not have one. And right now today if you said, what is our national maritime policy? It is very fragmented. And looking at since 1936, MarAd has made some 800 loans on ships that were built under the Title XI or previous program, but a guaranteed loan program. Recently the funding is not there, it hasn't been appropriated, and it has taken so long for owners to go in, ships are just aging in place. The noncontiguous liner fleet is some 30-plus years old, inefficient, highly pollutant, won't meet the international standards unless the ships are rebuilt.

Mr. HUNTER. Thank you, Mr. Harris. And we will come back around. I would like to get all of your answers for that question

on what the most important thing is, and we will wait till my colleagues have a chance to ask questions.

Mr. Garamendi.

Mr. GARAMENDI. Well, as much as I like to listen to myself, I would like to have your question answered by the gentlemen. So let's just continue on.

Mr. PYNE. I think I can be succinct. To remove uncertainty and confirm the importance of the Jones Act—

Mr. HUNTER. Mic. Pull that closer to you, the microphone closer to you. Thank you.

Mr. PYNE. Is that better? OK.

Remove the uncertainty and confirm the Jones Act. Investors, operators, owners, shipyards have a hard time dealing with uncertainty, and if Congress sends, and Government agencies send mixed messages, it really does dampen the enthusiasm for making the investment.

I think that we are actually in a unique time in America. We are in the middle of an energy revolution that is going to drive lots of transportation requirements. And those transportation requirements are not only going to be marine, they are going to be rail, pipeline, even truck. Volume drives utilization in our business. Utilization drives efficiency and price and produces the comfort level to make investments.

The more ships we build, the more efficient we will become. We will lower the cost of construction. That happens in the barge business. We build a lot of barges. We do it competitively on a global basis. I think we can do that from a ship perspective if we build enough of them.

What we don't need is a mixed message that says we are going to compromise the Jones Act, which makes it much more difficult for a company like Kirby to invest in it.

Mr. JEWELL. I agree with the ranking member that we need a strategic plan. It is best summed up in three things. Without a company or a ship built in the United States, we cannot crew it. And without a crew, you can't sail. But without a ship, you can't have the crew to do that.

And I do disagree with an earlier panel member, I truly believe that there are not 15,000 mariners out there; it is significantly less. And when we lose ships, we lose our membership. And once the membership is gone, it trickles down to all the schools. And take the \$25 million. I am clueless on where it goes. Is it a 1-year deal? Is it a 2-year deal? We all have schools, we are all highly skilled. What are you going to reeducate us to do with that \$25 million?

But I truly believe it is the three things. You have to have a company to order the ships built in the United States, and then we can crew it. Thank you.

Mr. TELLEZ. In the General's defense, that 15,000 number was given to him by one of his staff, and that 15,000 probably represents a number of deep sea licenses and documents issued in a particular time period. The actual manpower pool that he can grab onto to support his ships is, as Mike said, far less than that.

Compounding that issue is also there is a group, the mean age, I believe, within the officers is somewhere 55 years old, so you have a whole generation of officers that are soon to be retiring out.

Where is the training? Where are the platforms where you train the people to replace them to move up? And that is the concern with those numbers.

If I were a shipowner, I guess I would say the most important thing to me would be the preservation of cargo. What can Congress, what can the Government do to make sure that I have got cargo? And the first thing is probably to enforce the existing laws on the books to make sure that there is no leakage. And by that I mean if a cargo is deemed to be reserved for a U.S.-flag ship, well, then it should be on the U.S.-flag ship and not be circumvented and put on someone else's ship.

The second part of that is to maybe apply the cargo preference laws to other cargoes that have been excluded in the past. That way you broaden the base and, therefore, keep those ships that Mike is talking about going.

I believe cargo would be the most important thing to keep. With cargo on your ship, everything else falls in place. Cargo is what makes a ship go. So I would say the most important thing would be the preservation and the expansion of cargo for our vessels.

Mr. GARAMENDI. Thank you, Mr. Chairman. And I thank you for the answers. We really have all the elements of a strategic plan, it is just they are not pulled together in a way that directs the policy of the U.S. Government.

You mentioned cargo. We have cargo rules. We have laws. We do need to have regulations written. And I was talking to the chairman about the necessity of MarAd writing the regulations of a 2009 law. So that needs to be done.

The waivers, there is a meeting going on I think next door with the outgoing Secretary of Transportation. I had a discussion with him about waivers that were routinely available in previous administrations. He said he was going to stop the waivers. And I think Mr. Porcari now looks at every waiver in the surface transportation, but I don't think he is looking at every waiver in maritime transportation. He ought to. And he ought not allow many of them, if any of them, because that is your cargo.

On the other side, the loan programs, you know, why are they not being processed? And why are we not appropriating a steady flow of money? There is nothing more damaging to an industry than start-stop. And the two gentlemen, you spoke to that. If you don't have certainty, you are not going to make the investment that is necessary for the future productivity of that shipyard, for example.

And so we need to on our side have a continuity in our appropriations and in our policy. The administration needs to make sure that a waiver is absolutely essential, just not a routine matter, so that you have the cargo side of it.

I am perplexed by the administration's 480 policy and their new welfare program. The \$25 million, you correctly—where is it going? What is it going to be used for? Is it going to continue, or is it simply a way of buying off some element of opposition? I suspect that this is exactly what it is about. So I would just as soon put the money back into the Food for Peace program and help more people around the world survive.

There is a whole series of questions that we have, and Mr. Chairman, if we could for the record provide questions to these gentlemen, specific responses, as well as to the previous gentlemen, if you could authorize that.

Mr. HUNTER. Without objection.

Mr. GARAMENDI. Thank you. I think we have covered it here with your questions about what is the most important thing to be done. And there were four different answers, and that is very, very helpful to me.

I think what I would like to do is to address each one of you and ask you if there are things that you specifically think we need to know that have not yet been said. And for me, I would like that in the context of a national strategy, what could be added to that? As I said, I think we have the elements that are already in law, so it is a matter of pulling that together in a comprehensive way. But I will leave it open to you. What else do we need to do, meaning Congress?

And we will start—let's go reverse. Mr. Tellez.

Mr. TELLEZ. Well, again, as I said, to enforce and really put some teeth into the laws that exist. I think you also need to take a long-term view, as the chairman is apt to say, instead of looking at, you know, fiscal year terms or even 5-year terms, the security of this Nation and the future of the merchant marine, you have to take a look in 10- and 20-year terms, what can we do now that is going to make sure that we are around in 10 and 20 years.

A strong defense put up by Congress against some of these folks who are trying to whittle away at all the programs is a start, but as Mr. Pyne said, there is a future industry growing in this country that has to do with energy, whether it is LNG, whether it is gas, whether it is wind, and it is incumbent upon the industry to make sure we capture whatever we can from these emerging industries to make sure that we are part of that.

Now, I have been going to meetings and meetings and conferences for the last 11 years either on short sea shipping or the new national marine highway, and I have yet to see a boat in the water. And we can talk and talk and talk, but at some point if you want a short sea shipping system, if you want a Federal marine highway, you have to get some boats in the water to make this thing work. And there are some good ideas out there that just need to be acted on, need to be grasped, understood and acted on to expand the business of business for our folks.

Mr. GARAMENDI. Mr. Jewell.

Mr. JEWELL. The one major thing I would like to say is about the education and training of the mariner pool. It roughly takes 8 to 10 years to become a chief engineer or a master of the vessel, and they are the top guys on those vessels who take these ships around the world. Recently, because of the DOD drawdown, we just lost four ships. They will be gone at the end of this month, and they are called the C-10s. And that pool of mariners are gone, because once they actually get to sleep in their own beds, they don't come back. They don't come back. They truly don't. And we have lost the expertise and training for these individuals. We are very skilled, we are very trained in making sure that that ship gets from point A to point B.

And I look at the food aid. When we deliver that cargo, we know at least that cargo got to the docks.

So to me, the biggest thing is educating and keeping this trained pool that General Fraser is counting on, because once they leave, they are gone. They don't come back to the industry, and we can't afford to lose one ship.

Mr. PYNE. You know, I actually think that if we define the parameters and then—and everybody understands what they are and then you let the market work within these parameters, this business will thrive, and that is taking out uncertainty so that you can make investments and know that the rules aren't going to change after you have made an investment that is in a 30-year lived asset. It means a stable regulatory environment, tax policy that people understand, a consistent energy policy. If you do those things, I think that you will see this business grow and thrive.

Our issue is just all the uncertainty that occurs when we start talking about, you know, waivers for the Jones Act when capacity is out there that can carry the cargoes. We talk about compromises to programs that support the maritime business. If we could just get a more certain set of rules, I think we would do fine.

Mr. GARAMENDI. Mr. Harris.

Mr. HARRIS. Yeah. I would concur with Mr. Pyne that—

Mr. HUNTER. Microphone.

Mr. HARRIS. Sorry—that, you know, sustained policies, sustained programs, good understanding of what is coming in the next 5 years to 10 years so you can invest. There has been a lot of press lately about being able to, for example, in this country build the number of ships necessary. Somebody talked about we need 30 product carriers in the next 3 to 4 years. The industry today could probably build 10 a year. It would take us a year to sort of get the design done and then start building. So there is capacity here to do that and there is capability and talent here to do that, and capability and talent to man the ships. So thinking that it is all done is wrong, but putting forth a sustained maritime policy, the Government shipbuilding program, we understand what is in front of us, we will bring people back into this business and industry.

Mr. GARAMENDI. Mr. Chairman, with the ability to send specific questions off to the panel, I think I will let it go at that. The marine highway, we haven't discussed that much, but the consistency of policy and a national strategy that is implemented through the years, coherent, each element in place with a consistent level of funding through the years is I think where the answer will lie to most of this.

Mr. Chairman, I yield.

Mr. HUNTER. Thank the gentleman. Mr. Rice is finally recognized.

Mr. RICE. Thank you, Mr. Chairman.

Mr. Pyne, why have we lost 90 percent of our capacity in the last 35 years? What is it that makes us not competitive?

Mr. PYNE. I think that—excuse me, Congressman.

You know, foreign-flag vessels play by a different set of rules. If they played by the same rules that U.S.-flag vessels played by, I think that you wouldn't have lost that capacity.

Mr. RICE. You said if we played by the same rules that the U.S.-flag vessels played by?

Mr. PYNE. Yes. That is correct. If you applied the same set of laws, if you applied the labor laws, environmental laws, in some cases higher standards, paid foreign crews at U.S. labor rates, which aren't excessive, and made them pay taxes. There are a lot of foreign owners who do not pay taxes and there are a number of countries that actually subsidize their maritime businesses. It is not a level playing field. If you had a level playing field, I think that indeed you would recapture a lot of that lost cargo.

Mr. RICE. Yeah. I am just trying to understand and learn, and if I sound too aggressive, I am not trying to attack you, I am just trying to understand why. Where are—you know, we are building ships in the United States today, correct?

Mr. PYNE. Yes, we are.

Mr. RICE. How many do we build in a year?

Mr. PYNE. I will defer to Mr. Harris.

Mr. HARRIS. Yes. Generally between Navy ships and oceangoing commercial ships, maybe an average of 12 to 15.

Mr. RICE. And how many are being built worldwide?

Mr. HARRIS. Oh, we build less than .2 percent of the total population. There are shipyards in Korea that build in 1 year what we would build in 15.

Mr. RICE. And why is Korea—why is this business located in Korea? Why can't we compete with Korea? Is it again because of the Government regulation you were talking about?

Mr. HARRIS. It is some of that. With Government regulations, OSHA standards, environmental standards, they are absolutely not where we are today, so they get to build their ships in a bit different environment. But the other thing is that today, for example, in Korea, we are not talking about having a committee meeting. There is a cabinet position called the ministry—the Minister of Shipbuilding. That is his job. One job. It is an important national item.

Talking about American shipbuilding as compared to Korean shipbuilding is apples and watermelons. The volume is the issue. Mr. Pyne referenced volume. Volume is the issue. When you are building 12 to 15 ships a year in 5 or 6 different shipyards around the U.S. and you are building 225 in 1 shipyard alone in Korea, you quickly—not only from a material standpoint. Steel. In this country in shipbuilding, we consume about 100,000 pounds—I mean, 100,000 tons of steel a year. In Korea, for their shipbuilding industry, it is about 16 million tons a year. So when I go buy steel, and I buy at the best price I can get it in the U.S., I buy steel, it is at least \$300 a ton more than the steel bought in Korea.

Mr. RICE. Just because of their volume?

Mr. HARRIS. Because of their volume.

Mr. RICE. OK. Well, I would like to get our volume up. Korean ships, the ones that are built there, are they all flagged in Korea?

Mr. HARRIS. They are flagged internationally.

Mr. RICE. Everywhere.

Mr. HARRIS. All over the—

Mr. RICE. All over the place. And what determines where they flag them?

Mr. HARRIS. Whoever the owner is who comes to buy them.

Mr. RICE. But why does an owner choose—where are most ships flagged?

Mr. HARRIS. Where are they flagged?

Mr. RICE. Yeah. Where are they mostly flagged?

Mr. PYNE. Well, they are—

Mr. HARRIS. Mic.

Mr. PYNE. Yeah. Panama, the Bahamas.

Mr. HARRIS. Liberia.

Mr. PYNE. Liberia.

Mr. RICE. Why? Why would they choose to flag in Panama, for example?

Mr. HARRIS. No Coast Guard regulations, not like U.S.-flag ships, you know, different—

Mr. RICE. More Government regulation and taxes is what you are saying, right?

Mr. HARRIS. But also they don't pay the tax or any of it, and they crew—you may have a Liberian registered flag, Panamanian flag with a crew from halfway around the world in some other country.

Mr. RICE. All right. U.S. ships, the ones that we are building, are they flagged around the world or mostly flagged in the United States?

Mr. HARRIS. Flagged in the U.S. So by—

Mr. RICE. Are all of them flagged in the United States?

Mr. HARRIS. I don't know for sure. There may be some smaller ones that are not, but I would say the vast majority.

Mr. RICE. Most all of them. Why would a U.S.-flag ship not be flagged in Panama?

Mr. HARRIS. Because if they wanted to engage in Jones Act trade, they have to be U.S.-flagged and U.S.-built. And they also then have to pay U.S. taxes and have to be subject to U.S. OSHA requirements, safety requirements and built with those requirements.

Mr. RICE. Well, you know, I hear you saying that one of the reasons we can't compete is because other countries subsidize their shipping fleet, but, gosh, looking through this notebook and the Jones Act itself, it appears to me the United States is really heavily subsidizing our shipping fleet.

What you are telling me, I think the basis of it is, is that because of Government tax and regulation, we can't compete. Is that what you are saying? I mean, when you boil it down, that—

Mr. HARRIS. No, I am saying this, and I will say it clearly: volume is a big issue, and no matter what you do with volume, unless you have comparable volume—

Mr. RICE. Yeah, but we had the volume at one time. We did. We were building, I think they said, 25 percent of the ships. We had the volume and we lost it.

Mr. HARRIS. And then—

Mr. RICE. And why did we lose it? That is what I am trying to get to. And what I want to do is change whatever that is to make us more competitive.

Mr. HARRIS. What happened is internationally shipowners that are not American shipowners, many of them found that they could build ships overseas for much, much, much less cost and then reg-

ister them under some other flag and not end up being U.S. inspected.

Mr. RICE. OK. Well, if that is the problem, if they found that they could flag it for much less cost, then what we need to do is structure ours where they can flag it here for no more expensive, right? I mean, why can't we be competitive with the rest of the world? There needs to be a balance between, you know, regulation and cost. And if our regulatory policy is so expensive that it destroys an entire industry, which it looks like where we are headed here, we have lost 90 percent of ours in the last 35 years, then maybe we ought to look at our regulatory policy.

Mr. PYNE. And, Congressman, we wouldn't disagree with that, but it is more complex than that. In your State the textile industry has essentially been exported for many of the same reasons. It is just a lot cheaper to make something in Bangladesh than it is in the United States. So it is a very, very complicated economic situation.

Having said that, we would welcome the opportunity to come visit with you and—

Mr. RICE. I would love that. I need to learn more about this.

And with respect to the textile industry, you know, I agree with you that the vast bulk of it has been exported, but that being said, you know, we are carrying 2 percent American-flag ships, I think you said carrying 2 percent of the world's cargo, sounds like most of that is coming from the U.S. Government.

Mr. PYNE. Well, no. There is a much broader tug and barge business, which I represent, that carries, you know, millions of tons of cargo, millions of barrels of cargo competitively on the inland waterway system of the United States as well as the three coasts and Alaska and Hawaii. So there—we are talking about a hundred ship fleet mostly here, but there is a much broader commercial maritime business in the U.S. than just those ships.

Mr. RICE. Well, you know, as bad as the textile industry has been hurt, I promise you a lot more than 2 percent of the textiles in the world are being created in the United States.

Mr. PYNE. Right.

Mr. RICE. But we don't have the apparent protectionist policies with respect to that industry that we do here.

Mr. PYNE. Yeah.

Mr. RICE. One more thing. My time is way over, I am sorry, but post-Panama canal ships, these huge containers that, you know, are going to drive down the cost of shipping worldwide, are we building any of those in the United States?

Mr. HARRIS. No.

Mr. RICE. I think that is a—

Mr. HARRIS. We are not. We are building in the neighborhood of 3,500 TDU would be the upper end of the ships we are building.

Mr. RICE. That is a very sad commentary. Are any of those going to be flagged in the United States? Any of them?

Mr. HARRIS. Not that I know of.

Mr. RICE. Gosh, we need to reexamine this. We are doing something very, very clearly wrong. Anyway, I would love to talk to you about it, I would love to learn more about it. I know that I am not—

Mr. HARRIS. Well, just to add one more thing here, when Mr. Pyne talked about what happens in the world, for example, right now what is going on in large container ship shipbuilding, Hanjin, a company in Korea, has been established in Korea for years. They just opened up a brand-new shipyard in the Philippines, 20,000 shipyard workers building ships. They pay their shipyard workers in Korea about \$35 an hour. They pay their shipyard workers in the Philippines \$3 an hour. So trying to compete with that internationally is very difficult.

Mr. RICE. I said in a Ports Subcommittee meeting a month ago—I have repeated this a lot of times—but a representative of the Maersk shipping line was there, and he said that they were building distribution centers in the Caribbean because they didn't want to deal with the United States Government. That is a mighty scary statement to make. People used to come here because they wanted to deal with the United States Government.

We need to reexamine these policies, and we need to come up with something to help you guys be competitive.

Thank you very much.

Mr. TELLEZ. May I just clarify something? And it goes back to what Mr. Pyne was saying.

The domestic Jones Act industry is a vibrant, growing industry. It is viable, and there are companies out there—along with Kirby, there is Crowley—there are companies out there that have invested billions of dollars in recapitalizing their fleets for domestic trade. So the domestic trades, the Jones Act fleets are growing, they are being modernized, and they are a going concern.

So we have to differentiate between the loss of the international fleet and their cargoes and the Jones Act and the domestic fleet. Two very different animals.

Mr. HUNTER. Gentlemen, thank you. This has been one of the most informative and interesting hearings we have had, especially getting the administration and DOD's side prior to your testimony. So thanks for what you are doing for the industry and for the country.

And, with that, the subcommittee stands adjourned.

[Whereupon, at 11:35 a.m., the subcommittee was adjourned.]

**STATEMENT OF JOHN D. PORCARI
DEPUTY SECRETARY
U.S. DEPARTMENT OF TRANSPORTATION**

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

Maritime Transportation: The Role of U.S. Ships and Mariners

May 21, 2013

Chairman Hunter and Ranking Member Garamendi, thank you for the opportunity to present testimony to the Subcommittee regarding the role of the U.S.-flag maritime fleet, the maritime workforce, and shipbuilding to protect the Nation's commercial and defense requirements. The Department of Transportation (USDOT) has the responsibility for promoting the U.S.-flag fleet including U.S. cargo preference requirements for Federal agencies. I am John Porcari, Deputy Secretary of Transportation, testifying on behalf of U.S. Transportation Secretary Ray LaHood.

RECENT TRENDS AND CURRENT CHALLENGES FOR THE U.S. MERCHANT MARINE

To understand the role of ships and mariners, it is necessary to understand U.S. maritime policy in its two primary dimensions, coastwise or cabotage trade and international trade. Since the enactment of U.S. cabotage law in 1817, our national policy for coastwise commerce is to reserve this trade for U.S. ships and U.S. mariners. Contemporary cabotage policy continues under the Merchant Marine Act of 1920, commonly referred to as the Jones Act, with coastwise trade also referred to as Jones Act trade. The Jones Act was designed to encourage development of a national flag fleet and to protect that fleet from anti-competitive practices by foreign carriers. The national policy for international maritime commerce was set forth in the Merchant Marine Act of 1936 which included the premise that a substantial portion of our foreign trade should be carried on U.S. ships. Intersecting all of this is our national security policy which stipulates that our domestic merchant marine, both ships and mariners, shall serve as a naval auxiliary in times of war or national emergency.

There are many complex factors that influence current conditions and the long-term outlook in the domestic oceangoing trades of large self-propelled vessels, with some factors for Jones Act ships indicating that the industry is trending toward a growth phase in the oceangoing segment. Self-propelled oceangoing vessels of 1,000 gross tons or more each in the Jones Act trades experienced a net decrease of 15 vessels since the beginning of 2010, with 91 vessels currently operating, primarily because of the retirement of older tankers as a result of the Oil Pollution Act of 1990. At the same time, there has been an offsetting increase in large oceangoing tank barges, most in the form of articulated tug-barges (ATBs) that function in much the same way as self-propelled oceangoing vessels but with smaller crews and slower speeds. Importantly, the recent surge in domestic crude oil production has increased demand for new domestic self-propelled tanker vessels. One recent industry projection foresees roughly 10 to 14 new oceangoing tankers entering the fleet by 2018, and demand for even more vessels. Recent announcements of new containership orders to work in the Jones Act trades are also encouraging signals for industry growth. These containerships would be powered by U.S.-produced liquefied natural gas (LNG) and would be among the most environmentally friendly form of freight transportation on earth. Of course, the numbers above do not include the many thousands of other smaller vessels, such as tugs, smaller barges, service boats, and others described below that are part of the inland and coastal waterway trades.

Jones Act commerce also encompasses the Great Lakes and inland waterways. A recent MARAD study on the Great Lakes dry bulk fleet indicates that the fleet has weathered the recession and is generally healthy, although the drop in coal cargoes transported on the Lakes due to inexpensive natural gas and other factors is a concern to the industry.

The Bureau of Labor Statistics reports that the number of mariners involved in coastal and inland transportation has been holding constant or increasing slightly during the last several years, reaching almost 37,000 as of 2012. A smaller pool of approximately 15,000 actively sailing mariners who hold the necessary U.S. Coast Guard (USCG) credential and international endorsement to sail in the commercial oceangoing U.S.-flag shipping industry is the primary source of mariners to crew the sealift ships that our Nation relies on in times of war, national emergencies, natural disasters, and other contingencies.

The sufficiency of this mariner pool to support a large-scale activation of the DOD and USDOT sealift fleet depends upon the health and size of the commercial U.S.-flag oceangoing merchant fleet. A fleet that is sufficiently sized will result in a critical mass of merchant mariners with the necessary credentials to meet the crewing requirements of both the commercial and sealift fleets during national emergencies. As of today, the mariner pool is adequate for both of these sealift needs. However, we are concerned that the costs of operating under U.S. registry may result in continued reductions in the oceangoing commercial fleet. MARAD is working closely with DOD and industry to support the U.S.-flag fleet and to facilitate the retention of these mariners including the establishment of a working group to develop a national sealift strategy that ensures the long term viability of the U.S. Merchant Marine as a naval auxiliary and as a U.S. presence in international trade.

Over 97% of our foreign trade is carried on foreign-flag vessels, particularly the growing number of larger containerships that are being widely deployed on the world's oceans. These large vessels, which exceed 5,000 twenty-foot equivalent unit (TEU) containers are already arriving at U.S. West Coast and East Coast ports. As the expansion of the Panama Canal nears completion, some East Coast and some Gulf Coast ports are investing in the necessary infrastructure to compete for a share of this market. The major West Coast ports already have channel depths and pier-side cranes that can service these vessels, as do two East Coast ports, and other major East Coast and Gulf Coast ports will be prepared for vessel calls by post-Panamax ships by the time the expanded Panama Canal is fully operational. The American Association of Port Authorities reports that U.S. seaport agencies and their private-sector partners plan to invest a combined \$46 billion over the next five years in capital improvements to their marine operations and other port properties. MAP-21 directs USDOT to establish a national freight planning process that will, among other objectives, identify needs for improved intermodal connections between ports and the surface transportation system.

Not long ago there was a concern that two major U.S. commercial shipyards would be laying off employees, but the new construction projects are creating the prospects of much stronger employment in the future, replacing some of the void left from a reduction in U.S. Navy shipbuilding contracts. Gulf Coast shipyards are now very busy building offshore platform supply vessels to support the oil and gas industry. It is important to note that the U.S. shipyard industry is benefiting greatly from the Jones Act, which requires ships in the domestic trades to be built in U.S. shipyards. Commercial orders filled by these yards also benefit the U.S. Navy as a result of increased shipyard efficiency associated with greater shipyard utilization and commercial production methods. Smaller shipyards are also benefiting from investments made under the Small Shipyard Grant Program, enabling them to produce or service vessels more efficiently.

USDOT/MARAD ROLE IN SUSTAINING THE VIABILITY OF THE INDUSTRY

USDOT and MARAD have been working on many initiatives to provide support to the marine transportation system. The initiatives include support to our foreign and domestic trading fleets, innovations in support to U.S. ports, assistance to shipyards, and strengthening of our nation's ability to train new mariners. Even so, we acknowledge that much of the progress and innovation in the U.S. maritime sector is driven by commercial companies and port authorities that handle the day-to-day investment in and operation of the marine transportation system.

International Trade: Ensuring U.S. Maritime Capabilities to Meet National Security and Economic Needs

MARAD administers the Maritime Security Program (MSP), a fleet of 60 active, commercially viable, militarily useful, privately-owned vessels available to meet national defense and other security requirements. On January 2, 2013, President Obama signed the Fiscal Year (FY) 2013 National Defense Authorization Act (NDAA) that authorizes the Secretary of Transportation to extend existing MSP operating agreements through September 30, 2025. The current annual stipend payment per ship of \$3.1 million was extended through FY 2018, increasing to \$3.5 million in FY 2019-FY 2021 and \$3.7 million in FY 2022-FY 2025.

During the coming months, MARAD intends to make promulgating cargo preference related regulations a priority, but the timeframe to accomplish this is uncertain. These regulations will serve as implementing regulations, encompassing recent changes in the cargo preference program, including those enacted by MAP-21. The regulations will also aim to eliminate ambiguity in current procedures and compliance requirements.

With regard to sealift, MARAD has made significant progress in improving the readiness and efficiency of the government-owned sealift fleet over the last several years. In particular, it has restored the readiness of eight Fast Sealift Ships and brought these ships into the MARAD Ready Reserve Force (RRF) fleet, saving the government roughly \$20 million per year in readiness costs. MARAD has also identified efficiencies capable of producing an additional savings in federal vessel management and is working with the U.S. Navy on implementation. MARAD demonstrated the national and homeland security values of this fleet through the quick-response activation and use of RRF and National Defense Reserve Fleet (NDRF) vessels during the relief effort for the earthquake in Haiti and during the response to Superstorm Sandy.

The President's FY14 Budget proposes restructuring the P.L. 480 Title II food aid program to allow local and regional procurement of food and to improve the ability of U.S. food aid to reach emergency needs quickly and with less adverse impacts on markets and farmers in countries receiving the food aid. Under the President's proposal, 55 percent of Title II food aid funds would still be spent in the United States in FY 2014 and of that, 50 percent of the cargoes would move on U.S.-flag vessels. DOD has stated that its initial assessment is that changes to the Food Aid Program will not impact the maritime industry's ability to crew the surge fleet and deploy forces and cargo. Furthermore, to mitigate any impact on vessels and mariners, the Administration is proposing a \$25 million targeted operating subsidy for military-useful vessels. Preliminary planning for this funding envisions a three-pronged approach whereby some of the funding would provide a stipend for militarily useful vessels not enrolled in the MSP, other sums would be used to reimburse eligible costs for mariners to retain and or renew active U.S. Coast Guard issued merchant mariner credentials, and some funds would provide apprentice training for key merchant mariner skills. MARAD will work with stakeholders and our Federal partners on how best to use this funding to minimize any impact.

Domestic Trade: Furthering U.S. Shipbuilding and Jones Act Trade

MARAD strongly supports and will continue to support compliance with the Jones Act. In some cases, emergencies, national defense, or other circumstances may require limited waivers to U.S. carriage requirements of some cargoes, such as during the recent response to Superstorm Sandy. Even in these situations, however, the use of Jones Act-eligible vessels must be maximized. Accordingly, MARAD has developed an improved Jones Act Waiver Process to achieve greater transparency and U.S. stakeholder participation during times of emergency or national defense needs. With regard to releases of oil from the Strategic Petroleum Reserve (SPR), MARAD has established precedent to avoid automatic large-scale blanket waivers of Jones Act requirements. In a first for any Administration, MARAD specifically arranged for U.S.-flag participation in the SPR release of September 2011.

MARAD has also obtained agreement with the Department of Energy to ensure U.S.-flag tank vessels and barges will have an opportunity for greater participation in any future drawdown. In the past year, Congress has passed two pieces of legislation with the goal of improving communication and transparency in the Jones Act waiver and SPR crude oil transportation process. In order to meet these new requirements, USDOT and MARAD have made preparations for better information sharing with industry and have developed a plan to reach out to industry leaders on Jones Act tank vessel availability whenever a drawdown of the SPR is imminent. During the Superstorm Sandy fuel shortages, MARAD implemented innovative reporting requirements to provide transparency of Jones Act waiver utilization.¹

USDOT and MARAD have undertaken numerous initiatives to help support the U.S. domestic maritime trades. One source of support to the U.S. shipyard industry and U.S.-flag carriers is the Maritime Guaranteed Loan Program, widely referred to as the Title XI program. MARAD is authorized to guarantee up to 87.5 percent of the obligations on private sector debt financing for ships constructed, reconstructed, or reconditioned in the United States. Over the last four years, Title XI has enabled more than \$650 million in new investments in U.S. shipbuilding.

The Title XI program has never had to disapprove a creditworthy application due to a lack of funding. There is currently enough budget authority to guarantee approximately \$420 million worth of shipbuilding projects while the Title XI program currently has applications pending for over \$500 million in loan guarantees. However, no determination on the creditworthiness of the pending applications has been completed. MARAD recognizes the need to expedite responses to Title XI applications. As a result, reform actions are being implemented including reevaluating application timing procedures and issuing guidance to improve the efficiency of the process.

The Small Shipyard Grant Program, established under the FY 2006 NDAA, supports capital improvements to qualified shipyards. Since 2009, USDOT has provided more than \$149 million for more than 120 projects to help modernize U.S. shipyards located in 28 states and Guam. These grants have been helpful to shipyards in obtaining new contracts, including contracts to export vessels, and have contributed to the U.S. being a net exporter of commercially built vessels six out of the last 10 years, with a surplus of nearly \$410 million.

MARAD has made major progress in establishing the America's Marine Highway Program, which, over the long run, offers an important new market for Jones Act vessels. Under this program, MARAD supports and promotes the movement of freight in containers and trailers between domestic U.S. ports,

¹ Information Collection 2133-0545 allows the Maritime Administration to collect information from coastwise qualified vessel owners, operators, charterers, brokers and representatives. The information will be used specifically to determine if there are coastwise qualified vessels available for a certain requirement.

helping to relieve congestion on the Nation's highways and railroads. Over the last four years, MARAD established the formal program by issuing a final rule, designated 18 Marine Highway Corridors, issued a report to Congress on the status and outlook of the America's Marine Highway Program, invested \$129.7 million in 16 projects supporting Marine Highway objectives (largely through Transportation Investment Generating Economic Recovery (TIGER) grants), created concept designs for a potential new marine highway vessel, and undertook three market analyses of potential marine highway services. MARAD is currently in the process of coordinating the designation of additional Marine Highway Corridors, which will facilitate the ability of companies to establish services and to qualify for project grants. TIGER funds were appropriated and were in the FY 2014 budget.

First Time Funding for Ports

USDOT and MARAD have supported port investment through the award of TIGER grants to port authorities. Of those, 10 (totaling \$122 million) were for Marine Highway projects and 15 (totaling \$226.6 million) were awarded to improve and modernize ports and rail infrastructure serving ports, expand commerce, create jobs, and increase exports. These Federal funds were the first ever competitively awarded by USDOT for port infrastructure. MARAD also sponsored two National Port Summits that brought together the Nation's port directors for policy discussion with the Secretary of Transportation regarding the integration of waterborne transportation into the Nation's overall transportation system.

Merchant Marine Academy Improvements:

The U.S. Merchant Marine Academy (USMMA) at Kings Point, NY is a national asset and a top priority for USDOT and MARAD. The mission of the Academy is to educate and graduate licensed merchant mariners and leaders who will serve America's marine transportation and defense needs in peace and war. Along with the six State maritime academies, Kings Point plays a central role in preparing the Nation's licensed maritime workforce.

Strengthening Capabilities to Assist Industry with Maritime Operational Issues

MARAD has been providing important assistance to the maritime industry on issues that will reduce the cost of operating under the U.S.-flag. To do so, it has developed a comprehensive strategy for environmental, safety, and security initiatives.

The Act to Prevent Pollution from Ships implements the provisions of the International Convention for the Prevention of Pollution from Ships (known as MARPOL), including the annexes to MARPOL to which the U.S. is a party. MARPOL provisions address pollution from ships in the course of their normal operations, including in respect to oil, noxious liquid substances, garbage, and air emissions. Compliance with these provisions can impose significant costs on vessel owners. MARAD is working to assist U.S. vessel owners in their efforts to comply with these requirements. In concert with other federal, state and industry stakeholders, it is also assisting in the development of improved shipboard air pollution control technology, investigating the use of pier-side fuel cells to enable vessel cold ironing while in port, and exploring the possible use of renewable fuels, such as biofuel, in commercial vessels. In other work relevant to protecting the marine environment, MARAD has advanced a ballast water testing initiative and funded the first U.S. Coast Guard-certified lab for ballast water testing.

Organizational Outreach

MARAD will continue to push for improvements in its support to industry and the public through a variety of initiatives pertaining to organizational excellence. In FY 2010, MARAD, in collaboration with

USDOT, re-established the Marine Transportation System National Advisory Council (MTSNAC) to advise the Secretary of Transportation on MTS issues, paying specific attention to the expansion and development of the Nation's marine highway and port system through its marine highway subcommittee and the Secretary's Port Advisory Council.

Thank you for the opportunity to discuss the role of U.S. ships and mariners in meeting our Nation's commercial and defense needs. I am happy to respond to any questions you have.

Subcommittee on Coast Guard and Maritime Transportation
Hearing on Maritime Transportation: The Role of U.S. Ships and Mariners
Tuesday, May 21, 2013

Questions for the Record to the Honorable John Porcari,
Deputy Secretary, U.S. Department of Transportation

Questions from the Honorable Duncan Hunter (R-CA):

As noted at the hearing, the FY09 NDAA requires MARAD to issue regulations that would allow the department to enforce existing cargo preference laws. To date, those regulations have not been issued. Cargo preference programs help maintain the U.S.-flag fleet, which helps meet the nation's national security needs. Now, more than ever, it is critical that cargo preference laws be enforced, as the drawdown has resulted in a rapid decline of DOD cargoes.

The NDAA provision allows the regulations to be drafted in such a way that gives MARAD the authority to work with other government agencies to ensure compliance with cargo preference laws and impose penalties on shippers that do not comply with those laws. It is critical that these regulations grant MARAD enforcement authority so the agency can properly administer the cargo programs that support the U.S.-flag maritime industry. Will these regulations reflect Congressional intent regarding MARAD's authority and when can we expect to see those regulations issued?

Issuing a new proposed rule to administer the cargo preference program is a top priority and MARAD will incorporate the statutory requirements into the new rule. MARAD will work with our Federal partners to develop the proposed rule for notice and public comment. In the meantime, MARAD continues to work with U.S. government agencies to identify both civilian and military cargo opportunities for U.S.-flag carriers.

Due to sequestration and the FY13 Continuing Resolution, MSP is facing a shortfall of over \$20 million. Consequently, carriers will receive partial payments in August and no payment in September. If the program is not fully funded, then the government will be in default of its obligations and thus participants will have the ability to leave the program. Should this occur, what impact would this have on sealift? Would it also negatively impact readiness? How do you intend to address the funding shortfall? What is the plan for 2014 should sequestration still be in effect at the beginning of FY14?

Recently, all 60 agreement holders submitted operating agreements to MARAD extending their commitments under the program through 2025 and none have indicated that they plan to leave the MSP program due to funding shortfalls in FY 2013. Currently, all 60 agreement holders have been extended through January 15, 2014, with the passage of the Continuing

Appropriations Act, 2014. MARAD and the Department of Defense (DOD) are working closely together to limit any negative impact to the program and to sealift capabilities due to budget constraints should a funding shortfall occur after January 15, 2014.

What would it mean in terms of helping to sustain the US-flagged fleet and US civilian mariner pool if USAID were to change its business practices? For example, go to service contracts; source loading; and, containerization of cargoes. To what extent does the way the military does business with the carriers represent a model for USAID to follow? What benefits could be accrued if USAID came under the Defense Transportation System?

Long-term contracts provide certainty of future services for both the carrier and the shipper and could contribute to stability in the U.S.-flag fleet. Where long-term contracts are possible, they could allow for more predictable service and cost, potentially lowering costs through increased competition. DOD effectively and efficiently moves a vast amount of cargo through the Defense Transportation System using almost exclusively U.S.-flag vessels. Exploring long-term shipping solutions and other options, including opportunities within the Defense Transportation System, could be beneficial to the U.S.-flag fleet. At the same time, delivering food aid, particularly in emergencies, may require different practices compared to delivering predictable shipments of supplies to military bases abroad.

Questions from the Honorable John Garamendi (D-CA)

2009 NDAA Cargo Preference Rulemaking

Mr. Porcari, Congress included in section 3511 of the 2009 National Defense Authorization Act amendments that strengthened cargo preference requirements for the shipment of government impelled cargo on U.S. flag vessels by federal agencies. MARAD initiated a rulemaking to implement these changes but a final rule has never appeared.

- *What is the status of this rulemaking? What is your department doing to push this rule through OMB?*

Issuing a proposed rule to administer the cargo preference program is a top priority and MARAD currently is developing rule language to update its cargo preference regulations and implement the enforcement provisions of the Duncan Hunter National Defense Authorization Act for Fiscal Year 2009. I acknowledge the frustration that has been expressed about the delay in implementing this rule; however, prior efforts to issue this rule have contributed to the current rulemaking effort by the Department of Transportation (DOT) and MARAD. Preliminary draft rule language is under review within DOT.

Food for Peace Reform

Mr. Porcari, this administration's proposed restructuring of the Food for Peace Program would apply for Fiscal Year 2014 but it is not clear what the administration's intention is for the out-years.

- *What is the long-term strategy? Is this just the first step in a multi-year strategy to gradually phase out all foreign food aid shipments abroad?*
- *Is the administration committed to maintaining some percentage of foreign food aid shipments, and if so, what level might that be?*

Questions on the specific structure of food aid reform should be directed to the U.S. Agency for International Development. For the FY 2014 Budget, the Administration proposal was constructed so that over half of the food aid provided under the reform would use U.S. commodities for practical reasons, among others.

Marine Highways

Mr. Porcari, America's Marine Highway System consists of over 29,000 nautical miles of navigable waterways, including rivers, bays, channels, the Great Lakes, and Saint Lawrence Seaway System and coastal routes. The Marine Highway system is a robust and efficient means of moving freight in terms of cost per ton-mile and yet, it is the most underutilized of our transportation modes. In 2007, water services carried only 13 percent of the nation's ton-miles of domestic freight, down from 26 percent in 1965. Fortunately, a Marine Highway pilot project utilizing the Sacramento River corridor is pioneering the establishment of a container on barge service linking the ports of Oakland, Stockton and West Sacramento.

- *Generally, most observers consider Marine Highways a viable freight transportation option that can relieve congestion and deliver environmental benefits. Why hasn't the administration requested funding to more fully utilize and build out Marine Highways?*

The Administration has supported funding for Marine Highways both through the Transportation Investment Generating Economic Recovery (TIGER) and the Marine Highway Discretionary Grant Program. Both programs have provided funds, totaling \$130 million since 2009, to help initiate new Marine Highway services. MARAD has been able to leverage grant awards from those programs to help establish services in California and Virginia, and we are seeing prospective new services along the Tennessee Tombigbee Waterway and the Gulf Coast. The

Administration, again for FY 2014, has requested \$500 million in funding for TIGER grants which will continue to provide support for ports and Marine Highway services.

Title XI

Mr. Porcari, the Maritime Guarantee Loan (Title XI) Program provides for a full faith and credit guarantee of debt obligations issued by U.S. or foreign ship owners to finance, refinance the construction, reconstruction, or reconditioning of U.S. flag vessels or eligible export vessels in U.S. shipyards; or to guarantee obligations by U.S. shipyard owners to finance the modernization of shipbuilding technologies at U.S. shipyards. At present, the Title XI program manages loan portfolio valued at \$1.8 billion. The portfolio has declined by more than half from \$4.2 billion portfolio in 2002 as MARAD has approved fewer and fewer loan applications. The administration has not requested funding other than for administrative expenses for the past two fiscal years.

- *Why has the administration decided to pull back from making guarantees under Title XI?*
- *Do you agree that Title XI could provide very helpful financial assistance for recapitalization of the U.S. coastwise fleet, for re-powering vessels to comply with new emission requirements, and to stimulate more shipbuilding activity for LNG tankers and LNG-powered vessels?*
- *In your testimony at the hearing you indicated that the Title XI funding was sufficient for applications "that are currently in the pipeline," but that there is currently no need for additional capacity. Specifically, you stated that the need for additional capacity "is a situation that we would like to be in." Has there been a decrease in Title XI applications, and if so, has this in part been caused by the decrease in funding under Title XI?*

The Administration has not made any decision to pull back from making guarantees under Title XI. Currently there is \$38 million in funding available to for Title XI guarantees. Creditworthiness determinations of the pending applications have not been completed; therefore awards using the \$38 million carryover balance have not been made yet.

Yes, Title XI financing could be used for recapitalization of the U.S. coastwise fleet, including re-powering vessels to comply with new emission requirements and for constructing LNG tankers and LNG-powered vessels.

The number of Title XI applications has not decreased; rather, there recently has been an increase in the number of applications which now total over \$1 billion. It should be noted that all of these applications are at various stages in the creditworthiness determination process.

Support for the U.S. Merchant Marine

In general, there appears to be a strong consensus that the Congress and the Federal Government should do more to promote the U.S. merchant marine. More specifically, the government should better support efforts by the maritime industry to recapitalize assets and modernize and expand capabilities, preserve existing cargoes and identify new cargoes for U.S. carriers—both in the Jones Act trade and the U.S. foreign trade—and promote opportunities to expand U.S. shipbuilding capabilities.

- *Beyond the obvious need for a sufficient budget and reliable annual appropriations to support the U.S. merchant marine, what are the three highest priorities that you would recommend the Congress consider to address these objectives?*

DOT and MARAD look forward to working with Congress on the issues identified in your question. Focusing on the commercial sector creates jobs and economic opportunities for mariners, shipyards and regional industries. To this end, stimulating demand for new cargo opportunities for the U.S.-flag fleet and implementing reforms to the Title XI program to encourage shipbuilding would boost the U.S. maritime industry. Supporting these and other key MARAD programs ensures that the Nation has the U.S.-flag vessels and U.S. mariners necessary to meet our national security needs. MARAD intends to host a public symposium to discuss the development of a Maritime Strategy on 14-16 January 2014.

Statement of
General William M. Fraser III, United States Air Force
Commander, United States Transportation Command



Before the Committee on Transportation and Infrastructure
Subcommittee on Coast Guard and Maritime Transportation
On "Maritime Transportation: The Role of U.S. Ships and Mariners"

May 21, 2013

Chairman Hunter, Ranking Member Garamendi, and distinguished members of the committee, it is my privilege as the Commander of the United States Transportation Command (USTRANSCOM) to testify today. USTRANSCOM simply could not accomplish its global mission without the capabilities provided by the U.S. strategic sealift fleets and our steadfast merchant mariners.

During major and contingency operations, sealift is the primary means for deploying the preponderance of combat equipment and sustainment for ground forces, and is essential to building up combat power and to seize the initiative. In a typical operation, over 90 percent of all cargo is delivered by sealift and the Department of Defense (DOD) is one of the largest single shippers of ocean cargo in the United States.

USTRANSCOM relies on both government-owned vessels and those accessed via commercial industry. Our government-owned fleet includes 60 total vessels from the Military Sealift Command's (MSC) surge fleet and Maritime Administration's (MARAD) Ready Reserve Force (RRF). All 60 vessels are critical for the DOD's ability to surge to meet our global requirements and all are funded through the National Defense Sealift Fund (NDSF). I am grateful to the Congress for your continued support of this global mobility capability which is unique to the United States.

USTRANSCOM is working with our commercial and U.S. Government sealift partners to find cost effective means to maintain and recapitalize this critical capability. With the average age of the RRF exceeding 36 years, and nearly 1.6 million square feet, or 27%, of Roll On/Roll Off capacity retiring over the next 10 years, it is important to begin the process of recapitalization. Several options exist to recapitalize RRF vessels as they reach retirement such as extending the service life of the vessels or purchasing vessels currently in commercial service and converting them to U.S. specification through U.S. shipyards. We will continue to work with MARAD, the U.S. Navy and other stakeholders to find a reasonable solution to recapitalize the RRF.

Although our organic assets are vital, the vast majority of sealift needed by USTRANSCOM comes from our commercial partners. Access to the commercial fleets is formalized through programs such as the Voluntary Intermodal Sealift Agreement (VISA), the Maritime Security Program (MSP), and the Voluntary Tanker Agreement (VTA). Through these programs, DOD gains critical access to U.S. commercial capabilities and their transportation network, while ensuring the availability of a viable U.S.-flag maritime industry and U.S. citizen Merchant Mariner pool in times of national emergency.

VISA and MSP have been extremely successful programs since their inception in the mid 1990's and provide the federal government shared access to an enormous amount of capability. Specifically, MSP provides a fleet of 60 military-useful commercial vessels operating in international commerce, intermodal networks throughout the world and jobs for our U.S. Merchant Mariners. Over 70 percent of the required sealift capacity needed for a national emergency would come from VISA as our national sealift preparedness program that incorporates the MSP vessels. I want to thank Congress for recently extending the MSP program an additional 10 years to 2025. Preserving these programs preserves the U.S. Merchant Mariner base, a vital national asset that provides a portion of the manpower needed for surge operations.

With the responsibility to manage the global mobility enterprise, USTRANSCOM benefits from a healthy U.S. Merchant Marine pool. U.S. Merchant Mariners support USTRANSCOM's ability to meet its military requirements, and its training and proving ground are the vessels committed to national security. Since 1990, the U.S.-flag oceangoing fleet has decreased from over 400 ocean going vessels, in excess of 1,000 tons, to its present 186, and commercial industry is preparing itself for the impact of the eventual decline in military cargo as the nation and its allies transition out of Afghanistan. Our primary concern from a national security perspective is the loss of merchant mariners used to man the strategic surge fleet. Since DOD's organic fleet is maintained with partial crews until needed for real

world operations, a loss of merchant mariners in commercial industry could risk bringing those ships to full operating status when the need arises. The most significant risk would be in critical skill sets such as tanker vessel and electrician-trained merchant mariners. We are working closely with MARAD to ensure continued support of the U.S.-flag fleet and retention of the critical merchant mariner skill sets.

DOD supports the Administration's efforts to restructure the Food Aid Program to make it more efficient, and DOD's initial assessment is that changes to the Food Aid Program will not impact the maritime industry's ability to crew the surge fleet and deploy forces and cargo. Furthermore, to mitigate impact to the maritime industry, the President's Budget provides \$25 million as a targeted operating subsidy for military-useful vessels. We are working closely with MARAD to determine what portion of the merchant mariner workforce requires the greatest assistance.

Our organic fleet is maintained and operated by American ship management companies. These companies conduct all organizational level maintenance, manage the U.S. citizen Merchant Mariners who man the ships, and oversee the lifecycle of the vessels under MARAD and MSC governance. All of DOD's organic vessels are required to undergo drydocking overhauls in U.S. shipyards every 5 years to maintain their regulatory certifications. The maritime defense industrial base, beyond providing shipbuilding capacity for the U.S. Navy, provides this capability. The current fiscal environment at DOD makes new vessel construction difficult; therefore, we are exploring options with the Navy and MARAD to purchase used vessels on the open market to recapitalize our organic fleet. The operation and maintenance of these vessels, as well as modifications to meet U.S. Coast Guard certification requirements, would be accomplished in our U.S. shipyards. Maintaining these companies and their capabilities, as well as the experienced workers in the various maritime trades, is essential to fostering a competitive environment when soliciting affordable ship management contracts.

Chairman Hunter, Ranking Member Garamendi, and all the distinguished members of this committee, thank you for your continued support of USTRANSCOM and all our men and women in uniform. I am grateful for the opportunity to appear before this Committee, and I look forward to your questions. Thank you.

Subcommittee on Coast Guard and Maritime Transportation
Hearing on Maritime Transportation: The Role of U.S. Ships and Mariners
Tuesday, May 21, 2013

Questions for the Record to General William M. Fraser, III,
Commander, U.S. Transportation Command
Member: Congressman Hunter
Question: #1

Question: Due to sequestration and the FY13 Continuing Resolution, MSP is facing a shortfall of over \$20 million. Consequently, carriers will receive partial payments in August and no payment in September. If the program is not fully funded, then the government will be in default of its obligations and thus participants will have the ability to leave the program. Should this occur, what impact would this have on sealift? Would it also negatively impact readiness? How do you intend to address the funding shortfall? What is the plan for 2014 should sequestration still be in effect at the beginning of FY14?

Answer:

Appropriations for the Maritime Security Program (MSP) are provided to the Department of Transportation and USTRANSCOM has no budgetary authority over those funds. Any direct actions to address this funding shortfall would be taken by the Maritime Administration (MARAD). However, USTRANSCOM continues to work closely with MARAD to mitigate any potential impacts.

Commercial companies participating in MSP provide both sustainment and deployment/re-deployment capability to the DoD. A degradation in the capability MSP provides would impact our readiness and potentially USTRANSCOM's ability to meet sealift requirements.

Should sequestration continue in FY14 without financial relief, MARAD, in conjunction with USTRANSCOM, will take action in accordance with the MSP Operating Agreement. Per the Operating Agreement, a determination of which vessels are the most militarily useful and commercially viable will be made. A number of vessels with the least utility and viability, as jointly determined by USTRANSCOM and MARAD, would be removed from the program to meet the required fiscal shortfall, which could impact DoD's ability to meet future sealift requirements.

Subcommittee on Coast Guard and Maritime Transportation
Hearing on Maritime Transportation: The Role of U.S. Ships and Mariners
Tuesday, May 21, 2013

Questions for the Record to General William M. Fraser, III,
Commander, U.S. Transportation Command
Member: Congressman Garamendi
Question: #2

Question: General Fraser, it is no secret that budget cuts imposed by sequestration have reduced the level of funding for the Maritime Security Program by approximately \$22.8 million. As such, MARAD will not be able to fulfill the contractual obligation of \$3.1 million to each MSP carrier. Does TRANSCOM have any flexibility to transfer funds from other accounts to cover the shortfall in Fiscal Year 2013? Does TRANSCOM anticipate that any of the MSP carriers will select to drop out of the program due to the uncertainty of future funding? Have any operators decided to withdraw from the program or re-flag their vessels to another registry? What will be the collateral effect on DoD's logistical planning if more than a handful of operators decide not to renew their 10-year contract?

Answer:

Appropriations for the Maritime Security Program (MSP) are provided to the Department of Transportation and USTRANSCOM has no budgetary authority over those funds nor do we have any flexibility to move funds from other accounts. Any direct actions to address this funding shortfall would be taken by the Maritime Administration (MARAD).

As of 14 June 2013, all participants have re-signed their MSP operating agreements to stay in the MSP. Any vessels re-flagged to other registries have been done in the normal course of fleet recapitalization. Should a carrier choose to leave the program, there are some short term actions that can be taken to mitigate the capacity shortfall, such as chartering other available vessels, activation of MARAD's Ready Reserve Force or MSC's organic sealift vessels, or use of other logistics vehicles such as the multimodal transportation contract.

Subcommittee on Coast Guard and Maritime Transportation
Hearing on Maritime Transportation: The Role of U.S. Ships and Mariners
Tuesday, May 21, 2013

Questions for the Record to General William M. Fraser, III,
Commander, U.S. Transportation Command
Member: Congressman Garamendi
Question: #3

Question: General Fraser, one of several negative impacts of the Administration's proposal would be to substantially reduce available government cargo for U.S.-flag vessels upon which the U.S. Government depends for its national security sealift requirements. MARAD has estimated that 50% of the U.S.-flag fleet engaged in foreign trade carries Food for Peace cargoes; one-third of the fleet depends heavily on such carriage. The loss of one-third to 50% of the fleet could have serious consequences for U.S. sealift capabilities in terms of vessels, trained U.S. citizen merchant mariners, and the intermodal networks provided by U.S.-flag carriers. How significant is the private U.S.-flag merchant marine in DoD and national security planning? How important has the private U.S.-flag merchant marine been to U.S. operations in Iraq and Afghanistan? What would be the replacement cost to the U.S. Government if half of the existing U.S.-flag foreign trading fleet was no longer available and the sea lift capability had to be reconstituted? How quickly could DoD restore or replace this sea lift capability? What would be the affect on DoD's ability to deploy quickly and efficiently, and to maintain secure and reliable logistic support for operations?

Answer:

The commercial U.S.-flag merchant marine is critical to DoD and national security planning. These U.S.-flag vessels, in partnership with DoD, moved close to 90% of the Department's sustainment and routine deployment/re-deployment cargo in Iraq and Afghanistan. Especially during surge deployment or withdrawal periods, our partners have shown great flexibility by continually modifying routes and business practices to support DoD requirements.

Since the full value of the U.S.-flag fleet is unknown, the cost to replace it is also unknown. However, should replacement of 50% of the U.S.-flag fleet become necessary, several options are available such as chartering other U.S.-flag vessels, purchasing foreign-built but U.S.-owned vessels, or building new vessels in U.S. shipyards. Any commercial vessels made available for future DoD use through the Maritime Security Program would also require a viable and sufficient cargo base providing adequate revenue to maintain long term, commercially-viable operations.

Although the U.S.-flag commercial fleet provides a significant portion of the required lift capability, DoD's ability to deploy quickly and efficiently in response to crisis or contingency scenarios is primarily accomplished by the organic fleet followed by voluntary participation of U.S.-flag commercial partners. Lacking U.S.-flag commercial capability, the most expeditious means to restore sealift capability is to charter foreign-flag vessels.



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

ON

MARITIME TRANSPORTATION: THE ROLE OF U.S. SHIPS AND MARINERS

**May 21, 2013
Room 2167 of the Rayburn House Office Building**

Testimony of

**Fred Harris
President
General Dynamics, NASSCO
2798 Harbor Drive
San Diego, CA 92113-3650
(619) 544-3400**

Chairman Hunter, Ranking Member Garamendi and Members of the Subcommittee, I am Fred Harris, President of General Dynamics NASSCO. We build US Navy ships and large, ocean-going commercial ships in San Diego, CA. We repair and maintain Navy ships in San Diego, Norfolk, VA and Mayport, FL. I am Vice Chairman of the Shipbuilders Council of America (SCA) which represents shipyards and partners that supply and support US vessel construction and repair on all coasts, the Great Lakes, the inland waterways, Alaska and Hawaii.

It is a pleasure to testify regarding the industry and important federal policies, including the Jones Act and the Title XI loan guarantee program.

The United States is a maritime nation and draws much of its global power from its maritime strength. Our Navy and Coast Guard are without equal anywhere in the world and their strategic importance in the decades since WWII is unquestionable. Of equal importance, our unfettered access to international maritime trade allows us to buy and sell freely in the global marketplace.

However, our commercial maritime industry is often overlooked as a vital element of our nation's maritime strength. Commercial shipbuilding is a crucial underpinning of our government shipbuilding industrial base. It also ensures skilled mariners and ships are available in time of war or emergency to transport materials by sea. In both Gulf wars, over 90-percent of all war material was moved by sea. In the first Gulf war, 78-percent of this sea lifted material was carried by US flag vessels, and from 2002 to 2008, US flag vessels carried a staggering 97-percent of sea lift materials for the Iraq and Afghanistan conflicts. Of this 97-percent, 57-percent was carried in US flagged vessels, primarily ships in the Maritime Security Program (MSP). The remaining 40-percent was carried in US government-owned vessels. Roughly half

of these were Ready Reserve Force vessels which required our maritime industry to provide experienced mariners to crew. In 2011, there were only 192 US flag vessels over 10,000 deadweight tons. Ninety-three of these are in foreign (non-Jones Act) service and 60 of these are in the MSP. These numbers should serve to illustrate the importance of the MSP as well as reveal how tenuous this strategic lifeline has become.

The Jones Act is the cornerstone of America's ability to maintain a strategically significant maritime industry that is capable of building the ships the nation requires and of providing adequate sealift in times of national emergency.

Jones Act

The Merchant Marine Act of 1920, Section 27, also known as the Jones Act, requires that cargo transported by water between US ports is moved on ships that are US built, US flagged, crewed by Americans, and 75-percent US owned. The Act also ensures that the nation maintains a shipbuilding industry that currently supports over 400,000 jobs in the United States. A soon-to-be-released, MARAD-sponsored, shipbuilding and repair industry economic impact study conducted by Price Waterhouse Cooper found that the US shipbuilding and repair industry directly employs over 107,000. The multiplier for indirect jobs in support of the industry is 2.7, resulting in approximately an additional 300,000 jobs. Overall, that employment accounts for \$23.9 billion in labor income and \$36 billion in GDP.

There are nearly 40,000 Jones Act vessels in operation in the US. These vessels include oceangoing crude and product carriers and containerships, and as well as Offshore Support

Vessels (OSV) and all the commercial vessels that move cargo in and around the nation's rivers and ports. America's domestic fleet, one of the largest in the world, ensures a skilled workforce to both service and sail these vessels and provides the nation a strategic sealift capability during time of conflict or emergency.

The Navy and Defense Department strongly support the Jones Act because of its important national security benefit. Our military leaders have repeatedly voiced their support for the Jones Act. In addition, as recently as March 2013, the GAO found that the Jones Act plays an important role in American national security, is a critical source of seafarers in times of crisis, and helps ensure an essential shipyard industrial base. The GAO said that the American fleet's contribution to maintaining a shipyard base is particularly important now because of budget reductions for military vessel construction. The GAO also said that if the American maritime industry ever disappeared or was substantially reduced, DoD would need to create a much larger reserve fleet at substantial cost to taxpayers.

Jones Act opponents argue that the Act is a highly protectionist law unique to the US maritime industry. In fact, according to the last tally by the US Maritime Administration, more than 50 countries have similar maritime laws. (And that does not include those nations that have "practices," if not laws, reserving their domestic transportation to their own countrymen.) In addition, these types of laws are not just confined to the maritime industry. A cabotage law is one that affects the transport of people and goods within a particular country, and it can apply to other modes of transportation such as rail, trucking, and airlines. All over the world, countries have put in place policies and laws for a variety of modes of transportation to ensure domestic safety, security, environmental control, and taxes, among other important reasons. Opponents of

the Jones Act are often artfully mum about laws similar to the Jones Act that support their own interests.

Jones Act opponents routinely state that no one is building ships in the United States anymore because the US-build requirement dramatically increases the cost of shipping in the US. First, American shipyards are building more than a thousand vessels every year, including state-of-the-art vessels. US shipyards are competitive in some areas and have innovated in several markets, including the offshore oil and gas industry, to the point that several companies are building their vessels here for export. Additionally, the world's first LNG-powered containerships (and thus the greenest ships of this type) are currently being designed and will shortly begin construction in an American shipyard. This revolution in the maritime LNG market will be addressed in greater detail later in this testimony. Second, US commercial shipbuilding maintains a robust, skilled shipbuilding and repair work force and supplier base that supplements and helps reduce the cost of government construction. In fact, many of the same yards building for the military are also building commercially. For these reasons, the US Navy unequivocally supports the Jones Act.

The Shipbuilding Industry

Since WWII, the shipbuilding industry has undergone dramatic change. During WWII, US shipyards set the international benchmark for shipyard efficiency, producing more than 95-percent of the world's tonnage from just 30 yards. By the end of WWII, the US Navy's fleet was the world's largest, comprising 70-percent of the world's total tonnage for naval vessels greater than 1,000 tons.

Since WWII, the US has seen a marked decrease in the number of commercial oceangoing ships built domestically. In 1953, the US built 45 commercial ships. Despite an average of 25 ships delivered per year through the 50s, 60s, and 70s, US shipbuilders lost their competitive edge. Throughout this period, the industry was supported by the US Government's Construction Differential Subsidy Program (CDS). When the Reagan Administration canceled this subsidy in 1983, the impact was felt immediately, and the construction of commercial ships in the United States nearly ceased.

Along with the cancellation of the CDS program, a number of other factors have contributed to the decline of commercial shipbuilding in the US. The primary factors include the rise of heavily state-supported Asian shipyards, a lack of an effective US government maritime policy, and industry's failure to adopt more efficient processes and upgrade facilities.

Since 1953, we've lost over 300 shipyards, commercial and naval alike. We have lost the U.S. Naval Shipyards in Boston, Brooklyn and Philadelphia, and the commercial yards in Quincy, Massachusetts, Sun Shipbuilding & Dry Dock in Chester, Pennsylvania, and Bethlehem Steel at Sparrow's Point, Maryland, their state's largest private sector employers at the time. And, we are soon to lose Louisiana's Avondale shipyard for Navy work.

The decline of shipbuilding capacity in the US is directly linked with the decline of the US commercial fleet. However, the industry anticipates increased orders in the next few years for several reasons: the Jones Act dry cargo fleet requires recapitalization because of the current fleet's age, the introduction of stricter environmental regulations, and the rising cost of fuel. Additionally, the recent increase in crude oil production in the contiguous United States is

creating demand for more Jones Act tankers. Both of these opportunities offer hope for US shipbuilding, but a strong and intact Jones Act is a necessity. A healthy Jones Act ensures preservation of the industry's supplier base, the design and production workforces, and of course, the seafarers. Repealing the Jones Act would wipe out most large US commercial shipyards and shipping companies. Furthermore, it would limit oceangoing US Merchant Mariners to employment with Military Sealift Command (MSC).

The vast majority of large oceangoing commercial ships are built today in Japan, Korea, and China. India, Vietnam, and the Philippines are emerging in the industry as well. All of these countries, but particularly China and South Korea, have made the development of a shipbuilding industry a national priority. All of these countries heavily subsidize their shipbuilding industries and are able today to build ships more cheaply than the commercial shipyards in the US from a combination of subsidy and the resultant volume. Volume and the ensuing ability to pursue process improvement have ensured that foreign shipbuilders, particularly the Koreans and the Japanese, have become the most efficient in the world. For the last two years, however, there has been an enormous glut of new ships entering the market, and ship orders are severely depressed for all but the most complex ships (drilling rigs, LNG carriers, LNG processing plants, and mega containerships (14-18,000 TEU)). As a result, many foreign shipbuilders are struggling, and the world is seeing a dramatic reduction in the number of shipyards. As many as 50-percent of the shipyards in China, that build simpler ships (tankers, bulkers and small to medium containerships) may close (or be repurposed) during this downturn. In an effort to stave off closure, shipyards are offering very low prices. If the Jones Act was repealed today, foreign-built ships would be brought into the US trade immediately, supporting the heavily subsidized foreign shipyards and resulting in the demise of the American shipbuilding industry.

Importance to Military Shipbuilding

The commercial shipyard industrial base is critical to national security. The Navy strongly supports the Jones Act, along with every Administration in modern history. In a recent statement to Congressman Courtney, John F. Lehman, former Secretary of the Navy, had this to say: “The Jones Act is vital to maintaining a U.S. merchant marine, on call in times of conflict and crisis, as well as a robust shipbuilding industrial base to construct and repair the most sophisticated Navy and Coast Guard fleets on earth.” Contracting US national security budgets projected through 2017 and beyond underscore the importance that commercial work will have in offsetting military and other government workloads in US shipyards. Commercial shipyards build vessels for the US Navy, US Army and the USCG. Without these commercial shipyards, the US military would pay more for supply vessels, other service vessels, amphibious ships and cutters. As an example, over the life of the Navy’s T-AKE (Dry Cargo and Ammunition Ship) Program, the Navy saved approximately \$80 million in overhead cost because of commercial shipbuilding. Commercial shipbuilding supports the base of manufacturers who provide the material for construction of naval warships as well as the military’s ship repair industrial base.

The ability to build our own naval vessels in the US is a strategic imperative, and our commercial shipbuilding industrial base is an essential underpinning of our naval shipbuilding. Without the skill base of trades people and designers and the continuous infusion of best practices provided from a robust commercial shipbuilding industrial base, the costs of naval shipbuilding would simply become too expensive. To appreciate the impact of commercial shipbuilding on naval shipbuilding, one need only look at the effect of its collapse in the United

Kingdom. British commercial shipbuilding has been in serious decline for over 40 years and all but ceased over a decade ago.

Shipbuilding in the United Kingdom

At the start of WWII, the Royal Navy consisted of 377 ships in service, with 98 under construction. The commercial fleet of the UK flourished as well, numbering nearly 7,000 vessels. An example of that strength was seen during the Royal Navy Fleet Review at Spit Head for Queen Elizabeth the Second's Coronation in 1953. Hundreds of naval vessels participated in the Review, exhibiting what was then the second largest navy in the world. Today, there are only 79 ships in Her Majesty's fleet, which represents an 87-percent decrease over the past 66 years. The Naval Review for Queen Elizabeth's Diamond Jubilee last year was cancelled because the size of the fleet was so small and so few ships were available. Instead, the Queen was honored with a boat parade on the River Thames.

As early as the 1960s, many UK shipyards were either empty or working on their last orders. Over the course of the next 20 years, the government of the UK attempted to save the industry, first through subsidy, then nationalization, and finally privatization. With each instance of government intervention, the industry became less efficient and less competitive, losing out first to other European yards and more recently to the Japanese and Koreans.

Today, the UK shipbuilding industry is a shell of its former self. By the end of this year, there will be only four active shipyards, owned by just two corporations, BAE and Babcock. Last November, BAE announced that they may close their Portsmouth yard this year. In 1963, the UK

built nearly 20-percent of the world's commercial tonnage. Since 2004, not a single commercial oceangoing vessel has been built in the UK. As might be expected, the size of the UK flagged merchant fleet has fallen dramatically, from about 2,500 to less than 1,000 vessels today. Additionally, the crewing regulations are much less restrictive in the UK. Today, a seaman of any nationality may sail aboard a UK-flagged vessel with the exception of three positions: the Master, Chief Engineer, and Chief Officer. In the US, the Jones Act requires that the entire crew be of US citizenship. This provides further evidence of the value of the Jones Act.

The Royal Navy and the Ministry of Defense (MOD) clearly understand that the shipbuilding industrial base has atrophied to the point where it can no longer meet fleet replacement needs. The dwindling industrial base has and continues to limit the success of current Royal Navy shipbuilding, including the Astute Class submarine and the Queen Elizabeth Class carrier programs. I was personally involved in both of these programs. Last year, at the invitation of the MOD, I participated with a team in assessing the design and construction progress on the Queen Elizabeth carrier program. Design studies for the program were awarded in 1999, contracts were signed for two carriers in 2008, and construction began in 2009. The first of class, the HMS *Queen Elizabeth*, will probably not be operational until 2020 – a span of over 20 years from start of design to delivery. The construction of HMS *Queen Elizabeth* and now *HMS Prince of Wales* has been hampered by the fact that the UK no longer possesses the qualified labor force necessary to efficiently design and build complex surface combatants. Not only has the UK not built a carrier in 30 years, but the yard assembling *HMS Queen Elizabeth* has not built a warship in over 40 years, performing only repair work during that time. Though the first ship is under construction, the yard has had to import hundreds of skilled workers from all over the UK at great expense.

The full effect of the loss of both capability and capacity has reverberated into more recent naval programs. Last year, the Royal Navy put its Tide Class Military Afloat Reach and Sustainability (MARS) Program of double-hulled replacement tankers out for final bid. Although a number of British companies took part in the competition, none submitted a final bid for the detailed design and construction contract. Sadly, the few remaining UK shipbuilders were overburdened with design and construction efforts on the *Queen Elizabeth* carriers and could not participate in a new program. As a result, the MOD contracted with Daewoo Shipbuilding and Marine Engineering Company (DSME) in South Korea to build four 37,000-ton tankers for \$711 million (USD).

The state of the UK shipbuilding industry demonstrates what we have to lose should the Jones Act be repealed or otherwise weakened. Not only the loss of thousands of US jobs and the associated revenue, but the potentially un-recoverable loss of design and construction skills would be detrimental to the country. We cannot allow the US maritime industry to follow in the United Kingdom's footsteps. Maintaining the Jones Act is vital to ensure America preserves its commercial shipbuilding industry, and thus, its naval shipbuilding capability.

While it is true that we cannot effectively compete in price with heavily subsidized shipbuilders in South Korea, Japan and China, US shipbuilders are becoming more competitive and innovative. Several shipbuilders are internationally competitive in the Offshore Support Vessel marketplace and others are quickly becoming world leaders in bringing green LNG propulsion technology to the world of commercial shipping. The Jones Act dry cargo fleet needs to be largely recapitalized over the next ten years, and the current and projected demand for crude and product carriers is significant. The Jones Act ensures this work will be performed in US

shipyards. Not only would US commercial shipbuilders be able to maintain their skilled workforce of builders and designers, they will also be able to continue developing innovative technologies and best practices to the benefit of military shipbuilding. Additionally, the US government will have the opportunity to save taxpayer money by sharing overhead costs with commercial ship owners.

Jones Act – GAO Study

The Jones Act is often portrayed as being particularly harmful to the non-contiguous areas of the United States. At the specific request of the Resident Commissioner of Puerto Rico, the Government Accountability Office (GAO) recently studied the American container shipping service between the US mainland and Puerto Rico. The study was one of the most significant ever undertaken by an independent, non-partisan source. The GAO disproved charges that the Jones Act raises prices for consumers in Puerto Rico. The GAO specifically said, “[S]o many factors influence freight rates and product prices that the independent effect and associated economic costs of the Jones Act cannot be determined.”¹ As such, the GAO’s report confirmed that previous estimates of the so-called “cost” of the Jones Act are not verifiable and cannot be proven. The GAO also found that Puerto Rico receives regular and reliable service and that shipping rates had actually dropped between 2006 and 2010, which is consistent with previous federal studies by the US Department of Transportation, both in Puerto Rico and Hawaii. Finally, the GAO warned of the potential for negative, unintended consequences for the non-contiguous areas if the Jones Act was repealed or changed.

¹ GAO Report to Congressional Requesters, Puerto Rico Characteristics of the Island’s Maritime Trade and Potential Effects of Modifying the Jones Act, March 2013, p. 29

The higher prices of US-built ships are often blamed for higher consumer prices in the non-contiguous markets. I have previously provided data that show this price differential doesn't exist. Increased capital costs are not synonymous with increased shipping rates, particularly in an intensely competitive trade like Puerto Rico. US tax law (e.g., depreciation of the asset and deductibility of mortgage interest) further reduces the immediate impact on shipping rates. In addition, US shipbuilding capital costs can be reduced through several channels. Financing (amortization of the cost over the life of the vessel) spreads any cost over an extended period. Utilization of the Maritime Administration's Title XI Loan Guarantee Program and the Capital Construction Fund (CCF) can provide affordable financing to ship owners. Current and imminent environmental regulations will require that up to 25 vessels currently serving the non-contiguous trades be recapitalized over the next 10 to 15 years. Therefore, the opportunity for series construction to drive down costs is substantially increased. New vessels will also contribute to lower operating costs. They would likely be significantly more efficient, reducing operating costs (e.g., fuel) and could require smaller crews, reducing manpower costs. Additionally, new vessels may not replace old vessels 1:1 (e.g., 2 modern vessels might replace 3 older vessels), further reducing overall operating costs.

Comparing US shipbuilding to foreign shipbuilding, especially to shipyards in Asia, is not an apples-to-apples comparison. In their report, the GAO dedicated a large discussion of the many differences between US and foreign shipbuilding that may contribute to any cost differential. These important differences include foreign government support, lack of similar environmental and safety standards, and standardized series construction runs. In the end, repealing the Jones Act would only send American jobs and countless billions of dollars in investments, labor, and taxes overseas.

LNG – Liquefied Natural Gas

Increasing use of LNG in the maritime industry and the US non-contiguous energy markets will have an enormous impact on the Jones Act shipping market and, as such, warrants discussion. There is no doubt that LNG will play an increasingly important role in our nation's energy portfolio. LNG stands to impact the national energy market in ways only comparable to the oil boom of the nineteenth and twentieth centuries. The growing acceptance and consumption of LNG is driven largely by four factors: the goal of detaching from unstable Middle East crude oil suppliers, an ever-increasing drive towards environmental cleanliness, extensive domestic availability, and a dramatic price spread against crude products. The US maintains the fifth largest known global reserve, with prices at one-eighth the cost of crude oil.

LNG is becoming particularly significant to the shipbuilding industry. While it has been carried as a cargo for decades, LNG has not been widely used as a marine transportation fuel until recently. In December of 2012, NASSCO executed a contract to construct two LNG-fueled container ships for TOTEM Ocean Trailer Express, or TOTE. Additionally, NASSCO agreed to complete technical design work for the conversion of two existing TOTE trailer ships. These programs represent the first of their kind in history and were executed in the United States, within the terms of the Jones Act.

NASSCO does not stand alone in LNG vessel new construction. Harvey Gulf, an operator of offshore vessels for the oil and gas industry, has ordered five LNG-fueled Offshore Support Vessels from Trinity Offshore in Gulfport, Mississippi. As of May 3, 2013, Harvey Gulf has added a sixth vessel to that order, aligning them as the largest owner/operator of clean burning

LNG OSVs in the world. The Washington State Department of Transportation is considering the conversion of six car/passenger ferries in the next several years. VT Halter Marine is also pursuing a new build program that includes LNG propulsion. Given the growing use of LNG as a marine fuel source, it is also likely that bunkering barges will be required. This is evidenced by Shell's recent issuance of a request for information regarding bunker barge construction in the US. As the Jones Act dry cargo fleet is recapitalized over the next decade and as more Jones Act product and/or crude carriers are built to accommodate the rapid increase in contiguous US crude oil production, much of this new fleet will be LNG powered.

Hawaii and Puerto Rico are both seriously considering shifting the fuel source for their domestic electrical power generation to natural gas. Puerto Rico uses natural gas now, but it is imported from Trinidad and Tobago. Both Puerto Rico and Hawaii desire, for good reason, to take advantage of low cost US domestic natural gas. In order to do this, they must bring it in as LNG. Jones Act detractors have written many times that there are no LNG carriers available under the Jones Act and US shipbuilders don't build LNG carriers. They argue that foreign-built LNG carriers should be waived into the US coastwise trades.

In fact, there are three US-built LNG carriers that have current US Jones Act coastwise endorsements. They are not currently working in the US Jones Act trades because there are currently no US LNG export facilities in operation. However, within six months they could be brought off their current charters and reflagged to operate on a Jones Act route, e.g. from Sabine Pass, Louisiana, to Puerto Rico or Hawaii. Both Puerto Rico and Hawaii have plans to convert their electrical power generation to LNG and both desire to bring in low cost LNG from the contiguous US. Neither location is yet ready to receive more LNG, nor is the US ready to export

it. When both ends of this trade are ready to begin operation, the Jones Act qualified LNG carriers will be ready to support it. The existing Jones Act LNG carriers have the capacity to support Puerto Rico's projected needs. Additionally, US shipyards are today designing and constructing LNG-powered ships and are designing LNG carriers. When the time comes to build LNG carriers to support Puerto Rico and Hawaii, American shipbuilders will be ready to do so.

MARAD and American Marine Highway

The Maritime Administration (MARAD) is charged with promoting the development and maintenance of a strong merchant marine for national defense and development of foreign and domestic commerce. MARAD administers financial programs to improve and strengthen the US marine transportation system to meet the economic, environmental, and security needs of the Nation. It is MARAD's responsibility to maintain equipment, shipyard facilities, and reserve fleets of Government-owned ships essential for national defense. The Jones Act is an important element in MARAD's mission to promote the maritime industry. That said, in terms of national policy, the maritime industry has been progressively marginalized since the 1980s.

In 1981, MARAD was integrated into the Department of Transportation (DoT), with a budget of \$568 million, which constituted 2.39-percent of the DoT budget, compared to the DoT Federal Highway Administration (FHWA) budget of \$9.13 billion (38.3-percent). At that time, the US Interstate Highway System was nearly self-sufficient; the Highway Trust Fund (HTF) supported ~99.5-percent of the US Interstate Highway System funding requirements through fuel tax, user fees, and various tolls. Less than 1-percent of the required funding came from the General Fund receipts, bond issues, and designated property taxes. By 2010, the DoT MARAD budget had

been reduced to \$346 million, making up only 0.47-percent of the DoT budget, and the FHWA budget had increased to \$41.85 billion (57.13-percent). In March of 2010, the HTF balance was approximately \$7 billion. Through September of FY10, the US HTF distributed \$63.1 billion in funding to the FHWA, \$21.25 billion greater than the FHWA FY10 budget request.

Over the past decade, the US Interstate Highway System funding requirements have grown roughly two times faster than US Gross Domestic Product. The System is aging and highway expansion is not keeping pace with the increase in vehicle miles travelled (VMT). Congestion is rapidly increasing. Between 1982 and 2011, according to the Texas Transportation Institute, lost time due to traffic congestion across the country has increased from 1.1 to 5.5 billion hours. New highway infrastructure is cost prohibitive (at roughly \$60 million per lane mile in urban areas) and room for expansion does not exist in large metropolitan areas where relief is most needed.

Congress directed DoT to establish the America's Marine Highway Program in the Energy Independence and Security Act of 2007. The purpose is to expand the use of waterborne transportation while relieving landside congestion and reducing carbon emissions. The program is designed to focus on the integration of marine highways into the nation's surface transportation system, providing seamless transition across all modes by leveraging marine services to complement landside surface transportation routes.

America's Marine Highways (AMH) are navigable waterways that have been designated as such by the Secretary of Transportation and have demonstrated the ability to provide additional

capacity to relieve congested landside routes serving freight and passenger movement. The designated Marine Highways consist of over 29,000 nautical miles of navigable waterways, including rivers, bays, channels, the Great Lakes, and Saint Lawrence Seaway System and coastal routes. The Marine Highway system is an efficient means of moving freight in terms of cost per ton-mile and yet, it is the most underutilized of our transportation modes. According to the North American Transportation Statistics Database, in 2010, water services carried barely 6-percent of the nation's ton-miles of domestic freight, down from 30.5-percent in 1990 (not including the domestic pipeline network).

Title XI Loan Guarantee Program

The Title XI loan guarantee program, administered by MARAD, is critically important to the overall US shipbuilding industry and, particularly, to the construction of AMH vessels. The primary purpose of the program is to promote the growth and modernization of the US Merchant Marine and US shipyards. Title XI provides government guarantees of private sector loans for commercial ship owners constructing new ships and offers better terms and lower interest rates. Leveraging as much as \$11 dollars of private investment for every \$1 dollar of federal guarantee funds, the program has provided strong support for the industry.

Affordable vessel financing is the first step toward building Jones Act vessels. Beyond the economic benefits, the use of modern engine technology for these vessels, required under current environmental regulations, will provide environmental benefits by requiring less energy and reducing greenhouse gas emissions per ton-mile of freight moved.

In 2012, the Maritime Transportation System National Advisory Council (MTSNAC), chartered by the Secretary of Transportation, established the Shipbuilding Subcommittee with the directive to make recommendations to the Secretary on how to ensure the health of the shipbuilding industry. The Subcommittee recommended that the Secretary request consistent levels of funding for Title XI transactions in order to promote ship construction. The subcommittee also recommended that MARAD and DoT improve the efficiency and quality of the Title XI review process. Additionally, it is recommended that the Secretary request an increase in MARAD's administrative budget to a level that will ensure that MARAD has an adequate number of professionals with the appropriate education, expertise, and experience to evaluate and document Title XI transactions.

At present, the US maritime industry considers the Title XI process to be "broken" to the point of making the program nearly ineffective. Long delays in the Title XI program's application process are a deterrent to potential investors, taking up to two years in some cases. The current process for receiving a loan guarantee requires significant reform in order to restore the program's effectiveness as a timely source of financing for Jones Act vessels. The DoT Credit Council Order should be amended, internal guidelines should be amended or promulgated, and existing administrative requirements should be enforced as necessary to improve transparency and efficiency.

Funds have only been appropriated to support this program six times since 2002, sometimes from the DoD budget. No funds were appropriated in Fiscal Year 2013 and none are proposed in the President's Fiscal Year 2014 budget. Funding for the program should be increased and made more consistent to improve the Title XI process and to support the construction of Jones Act

vessels. We are grateful for continued efforts in Congress to provide Title XI funding, including the efforts of Chairman Hunter and other Members of Congress.

AMH projects currently lack support from private financing sources due to the perceived high risk involved in such investments, and they can only be implemented through public assistance. AMH projects cannot meet the existing Title XI financial tests with respect to debt, equity, and working capital since such tests are not consistent with start-up operations. The financial requirements in the existing Title XI program must be modified for AMH projects, if the Title XI program is selected to be used for these projects.

Implementing the recommended improvements to the administration of the existing Title XI program will restore its ability to serve as a vital financing source for the entire US shipbuilding industry. Implementation of the MTSNAC Shipbuilding Subcommittee's recommendations will make the Title XI program effective as a critically needed financing tool to further the development of America's Marine Highway as well as the construction of new Jones Act ships. The program, as modified, will provide the long-term financing necessary for vessel construction with requirements that companies with reasonable business models should be able to meet. In addition, clarification that Title XI can be used for vessel re-engining projects, since LNG repowering is expected to be a major feature of future economical vessel operation, will reflect the Secretary's support of projects that meet and exceed current environmental requirements.

Small Shipyard Grant Program

Another program creating highly skilled shipbuilding jobs is the Department of Transportation's Small Shipyard Grant Program (SSGP). According to a DoT release on May 7, 2013, "It's no secret that America's maritime industry is critical to our nation's economy and national security. That's why this Administration has provided more than \$150 million to help foster efficient and competitive shipyard operations through the Small Shipyard Grant Program." The grants provide financial assistance to small shipyards for capital improvements and training purposes.

The Shipbuilders Council of America (SCA) strongly supports continued SSGP funding and commends MARAD on their efficient and effective administration of the program. These competitive grants have been dispersed to over 50 projects in the past several years, improving and modernizing equipment to increase the efficiency, competitive operations, and quality construction of vessels in US shipyards. Additionally, the program supports important workforce development initiatives, a critical issue facing the industry at-large. In 2012 alone, 141 SSGP grant applications were submitted by shipyards while only 15 were awarded, clearly demonstrating the demand for this program. Over the past five years, SSGP has created and retained thousands of American jobs.

Conclusion

The Jones Act has been supported by every president in modern history and enjoys broad, bipartisan support in Congress today. The Defense Department and US Navy have declared it essential to national security. The American domestic maritime industry is responsible for

hundreds of thousands of jobs across our country, and maritime remains the most environmentally friendly, safe and cost-efficient mode of transportation.

The Jones Act is a critical supporting element of our maritime strength. Without it, the US stands to follow the same path as the UK and lose virtually all shipbuilding capabilities, along with the valuable design and construction skills associated with it.

Just as The Jones Act is vital for the US shipbuilding industry, the Maritime Administration's Title XI loan guarantee program is essential to the Jones Act trade. Title XI guarantees private loans to commercial ship owners for ship construction and modernization. This program provides affordable financing to ship owners to build new ships. There are, however, two critical elements of this program that need to be addressed to ensure the viability of commercial shipbuilding. First, funds must be consistently appropriated to support the program. Second, the current process for receiving a loan guarantee requires significant reform in order to restore the program's effectiveness as a timely source of financing for Jones Act vessels. Maintaining the Jones Act and funding and reforming Title XI are essential to ensure that America preserves its commercial shipbuilding industry, and thus, its naval shipbuilding capability.

**Subcommittee on Coast Guard and Maritime Transportation
Hearing on Maritime Transportation: The Role of U.S. Ships and Mariners
Tuesday, May 21, 2013**

**Questions for the Record to Mr. Fred Harris,
President, General Dynamics NASSCO**

Questions from the Honorable John Garamendi (D-CA)

Substitution of Lost Sealift Capability

Mr. Harris, in your testimony at the hearing you referenced GAO's assessment of the Jones Act which reaffirmed that the coastwise laws provide an important national security benefit. The GAO recognizes that the Jones Act ensures that there is a critical source of seafarers in times of crisis and an essential shipyard industrial base, something even more important now with concurrent reductions in the Navy's shipbuilding program. GAO also concluded that the maintenance of this maritime capability is, in effect, a fixed cost, and that if the U.S. maritime industry ever vanished, that the Pentagon would need to create a much larger reserve fleet at a much higher cost to the taxpayer.

- *From your perspective as a shipyard operator, is it even possible to think that the Department of Defense could provide the same level of sea lift capability at a lower cost?*

From my perspective, it would not be possible for the government to reconstitute a shipbuilding capability that could build a strategic sealift capability less expensively than it can be done today with the current industrial base. There are two reasons for this. The first is that the government has not built a ship in forty years. The last of the naval shipyards were closed or converted to repair-only shipyards in the early 1970's because it was more costly to build ships in those yards. The naval shipyards that do remain are nuclear repair yards with the high cost structure that goes with nuclear repair. The land that the old naval shipyards were on has been repurposed and would be very expensive for the government to reacquire. Second, the government has never built a modern, commercial-standard sealift ship. The cost to the Navy of reconstituting a shipbuilding capability and then building sealift ships would be many times what it would cost for today's shipbuilding industrial base to build those ships.

- *Should the U.S. maritime industry vanish, is it even practical to think that the Department of Defense could stand up the same sea lift capability almost immediately?*

From a shipbuilder's perspective, for the reasons stated above, it would be not only very costly to reconstitute a government shipbuilding capability, but it would be very difficult to impossible to acquire the land on which to establish shipyards and to reestablish an experienced workforce. The UK is today struggling to build their two aircraft carriers because they lack the experienced workforce to do the work. The Royal Navy recently ordered four fleet oilers from a Korean shipyard, because they did not have the industrial

capacity and the workforce to build these ships. Reestablishing a shipbuilding capability, once it has disappeared would be an expensive and slow process.

- *If DOD had to reconstitute some sea lift capability, what options would there be? How long would this take and what would it cost?*

From the perspective of a shipbuilder, the Department of Defense could support the construction and operation of dual use vessels that could be operated on American Marine Highway (AMH) corridors through the provision of grants, operating subsidies, and Title XI loan guarantees from the Maritime Administration. These ships could replace many of the Ready Reserve Force (RRF) ships, which are obsolete due to their low military utility and obsolete propulsion and auxiliary systems. (Twenty-six of these ships are steam powered). As the last remaining steam-powered ships are phased out of the active US flag merchant fleet, it would become difficult to find qualified sea-farers to operate these ships in a time of emergency.) In consideration of such support, the Department of Defense would have access to such vessel in time of national emergency. In the event of default with respect to the guaranteed obligations, the Department of Defense would be required to purchase such vessel and assume or repay the outstanding guaranteed obligations. Even in this case, these vessels would cost the government less than if the government contracted for them directly.

The economic benefit of building these ships would be tremendous and would reduce the cost of naval shipbuilding and repair by spreading the infrastructure costs over a wider base. In addition to reducing congestion on US highways these dual use ships could be a driver for the entire maritime industry which would include active jobs for US Mariners, and the myriad of jobs associated with terminal infrastructure and operation.

Title XI

Mr. Harris, as you stated at the hearing, the Title XI Loan Guarantee Program process “requires significant reform to restore the program’s effectiveness as a timely aid to ship construction financing.” Neither DOT nor MARAD have requested consistent levels of funding; MARAD has failed to improve the quality and efficiency of the Title XI review process; and MARAD has not increased its administrative budget to ensure that an adequate number of professionals are on hand to evaluate, document and oversee Title XI transactions.

- *Is the Title XI Program beyond repair? What recommendations might you offer on how to best reform the program to meet the present and future needs of the U.S. maritime industry?*

First, the Title XI Loan Guarantee Program is not beyond repair. In fact it is crucial to the replacement and expansion of our commercial fleet. Every dollar provided as loan guarantees provides 11 dollars in shipbuilding activity with the vast majority of those dollars going toward skilled jobs in every state throughout the supply chain. I chair the Shipbuilding Subcommittee of the Maritime Transportation System National Advisory

Council (MTSNAC). I presented the following recommendations to the Secretary of Transportation on 9 September 2013, for the reform of the Title XI program.

1. The Secretary of Transportation should request consistent levels of funding for Title XI transactions in order to promote ship construction and to improve the efficiency and quality of the Title XI review process by having a consistent volume of transactions to process.
2. The DOT Credit Council Order should be amended, internal guidelines should be amended or promulgated, and existing administrative requirements should be enforced as necessary to accomplish the following:
 - A. To provide more visibility and accountability, minutes should be taken at the Credit Council meeting. The portion of such minutes that relate to an Applicant's Title XI application should be made available to such Applicant.
 - B. A draft of the Independent Financial Advisor (IFA) report should be made available to the Applicant and the Applicant should be able to meet with the IFA (along with MARAD and DOT) to provide feedback on the report before it is finalized to ensure factual accuracy.
 - C. Recommendations by MARAD, the Credit Council working group or the IFA for security to MARAD that is in addition to the standard required security should be discussed with the Applicant before the application is presented to the Credit Council.
 - D. The form Title XI documents should be posted on the MARAD website.
 - E. A vote should be taken on an application in the meeting in which it is presented (which is the way that the Credit Council process worked when it was initially established).
 - F. The IFA's scope should be limited to those areas in which the IFA has expertise (i.e., evaluating economic soundness and not, for example, the market and market rates for which industry market specialists are retained nor the terms of the transaction documentation which are the purview of MARAD's legal staff).
 - G. In order to qualify as an IFA on a Title XI project, a company should demonstrate that it has maritime/ship finance experience and expertise.
 - H. MARAD should strictly adhere to its own regulations with respect to the timing of review of applications.
2. The Secretary of Transportation should request an increase in MARAD's administrative budget to a level that will ensure that MARAD has an adequate number of professionals with the appropriate education, expertise and experience to evaluate and document Title XI transactions.

Direct Federal Support for Maritime Industry

Mr. Harris, the Construction Differential Subsidy (CDS) Program was a program whereby the Federal government attempted to offset the higher shipbuilding cost in the U.S. by paying up to 50% of the difference between the costs of U.S. and non-U.S. construction. The difference went to the U.S. shipyard. The program was canceled in 1982. You noted in your testimony at the hearing that the cancellation of this program was felt immediately and the construction of commercial ships in the U.S. nearly ceased.

- *Are you arguing for the restoration of policies that advocate for more direct Federal intervention to provide a level playing field for U.S. ship owners and shipyards against international competitors?*

Direct subsidies are not the answer. The protection they afforded took our eye off of the need to become more efficient shipbuilders. I have put considerable effort into studying why Japanese, Korean and Chinese commercial shipyards have essentially cornered the commercial shipbuilding market in the last thirty years. Today these three countries have 92 percent of the world's commercial shipbuilding market. While low labor rates (now only in the case of China) and subsidies have played a part, the fundamental reason for their success that these nations all made their maritime industries a strategic national industrial priority as a means to stimulate economic growth. In Japan, Korea and China Maritime is a cabinet equivalent level agency. The huge volume of Asian shipbuilding as compared to US shipbuilding is the primary reason why Asian commercial ships cost significantly less than US built commercial ships. We have lost that focus as a maritime nation. Less than .5 percent of the Transportation budget is allocated to the maritime industry. Other countries have attempted to diminish the collective Asian market position by the use of huge shipbuilding subsidies, but this approach has failed because they did not commit at a national/strategic level to support their maritime industry. From my perspective, leveling the playing field with the Asian shipbuilders is not possible unless the nation once again embraces its maritime heritage and makes it a national priority. In the near term, what I propose is renewed and unwavering support of the Jones Act and other measures that are discussed here, to support American shipbuilding as a vital pillar of our national economy and defense.

- *Would the restitution of the CDS program help stimulate domestic shipbuilding and investment in U.S. shipyards?*

No, the restoration of the CDS program would be counterproductive. Before the CDS was withdrawn in the early 80's it was effectively supporting inefficient practices by US shipyards and, in my opinion, contributed to US shipyards falling behind the international shipyards and exacerbating the current competitive landscape I described above.

- *Are there other actions the Congress might consider, such as changes and reforms to the Title XI Loan Guarantee Program or to the Capital Construction Fund Program?*

1. I chair the Shipbuilding Subcommittee of the Maritime Transportation System National Advisory Council (MTSNAC). I presented the following recommendations to the Secretary of Transportation on 9 September 2013, for the reform of the Title XI program.
 - A. The Secretary of Transportation should request consistent levels of funding for Title XI transactions in order to promote ship construction and to improve the efficiency and quality of the Title XI review process by having a consistent volume of transactions to process.
 - B. The Department of Defense could contribute to the program or create a similar program to incentivize the construction of Dual Use ships in lieu of maintaining obsolete ships as part of our nation's ready reserve.
 - C. The DOT Credit Council Order should be amended, internal guidelines should be amended or promulgated, and existing administrative requirements should be enforced as necessary to accomplish the following:
 - To provide more visibility and accountability, minutes should be taken at the Credit Council meeting. The portion of such minutes that relate to an Applicant's Title XI application should be made available to such Applicant.
 - A draft of the Independent Financial Advisor (IFA) report should be made available to the Applicant and the Applicant should be able to meet with the IFA (along with MARAD and DOT) to provide feedback on the report before it is finalized to ensure factual accuracy.
 - Recommendations by MARAD, the Credit Council working group or the IFA for security to MARAD that is in addition to the standard required security should be discussed with the Applicant before the application is presented to the Credit Council.
 - The form Title XI documents should be posted on the MARAD website.
 - A vote should be taken on an application in the meeting in which it is presented (which is the way that the Credit Council process worked when it was initially established).
 - The IFA's scope should be limited to those areas in which the IFA has expertise (i.e., evaluating economic soundness and not, for example, the market and market rates for which industry market specialists are retained nor the terms of the transaction documentation which are the purview of MARAD's legal staff).
 - In order to qualify as an IFA on a Title XI project, a company should demonstrate that it has maritime/ship finance experience and expertise.
 - MARAD should strictly adhere to its own regulations with respect to the timing of review of applications.
 - D. Congress should approve an increase in MARAD's administrative budget to a level that will ensure that MARAD has an adequate number of professionals with the appropriate education, expertise and experience to evaluate and document Title XI transactions.

2. I also submitted the following recommendations to facilitate an American Marine Highway (AMH). Before the advent of the Interstate Highway system, the U.S. had a vibrant coastal transportation system. Seaborne transportation has always been the most cost effective means of

moving cargos. Today, U.S. coastal highways (e.g. I-5, I-10, and I95) are increasingly congested, reducing the capacity for the movement of goods and commerce. Additionally, the growing number of trucks is causing progressively more wear on the county's aging highway infrastructure. Eventually, the congestion on coastal highways and the degradation of the highway infrastructure will force the reestablishment of an American Marine Highway system where containers and/or truck trailer beds are moved by sea between US port cities. However, without government action to remove barriers now, it will only happen when congestion becomes extreme. The government can either act to reestablish an AMH or wait until congestion is so bad that there is no alternative. The U.S. maritime industry would benefit by building the ships for this type of service. Ships for this type of service would either be container ships or trailer ships. The following are barriers that need to be removed or incentives that would help facilitate the restoration of the American Marine Highway.

- A. New Title XI Process for American Marine Highway vessels. Enact legislation to create a new Title XI evaluation process for American Marine Highway vessels that would have more flexibility and allow DOD support for dual use vessels
- B. Amendment of the Tonnage Tax. Support language to amend the Internal Revenue Code of 1986 to modify the application of tonnage tax on certain vessels
 - Proposal to repeal the 30-day limitation on domestic operations for U.S.-flag vessels operating in both domestic and international trade
 - Enables U.S.-flagged vessels to use lower tonnage tax for income from international operations but still pay the normal 35 percent corporate tax rate on income from operations in the domestic operations
- C. Amendment of Harbor Maintenance Tax. Support language to exempt certain commercial cargo shipping from harbor maintenance tax under IRS tax code
 - Tax exemption for commercial cargo loaded at a U.S. mainland port and unloaded at a U.S. mainland port;
 - Or commercial cargo loaded at a port in Canada located on the Great Lakes Saint Lawrence Seaway System and unloaded at a U.S. mainland port (or vice versa);
 - Or transported solely by coastal river route or river
- D. While not specifically recommended by the subcommittee, an additional method of promoting the AMH would be tax benefits, financing support and subsidies for investment in ships powered by alternative fuels such as clean Liquefied Natural Gas (LNG). These incentives would expedite the adoption of LNG and reduce or eliminate our dependence on foreign petroleum products.

3. The MTSNAC Shipbuilding Subcommittee did not recommend any changes to the CCF program because we believe that it is effective as currently structured. The CCF program is being used by US flag ship owners to support their current ship construction projects in US shipyards and strong Congressional support for the CCF program is needed now to keep it from being impaired or eliminated. Loss of the CCF program would have an immediate impact on US shipyard commercial construction and US ship owners current new construction planning, as well as future ship construction.

- *What about the Small Shipyard Grant Program that was established as part of the 2009 American Response and Recovery Act? Should this be reauthorized and enhanced?*

I support the Small Shipyard Grant Program. There is one area of international shipbuilding where US shipyards are competitive with international shipyards and that is the building of Inland Trade Vessels, Platform Support Vessels (PSVs) and Offshore Support Vessels (OSVs) to support the offshore oil industry. Many of these are built in the country's smaller shipyards or built in yards that in the past were beneficiaries of the Small Shipyard Grant Program. As such, I believe that this program has value to the industry and has been very successful. The inland trade and oil and gas industries together with coastal and oceanic trade are all vital components of our maritime industry.

Support for the U.S. Merchant Marine

In general, there appears to be a strong consensus that the Congress and the Federal Government should do more to promote the U.S. merchant marine. More specifically, the government should better support efforts by the maritime industry to recapitalize assets and modernize and expand capabilities, should preserve existing cargoes and identify new cargoes for U.S. carriers, both in the Jones Act trade and the U.S. foreign trade, and promote opportunities to expand U.S. shipbuilding capabilities.

- *Beyond the obvious need for a sufficient budget and reliable annual appropriations to support the U.S. merchant marine, what are the three highest priorities that you would recommend the Congress consider to address these objectives?*

Answering again from my perspective as a shipbuilder, the Nation needs to embrace the maritime industry as a part of our long term strategic plan for economic development and national defense. We are a maritime nation and the world's greatest trading nation. We should follow the examples of the leading shipbuilding nations, China, Korea, and Japan, in terms of establishing a national priority and strategy. Conversely, we should learn the peril of not doing so from the example of Great Britain, a maritime nation that no longer has a commercial shipbuilding industry.

In the near term my three highest priorities are the following:

1. Renew support for the Jones Act. The single most important thing the Congress and the Administration together can do to support the maritime industry is to unequivocally renew its support of the Jones Act. This helps to maintain the inland and coastal components of our industry, creates economic development and strengthens our maritime sector as a vital component of our national defense.
2. Adequate Title XI funding on an annual basis together with critically needed reforms to the program.. The Title XI Loan Guarantee program is the government's clearest and most impactful method of supporting the American shipping and shipbuilding industries. Funding for the Title XI program has been, at best, irregular and inadequate to the need in recent years and the administration of the program has been woefully inadequate. A consistent appropriation of funds for Title XI, combined with the reforms I address in the next question, is the simplest and most effective method available to the Congress to support the industry's efforts to recapitalize and modernize. The concept of a revised Title XI program for American Marine

Highway ships, including dual use vessels, should be explored as part of this program.

3. LNG exports should support U.S. maritime industry. Ensure that as the United States begins exporting LNG in the near future that the American maritime industry is able to participate in the transportation of this new export product. A method should be found that ensures a certain portion of U.S. LNG exports are conducted in U.S. built LNG carriers, crewed by American merchant mariners.
- *Are there specific programs that should be reformed to better align with contemporary and future needs?*
1. As chair the Shipbuilding Subcommittee of the Maritime Transportation System National Advisory Council (MTSNAC). I presented the following recommendations to the Secretary of Transportation on 9 September 2013, for the reform of the Title XI program.
 - A. The Secretary of Transportation should request consistent levels of funding for Title XI transactions in order to promote ship construction and to improve the efficiency and quality of the Title XI review process by having a consistent volume of transactions to process.
 - B. The DOT Credit Council Order should be amended, internal guidelines should be amended or promulgated, and existing administrative requirements should be enforced as necessary to accomplish the following:
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 - In order to qualify as an IFA on a Title XI project, a company should demonstrate that it has maritime/ship finance experience and expertise.

- o MARAD should strictly adhere to its own regulations with respect to the timing of review of applications.

C. The Secretary of Transportation should request an increase in MARAD's administrative budget to a level that will ensure that MARAD has an adequate number of professionals with the appropriate education, expertise and experience to evaluate and document Title XI transactions.

2. DoD and MARAD should facilitate a Dual Use Vessel program within the American Marine Highway (AMH) to assist in recapitalization of the Ready Reserve Force (RRF). The Department of Defense could support the construction and operation of dual use vessels that could be operated on AMH corridors through the provision of grants, operating subsidies, and Title XI loan guarantees from the Maritime Administration. In consideration of such support, the Department of Defense would have access to such vessel in time of national emergency. In the event of default with respect to the guaranteed obligations, the Department of Defense would be required to purchase such vessel and assume or repay the outstanding guaranteed obligations.
- *Are there some existing programs that should be repealed in favor of other alternatives? Conversely, are there some programs previously repealed that might be reconstituted?"*

No.

**Testimony
of
Mr. Joseph H. Pyne
Chairman and Chief Executive Officer, Kirby Corporation
Representing the American Maritime Partnership
On the Role of U.S. Ships and Mariners**

**Before the Subcommittee on Coast Guard and Maritime Transportation of the
House Transportation & Infrastructure Committee
U.S. House of Representatives
Washington, DC
May 21, 2013**

Mr. Chairman and Members of the Committee:

Good morning. My name is Joe Pyne, and I am the Chairman and Chief Executive Officer of Kirby Corporation, the nation's largest inland and coastal tank barge operator. Kirby has revenues of approximately \$2.5 billion per year and has a market capitalization of approximately \$4.5 billion. We employ some 4,600 Americans and operate over 1,300 Jones Act vessels. Kirby has been in the marine transportation business since 1969. I am pleased to appear before you today on behalf of the American Maritime Partnership (AMP) to stress the importance of the domestic U.S.-flag fleet and the coastwise laws to our U.S. transportation system and the role that they play in meeting the economic, homeland, and national security needs of the United States.

Background on the American Maritime Partnership and Kirby Corporation

The American Maritime Partnership is the most broad-based coalition ever assembled to represent the domestic maritime industry. It serves as the voice of the U.S. domestic maritime industry. The organization's 450-plus members span the country and its territories and include vessel owners and operators, shipboard and shoreside labor, shipbuilders and repair yards, equipment manufacturers and vendors, dredging and marine construction contractors, trade associations, other coalitions, pro-defense groups, and companies and organizations in other modes of domestic transportation. These diverse but allied interests all recognize that a strong domestic maritime industry is critical for America's economic, national and homeland security and is best supported by maintaining the coastwise laws as the foundation of America's domestic maritime policy.

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Kirby Corporation serves on the Executive Committee of AMP. Our company transports bulk liquid products throughout the Mississippi River System, the Gulf Intracoastal Waterway, coastwise along all three United States coasts and in Alaska and Hawaii. We transport petrochemicals, refined petroleum products, black oil products and agricultural chemicals by inland and coastal tank barge, and own and operate oceangoing tug and barge units transporting dry-bulk commodities in United States coastwise trade. The company also provides after-market service for medium-speed and high-speed diesel engines and reduction gears used in marine and power generation applications; distributes and services high-speed diesel engines, transmissions, pumps, and compression products; and manufactures and remanufactures oilfield service equipment, including pressure pumping units, for land-based pressure pumping and oilfield service markets.

The Jones Act is Crucial to Sustaining a U.S.-flag Domestic Industry

I am here today to tell you that because of U.S. coastwise laws—commonly referred to as the Jones Act—the domestic U.S.-flag fleet is alive and well, and with the continued support of Congress, it has a bright future.

More than 40,000 American vessels built in American shipyards and crewed by American mariners currently ply the coastwise trades. That industry sustains nearly 500,000 jobs, generates some \$29 billion in labor compensation, and creates more than \$100 billion in annual economic output, according to a study by PricewaterhouseCoopers for the Transportation Institute.

The coastwise laws of the U.S. are essential to the continued economic viability of the U.S. transportation system and to the maintenance of a U.S.-flag fleet to support that system. Those laws require vessels operating in the domestic trades—i.e., carrying cargo or passengers from one point in the United States to another point in the United States—to be (i) owned and operated by American citizens; (ii) built in the United States; and (iii) documented under the laws of the United States (which requires the use of American seafarers to crew the vessels).

At its essence, the Jones Act requires companies doing business in the domestic commerce of the United States to comply with American laws such as taxation, labor and employment, and immigration just as any business operating wholly within the United States would be required to do. It ensures a level playing field for all participants in the market. Notably, other transportation modes such as rail, aviation, and trucking have similar laws governing their domestic operations.

Today's domestic U.S.-flag fleet has proven its capabilities to meet the demands of the marketplace, and has the flexibility to meet the needs of shippers. This is nowhere more evident than in the domestic tanker and tank barge trades, where over the past decade billions have been invested in building new ships, barges, towboats, and tugboats for the marketplace. During the past five years, Kirby has invested over \$2.1 billion in fleet replacement, acquisitions and capital improvements to its existing vessels.

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Likewise, in the non-contiguous container trades, American carriers are investing in ships to meet shippers' needs. AMP member TOTE is not only building new state-of-the-art ships powered by liquefied natural gas (LNG) for the Puerto Rico trades—expected to be the largest ships of any kind in the world powered primarily by LNG—at General Dynamics NASSCO shipyard, but is also converting its two existing containerships to use LNG as their primary fuel source. TOTE's sister company, Foss Maritime, has also developed and built in Rainier, Oregon the world's first hybrid tug, which delivers the same amount of power and maneuverability as conventional tugs. These tugs dramatically reduce emissions and fuel consumption, and the design was awarded the EPA's Clean Air Excellence Award for Clean Air Technology in 2008.

And, consider the domestic offshore oil and gas service sector, where American companies continue to design and build some of the most sophisticated offshore supply vessels in the world. Hornbeck Offshore, an AMP member, last year expanded its DP-2 new generation offshore supply vessel (OSV) new build program to 20 ships, with options for 44 more OSVs. While these 20 coastwise-qualified vessels are being built at two shipyards in the United States for the Gulf of Mexico offshore services sector, Hornbeck expects these coastwise qualified ships to also service the deepwater and ultra-deepwater drilling activity in Brazil and Mexico. These ships will represent an approximately \$900 million investment by Hornbeck.

Investments like this are occurring in virtually every segment of the domestic U.S.-flag industry—dredging and marine construction; tugboats, towboats and barges; passenger vessels; and tank and dry cargo vessels. Thousands of workers in American shipyards and related businesses build these vessels, helping to sustain the shipbuilding industry base. Thousands of American seafarers are employed on the new vessels, providing a pool of seafarers to meet military sealift requirements.

The domestic U.S.-flag maritime industry has demonstrated time and again that it can, and will, continue to meet America's transportation needs.

The Jones Act is a Jobs Engine

A few minutes ago, I touched on the issue of jobs created and sustained by the Jones Act. The PricewaterhouseCoopers study referenced above finds a half-million U.S. jobs attributable to the Jones Act. I can speak from my company's direct experience about those jobs and the employment opportunities our industry represents. These are good paying, career jobs, with attractive benefit packages.

For example, more than half of Kirby's employees—some 2500 Americans—are mariners on our vessels. Their average salaries range from almost \$45,000 a year for a deckhand in our inland fleet to over \$130,000 a year for our captains and pilots. Our company provides them with a comprehensive package of benefits including health and disability insurance, pension plans, 401(k) matching contributions and other benefit programs.

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Training and career development is a vital component of working at Kirby. Kirby has its own training center that includes classrooms, dormitories and dining facilities, as well as training vessels and a state-of-the-art vessel simulator. That center provides all the training most vessel employees need from the day they are hired until they retire. Kirby can take a high school graduate with no experience whatsoever and provide him or her with the paid training and work opportunities to climb our career ladder to a job paying approximately \$100,000 a year within a span as short as 3-5 years.

I have heard some Jones Act critics say that the Jones Act exists to protect only a few maritime unions. The fact is that the American maritime industry, like many domestic industries, is comprised of a union and non-union workforce. In fact, there are both union and non-union jobs within Kirby. In truth, while seafarers and shipyard workers who belong to unions play a critical role in America's maritime industry, the majority of seafarers and shipyard workers employed in the Jones Act segment of America's maritime industry are non-union. So support for the Jones Act is about American jobs—both non-union and union jobs—in the companies, in the shipyards, and on the ships. All American jobs are important, and all American workers employed in the Jones Act segment of America's maritime industry, whether they belong to a union or not, contribute to the economic, homeland and military security of the United States.

The jobs Kirby provides do not end with our own payroll. I know the shipyards will also speak today, but building and maintaining Kirby's fleet of 1,300-plus American vessels means our company alone keeps hundreds of shipyard workers employed. Kirby spends over \$50 million each year just for vessel maintenance and repair, and provides many additional jobs through our newbuild program. A recent example is the construction of two oceangoing tug-barge units that Kirby will use to deliver coal to power plants in Florida. That project is now wrapping up, but during the height of construction over 800 shipyard workers went to work at a shipyard in Orange, Texas each day to build these vessels.

The Domestic U.S.-Flag Maritime Industry is Key to the United States' Military Strategy

The domestic U.S.-flag fleet supports U.S. national and homeland security. Rear Admiral Mark Buzby, Commander of Military Sealift Command, put it best last year when he said:

When it comes to backing the Jones Act, from my standpoint, it's a no-brainer. We need a strong maritime industry, and part of a strong industry is highly trained merchant mariners, so many of whom are employed on Jones Act ships. We need a strong shipbuilding industry . . . We need the current shipping capacity to move the lifeblood of this country where it needs to go, when it needs to go. The Jones Act supports all these things. It's vital to our national security.

The domestic maritime industry has long been recognized as an important element to the nation's military strategy, by Republicans and Democrats alike, all of whom recognize that defense of a nation is far more important than any perceived benefits of allowing foreign ships to operate in domestic waters.

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While some critics argue that the Jones Act no longer provides national security benefits to our country, we strongly believe they are wrong. But do not take our word for it. Take it from the U.S. Government Accountability Office (GAO), an independent, nonpartisan agency that works for Congress, which in a recent report on the Jones Act said “the military strategy of the United States relies on the use of commercial U.S.-flag ships and crews and the availability of a shipyard industrial base to support national defense needs.”

The U.S.-build and rebuild requirement helps to sustain the nation’s shipbuilding, repair and maintenance industrial base capabilities to meet commercial and military needs. The crewing requirement ensures a pool of American seafarers who are trained and ready at a moment’s notice to crew vessels in support of military sealift. And the American ownership requirement of the law ensures that American citizens control vessels and logistics assets that could be made available to the U.S. government in time of war or national emergency.

In a study on *The Contribution of the Jones Act to National Security*, Dr. Daniel Goure of the Lexington Institute said “the relevance of the Jones Act to national security now and in the future must be judged in light of continuing threats America faces overseas and this nation’s requirements for naval power and sealift.” Dr. Goure concluded that “the greatest danger to the role and function of the United States as a seafaring nation is the decline of its maritime industry and merchant marine.”

Because of the Jones Act, I can tell you that the United States continues to have a dynamic shipbuilding industry, a robust U.S.-flag fleet, and a highly skilled American seafaring workforce.

The Coastwise Laws Help to Protect the Homeland

Another largely overlooked element of the domestic U.S.-flag maritime industry is the role it provides in helping to protect the American homeland. In a post-9/11 world, our nation faces a host of new threats. That was never more evident than the recent Boston Marathon bombings. The Jones Act provides a layer of protection to this nation that many do not recognize and also provides capability to assist in times of national emergency. Let me explain.

Securing our borders is a difficult task under the best of circumstances. Imagine how hard it would be to handle that task if foreign vessels were free to roam our domestic commerce every day with foreign workers on board those vessels. While foreign cargo and passenger vessels do call at U.S. ports every day, they enter the country on a temporary basis and in specific secured locations. Allowing foreign vessels with foreign crews to operate permanently in domestic commerce – inland waterways, lakes, coastal – would significantly alter the landscape, dramatically increasing homeland security risks and creating a more porous U.S. border.

Also, as we have noted, the coastwise laws at their core ensure compliance with American laws, including immigration, employment and other laws that were designed to support U.S. homeland security. For example, seafarers serving on American vessels must pass rigorous background checks for both their Coast Guard credentials *and* their Transportation Worker Identification

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Credentials (TWIC). Foreign seafarers do not have to meet the same requirements, and in fact, are not required to get TWIC cards at all. The coastwise laws also help to ensure that the ownership of vessels resides with Americans.

Recognizing the value of the coastwise laws to homeland security, Dr. Goure at the Lexington Institute astutely noted:

The task of securing our U.S. seaports and foreign cargoes is daunting by itself. It makes no sense to allow foreign-owned ships operated by foreign crews to move freely throughout America's inland lakes, rivers, and waterways. Were the Jones Act not in existence, DHS would be confronted with the difficult and very costly task of monitoring, regulating, and overseeing all foreign-controlled, foreign-crewed vessels in internal U.S. waters.

American mariners in our ports and waterways are eyes and ears for homeland security. Coast Guard and law enforcement personnel can only be in so many places, but security trained and vetted American mariners can spot and report potential trouble as they go about their daily tasks. We could not expect such vigilance from foreign crews. And, it is worth emphasizing that the commitment of the American mariner goes beyond security. American mariners have a respect for and commitment to protecting our environment. Many mariners live near the waters they ply, so they feel a personal responsibility to protect their homes and communities and keep them clean and viable for the enjoyment of their families and future generations.

Future Opportunities for the Jones Act Industry

The domestic maritime industry consistently responds to market demands; after all, companies like Kirby exist to serve their customers' transportation needs. History shows that where there has been a need for vessels, they have been built. Where there is a demand for cargo movements, carriers have put vessels in service. Looking forward, AMP sees numerous opportunities for the domestic maritime industry.

In the U.S. non-contiguous trades, American companies are investing hundreds of millions of dollars to build new containerships and roll-on/roll-off cargo vessels. I have already noted TOTE's new LNG-powered containerships at General Dynamics NASSCO. But Pasha Hawaii has a combination container/roll-on-roll-off cargo ship under construction at VT Halter Marine's shipyard in Pascagoula, Mississippi that is anticipated to enter the trade in 2014. It has also been reported publicly that Crowley Maritime Corp. is planning to build containerships for the Puerto Rico trades. The implementation of the North American Emission Control Area, which brings in stricter controls on emissions from ships operated in U.S. waters, will create additional needs to recapitalize the U.S.-flag fleet in the non-contiguous domestic trades.

AMP also believes that at some point the development of a marine highway system in the United States will occur. It is an efficient method of moving cargoes and getting vehicles off roadways. Several factors, however, currently affect the development of a marine highway system in the near term. For example, domestic cargoes are subject to the Harbor Maintenance Tax, which can

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lead to the double taxation of international cargoes transshipped via a marine highway system. Additionally, handling charges for cargoes can also increase costs. Nevertheless, with congestion on the nation's highways increasing and a transportation infrastructure that is in need of major upgrades (during tough budget environments at the federal and state levels), AMP believes that the marine highway system eventually will be developed, creating new opportunities for the domestic U.S.-flag maritime sector.

One of the strongest segments seeing increased demand for tonnage is in the energy sector, where there has been a significant rise over the past 3-5 years in the development of resources in this country. Companies like Kirby, as well as Crowley Maritime, Bouchard Transportation, American Petroleum Tankers, Overseas Shipholding Group, and others, are collectively committing billions of dollars to acquire U.S.-flag tankers, tank barges and towing vessels for the movement of petroleum products and crude oil in the domestic trades, both inland and coastal. We see demand for tankers and tank barges increasing as the U.S. continues to ramp up crude production, and we believe you will see Jones Act operators continue to make investments in new construction to meet that demand.

The opportunities are not limited to crude oil and refined products. The U.S. has developed significant natural gas resources that have the potential to create major new markets for the domestic maritime industry. For example, Hawaii Gas is developing a proposal to transform Hawaii's economy to one powered by natural gas instead of oil-powered electricity generation. Puerto Rico has also expressed a desire to move from oil-powered electricity generation to natural gas. It is anticipated that these areas will need U.S.-flag LNG vessels to carry sufficient volumes of domestically-produced natural gas. Additionally, the expansion of LNG-powered vessels globally is expected to increase the demand for U.S.-flag LNG bunkering vessels on our waterways.

We understand that market dynamics can increase short-term pressure on the transportation system to handle increased energy demands, but we do not believe that is unique to maritime. It is happening in the rail sector, where the need for tank cars has risen significantly over the past two years to meet the demands of refiners and producers looking to move crude stranded in the heartland because of the lack of pipeline infrastructure. It is happening in the pipeline sector, which is developing and building new capacity to handle increased Bakken, Eagle Ford and Permian Basin crude production; reversing pipelines to adjust to the lack of importation of crude; and adding capacity to existing lines to increase volumes being transported over existing rights-of-way. Just as is occurring in these other sectors, the U.S.-flag tanker and tank barge markets will adjust.

It should be noted, however, that energy markets are extremely fluid and dynamic, and are affected by forces such as the global economy and geopolitical issues. Very few people saw the United States on the path to energy independence five years ago, or predicted that shale oil production would increase so dramatically in the past three years. In fact, it was not that long ago that there was a shortage of natural gas in this country and industries were ramping up to import natural gas.

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I say that to point out that the current pressure on the maritime transportation segment in the energy markets is not a justification for Congress to intervene and waive the Jones Act, as a few have suggested. On the contrary, to ensure continued investment by American companies to meet market demands on an ongoing basis in all domestic maritime sectors, Congress must send a clear signal that it will not waive the Jones Act. Without this clear message, uncertainty may undermine vessel owners' willingness to make the long-term investments necessary to ensure this country's future security.

Conclusion

The domestic U.S.-flag maritime industry is one of the most robust, dynamic, and productive in the world today, numbering more than 40,000 vessels, employing more than 500,000 workers, and contributing more than \$100 billion to the U.S. economy. AMP member companies are continuing to invest in this country, creating jobs in virtually every sector of the economy. That is only possible because of the Jones Act.

You asked in your invitation letter for AMP's "views on what is necessary to maintain a U.S.-flag domestic fleet." Our response is twofold: remain steadfast and vocal in your support for the Jones Act; and reject overtures by those seeking to change or repeal the law for their own benefit and to the detriment of the critically important domestic maritime sector. For our industry to remain strong and continue to grow, we need certainty that the playing field will not change. The people who invest in Kirby and other Jones Act companies need confidence in their investments. Uncertainty creates headwinds that make it tougher for our businesses to move ahead. It is important to understand that vessels are assets with a 30- to 40-year life span. Those of us who have been in the business for a long time can remember times of prosperity and times where our vessels were tied up and underutilized. Right now, some segments of the market are tighter than others due to unprecedented new opportunities, but the marketplace can and will adjust to the demand. I am here to tell you that where the need exists, there are a number of American companies who have the financial strength to invest in equipment to meet that need. Please help us keep the confidence we need to continue investing in America by telling the world America's security is not for sale and the Jones Act will remain the foundation of our U.S. fleet.

Thank you for the opportunity to present our views on the importance of U.S.-flag ships, American mariners, and domestic shipbuilding to the Committee.

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June 21, 2013

The Honorable Duncan Hunter
 Chairman
 Subcommittee on Coast Guard and Marine
 Transportation
 Committee on Transportation and
 Infrastructure
 Washington, DC 20515

The Honorable John Garamendi
 Ranking Member
 Subcommittee on Coast Guard and Marine
 Transportation
 Committee on Transportation and
 Infrastructure
 Washington, DC 20515

Dear Chairman Hunter and Ranking Member Garamendi:

Please find attached the responses by Mr. Joe Pyne, Chairman and CEO, Kirby Corp., on behalf of the American Maritime Partnership (AMP), our client, to Ranking Member Garamendi's questions for the record for the hearing before the Subcommittee on Coast Guard and Maritime Transportation regarding the role of U.S.-flag ships and U.S. mariners to our economy and national security. ([Attachment A](#))

In addition to the questions for the record, AMP would like to take this opportunity to respond to comments made during the hearing by the Honorable John Porcari, Deputy Secretary, U.S. Department of Transportation, regarding administrative waivers of the Jones Act. Mr. Porcari suggests that during the drawdown of the Strategic Petroleum Reserve (SPR), the Administration did not issue blanket waivers of the Jones Act. The Administration did in fact propose a blanket waiver of the Jones Act on June 23, 2011. In a memorandum from the Secretary of Energy to President Barack Obama recommending the SPR drawdown, then-Secretary of Energy Steven Chu recommended that the President issue the following as part of a finding authorizing the drawdown:

I further direct the Secretary of Homeland Security to waive compliance with the coastwise laws, including the Jones Act, generally for the transportation of petroleum withdrawn from the SPR during the drawdown, including the transportation of petroleum that may be delivered to or withdrawn from the SPR during this period under contractual arrangements other than ones entered into pursuant to this Finding.

It was only after the American domestic maritime industry learned of this directive, and strenuously objected to it, did the Administration adopt a different approach. ([Attachment B](#) is a

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copy of the June 23, 2011, Memorandum for the President.) It is reasonable to assume that had the industry not learned of the proposed blanket waiver, it would have in fact been issued.

Nevertheless, even after rescinding the proposed blanket waiver and offering to review Jones Act waivers on a case-by-case basis, a *de facto* blanket waiver was implemented by the Department of Energy by establishing an unwritten requirement for minimum delivery lot sizes at 500,000 barrels, a requirement that exceeded the minimum requirements in the Notice of Sale and a level that exceeded the size of any U.S.-flagged vessels.

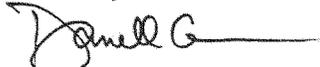
As a result of the approach taken by the Administration, in total, more than 50 waivers of the Jones Act were issued to foreign flag vessels. Notably, the Administration's mishandling of the SPR waivers triggered a response by Congress, which enacted several provisions designed to improve the waiver process by requiring more transparency by the Administration and more coordination between with the maritime sector.

AMP appreciates the Subcommittee working with the industry to address concerns with unnecessary administrative waivers of the Jones Act that are detrimental to the American domestic maritime industry, and urges you to continue your oversight of such waivers.

Again, AMP would like to extend thanks for the opportunity to testify before the committee on the Jones Act. The Jones Act provides a critical foundation to our nation's maritime policy, helping to ensure the nation's ability to maintain a U.S.-flag fleet, a shipbuilding and ship maintenance and repair industrial base, and a pool of qualified seafarers for time of war or national emergencies. It is critical that Congress continue its long-standing support for this law.

AMP asks that you consider this letter a supplemental submission for the record, and as such, include it in the record for the hearing.

Sincerely,



Darrell L. Conner

Attachments

**Subcommittee on Coast Guard and Maritime Transportation
Hearing on Maritime Transportation: The Role of U.S. Ships and Mariners
Tuesday, May 21, 2013**

**Questions for the Record to Mr. Joseph H. Pyne,
Chairman and Chief Executive Officer, Kirby Corporation**

** RESPONSES ARE DENOTED IN BOLD BELOW THE QUESTION SUBMITTED **

Questions from the Honorable John Garamendi (D-CA)

Jones Act

Mr. Pyne, the Jones Act has been the foundation of U.S. maritime policy since 1920, reserving point to point carriage of cargo and passengers from two points in the U.S. exclusively to vessels that are built, owned and crewed by Americans and fly under the U.S. flag. The coastwise laws have ensured our maritime industry and maritime related jobs are not outsourced to foreign shipyards or given to foreign seafarers.

The Jones Act has worked. Compared with the U.S. flag foreign trade fleet which has declined significantly since 1993, today the Jones Act fleet numbers approximately 40,000 vessels of all types providing reliable and cost-effective maritime transportation. Nonetheless, the Jones Act continues to come under attack, usually under charges that it stifles competition, increases transportation costs, and restricts international trade.

- *Opponents of the Jones Act frequently talk about how the Jones Act would lower freight rates and prices to consumers as a reason to waive or repeal the Jones Act. Do you think that would be the case if the Jones Act were repealed?*

Allegations that a waiver or repeal of the Jones Act to permit foreign ships to operate in the domestic trades would translate into lower rates and lower consumer costs are misplaced. In fact, the U.S. Government Accountability Office (GAO) recently looked at a similar allegation for the Puerto Rico trades (GAO-13-260) and found that many factors affect the prices of goods and it is impossible to determine how or if the Jones Act impacts shipping rates or the price of goods. GAO also noted, "We reported in 1998 [in GAO/RCED-98-96R], and continue to find that arriving at an accurate estimate of the costs to foreign carriers of complying with U.S. laws would be very difficult." Because it is not possible to calculate the costs to foreign carriers of complying with U.S. laws – and there will be a cost to complying with U.S. laws, including immigration, wage and hour, taxation, etc. – the independent effect and associated economic costs of the Jones Act simply cannot be calculated. Nor can it be assumed that any transportation cost savings would flow to consumers. Analysis of recent occasions when foreign vessels have been allowed to make domestic moves under waivers suggests any transportation cost savings were pocketed by the shippers and not passed on to consumers.

The GAO noted that allowing foreign ships into the trades could have adverse unintended consequences such as reductions in levels of service provided to customers, loss of mariner jobs needed to crew the U.S. military reserve and other deep-sea vessels in times of national emergency, and reductions in future orders for U.S. shipyards (which could adversely affect the defense industrial base). So, any discussion of whatever savings might be generated by outsourcing our domestic merchant marine to foreign interests should also consider the costs. What would be the cost to maintain a merchant marine reserve force of vessels and crews to meet the nation's wartime manning needs if the domestic fleet and its mariners were not available? Would shipyard subsidies be required to maintain the capacity to build warships and transport ships for our Navy? How would our economy be impacted by the loss of jobs represented by the domestic merchant marine?

- *What would you say to opponents of the Jones Act who argue that because of the tightness of supply of American vessels in the crude and petroleum markets today, we should be waiving the Jones Act to allow foreign vessels into our coastwise trades?*

Crude and petroleum markets are very dynamic, and every day transportation providers such as Jones Act operators respond to shippers needs, both in the short term and over the long term. For example, we are already seeing the markets adjust, with orders placed on May 31, 2013 by American Petroleum Tankers for four 50,000 deadweight ton LNG-conversion-ready product carriers with a 330,000 barrel cargo capacity, with options to build four additional ships. The project will employ approximately 800 workers at General Dynamics' NASSCO shipyard during construction and more than 165 seagoing jobs after completion.

But investors in these markets, including American shipping companies, need legislative and regulatory certainty in order to respond to market changes. Just because there may be a temporary supply and demand imbalance in the marketplace does not justify Congressional or Administration action to waive the Jones Act to permit foreign vessels to operate in the domestic trades. With certainty, the market can adjust and it is adjusting. Waivers undermine current investors in the domestic markets, devalue American companies in those trades, and inhibit future investment in responding to market needs. In addition, changing the rules in the middle of the game by waiving the Jones Act has a harmful and perverse impact far beyond the shipping industry.

It wasn't that long ago that rates were relatively low and tanker and tank vessel availability was relatively high, and there were ample opportunities to engage in long-term charters to assure access to waterborne transportation at very attractive rates. Many companies signed long-term charters during that time; others either misjudged the market or made educated decisions to take the risk. American shipping companies should not be penalized with waivers of the Jones Act because certain companies made the wrong bets. The reality that those who make last minute transportation plans often pay the highest rates, sometimes substantially higher than those who planned ahead, is not exclusive to the maritime industry.

ATTACHMENT A

There are no problems in the domestic marine transportation marketplace that the market cannot solve.

- *Your testimony at the hearing discussed the homeland security benefits of the Jones Act. Can you elaborate on that more?*

As noted in the testimony, the U.S.-flag maritime sector serves as eyes and ears on the water for our nation's homeland security agencies. They are part of the solution, whereas foreign vessels doing the same jobs would be part of the problem. As was noted by Dr. Daniel Goure in his report "The Contribution of the Jones Act to National Security," a key element to the multi-layered approach to protect the U.S. is timely intelligence and visibility into the movement of goods and people in the U.S. This information is critical to the preventing attacks on the homeland. The U.S. vessels of the domestic fleet ply the nation's waterways every day and the highly trained and vetted American workers in the domestic maritime industry perform the vital task of helping to alert appropriate authorities of suspicious or illegal activities. Our company has a sophisticated program to ensure that when someone aboard our vessels sees something that doesn't seem right, that is promptly reported to the proper authorities. The domestic merchant marine helps our homeland security apparatus do its job better. If it was replaced with foreign vessels, this would turn the vessels that watch our waterways into vessels we would have to pay somebody to watch.

If the Jones Act was repealed, and foreign seafarers were free to operate wholly within our domestic waterways, the security risk would undoubtedly increase, especially if changes were not made to other laws that have been implemented for the purpose of protecting the nation, such as immigration and seafarer credentialing. Recognizing the enormity of the task of securing our nation's border, Dr. Goure put it best in his report when he noted, "One could readily assert that were there no Jones Act, Congress would have to invent one."

Title XI Loan Guarantee Program

Mr. Pyne, the Title XI Loan Guarantee Program has been a helpful tool to provide financial assistance to ship owners and ship yard owners to construct, reconstruct or recondition the U.S. flag vessels and to modernize U.S. shipyards to keep them competitive. Regrettably, funding for this program has been inconsistent and declining over the past decade, and in fact, no new guaranteed obligations were approved in 2012.

- *Should the Title XI program be expanded? Are new emerging markets for LNG powered vessels or to provide capacity for trade along Marine Highways legitimate investments that the Federal Government should help finance?*

AMP's sole mission is to support the Jones Act, and therefore, it does not have position on the Title XI program.

Support for the U.S. Merchant Marine

In general, there appears to be a strong consensus that the Congress and the Federal Government should do more to promote the U.S. merchant marine. More specifically, the government should better support efforts by the maritime industry to recapitalize assets and modernize and expand capabilities, should preserve existing cargoes and identify new cargoes for U.S. carriers, both in the Jones Act trade and the U.S. foreign trade, and promote opportunities to expand U.S. shipbuilding capabilities.

- *Beyond the obvious need for a sufficient budget and reliable annual appropriations to support the U.S. merchant marine, what are the three highest priorities that you would recommend the Congress consider to address these objectives?*

A critical benefit of the Jones Act is that it does not require federal funding. The Jones Act provides a level playing field for all U.S.-flag operators. Therefore, AMP believes that the three highest priorities for Congress on the Jones Act are:

- **Continued public support for the law, sending a signal to the markets that investment in the domestic U.S.-flag fleet will be supported;**
- **Rejection of legislative efforts to repeal or waive the law; and**
- **Keeping pressure on the Executive Branch to support and enforce the law and not to administratively waive the law.**

These actions will provide adequate certainty to the markets to permit continued investment in the domestic U.S.-flag fleet, to allow industry to continue building ships in American shipyards, and to create American jobs on the ships and in the shipyards. I cannot emphasize enough the importance of certainty to our long-term business planning.

- *Are there specific programs that should be reformed to better align with contemporary and future needs?*

AMP does not believe that any changes to the Jones Act or related coastwise laws are needed, except perhaps to those provisions in 46 USC § 501 relating to administrative waivers of the law (e.g., to strengthen those requirements).

- *Are there some existing programs that should be repealed in favor of other alternatives? Conversely, are there some programs previously repealed that might be reconstituted?"*

AMP's sole mission is to support the domestic maritime industry through ensuring that the historical policy of the nation that vessels in the domestic trades be U.S. built, U.S. owned, U.S. crewed and U.S. operated remains the law of the land and therefore, it does not have position on other programs that are part of the maritime policy of the U.S.

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The Secretary of Energy
Washington, DC 20585

June 23, 2011

MEMORANDUM FOR THE PRESIDENT

FROM:

STEVEN CHU

SUBJECT:

Authorization to Draw Down Petroleum from the Strategic Petroleum Reserve as Required by U.S. Obligations under the International Energy Program Implemented by the International Energy Agency

Purpose

To request your decision concerning the drawdown and sale of petroleum from the Strategic Petroleum Reserve (SPR).

Background and Discussion

In mid-February, armed conflict disrupted essentially all oil exports from Libya. Prior to the conflict, Libya was exporting approximately 1.5 million barrels per day of light sweet crude oil, representing about 2 percent of the world's crude oil supply. Through May 2011, the Libyan unrest has prevented roughly 145 million barrels of mostly light sweet crude from reaching world markets. Oil exports are still disrupted and are not expected to resume for at least several months. The disruption has caused a substantial increase in oil prices worldwide that is slowing U.S. economic growth at this critical point in our economic recovery. The President's Council of Economic Advisors estimates that the increase in oil prices from the beginning of the year reduced the annualized growth rate of first quarter 2011 real Gross Domestic Product (GDP) by roughly 0.5 percentage points. This drag on GDP growth is expected to persist throughout 2011 if oil prices remain at elevated levels.

Because Libyan oil is low in sulfur content and because refinery demand for crude oil worldwide is expected to increase during the summer months, the impacts associated with the Libyan disruption could increase over the coming months as refineries that can only use low-sulfur crude oil increase production to meet market demand.

Pursuant to section 161(d) of the Energy Policy and Conservation Act (42 USC 6241(d)), the Secretary of Energy may order a drawdown or sale of petroleum from the SPR if doing so is required by obligations of the United States under the International Energy Program implemented by the International Energy Agency (IEA). On June 23, 2011, the IEA took action calling for member states to release petroleum reserves in response to elevated oil prices resulting from the ongoing disruption. For this reason, the drawdown



and sale of petroleum from the SPR is authorized by the requirements of the Agreement on an International Energy Program.

A draft Finding has been prepared for your signature. The draft Finding also directs the Secretary of Homeland Security to waive compliance with the coastwise laws, including the Jones Act, generally for the transportation of oil distributed from the SPR during the drawdown.

If you make the necessary finding, the Department of Energy will release the withdrawn petroleum into the market by public sale to the highest qualified bidder.

The President authorized a drawdown and sale of petroleum from the SPR on two other occasions – in 1991, to address a potential national energy supply shortage resulting from the Persian Gulf War, and in 2005, to respond to disruptions in the transportation of oil due to Hurricane Katrina.

Recommendation

I recommend that you (i) find that a drawdown and sale of crude oil from the SPR is required by U.S. participation in the International Energy Program implemented by the IEA, and (ii) authorize and direct a drawdown and sale of petroleum from the SPR.

MEMORANDUM FOR THE SECRETARY OF ENERGY
THE SECRETARY OF HOMELAND SECURITY

SUBJECT: Finding that a drawdown and sale of petroleum from the Strategic Petroleum Reserve is required by U.S. obligations under the International Energy Program implemented by the International Energy Agency

In mid-February, armed conflict disrupted essentially all oil exports from Libya. The supply disruption continues and oil exports are not expected to resume for at least several months. Coupled with the spread of political unrest throughout the Middle East, the disruption has resulted in energy supply shortages of significant scope and duration and has already caused a substantial increase in oil prices worldwide that are slowing U.S. economic growth at this critical point in our economic recovery.

Based on the advice of the Secretary of Energy and on other information, I find that a drawdown and sale of petroleum from the Strategic Petroleum Reserve (SPR) is required by U.S. obligations under the International Energy Program implemented by the International Energy Agency (IEA) and created by the Agreement on an International Energy Program in the Charter of the IEA signed by the United States on November 18, 1974.

For these reasons, the Secretary of Energy is authorized and directed to draw down and sell petroleum from the SPR pursuant to section 161(d) of the Energy Policy and Conservation Act (42 USC 6241(d)) at a rate the Secretary of Energy may determine and in accordance with the SPR competitive sales procedures in 10 CFR Part 625. The drawdown and sale authorized and directed by this Finding will allow the United States to meet its obligations under the Agreement on an International Energy Program. If the Secretary of Energy determines the circumstances leading to this Finding no longer support initiation or continuation of a drawdown and sale of petroleum from the SPR, he is authorized to cancel in whole or in part any offer to sell petroleum as a part of any drawdown and sale pursuant to this Finding.

I further direct the Secretary of Homeland Security to waive compliance with the coastwise laws, including the Jones Act, generally for the transportation of petroleum withdrawn from the SPR during the drawdown, including the transportation of petroleum that may be delivered to or withdrawn from the SPR during this period under contractual arrangements other than ones entered into pursuant to this Finding.

Barack Obama

Statement submitted by the
American Maritime Officers,
International Organization of Masters, Mates & Pilots,
and
Marine Engineers' Beneficial Association
to the
Subcommittee on Coast Guard and Maritime Transportation
of the
Committee on Transportation and Infrastructure
on
"Maritime Transportation: The Role of U.S. Ships and Mariners"
May 21, 2013

Mr. Chairman and Members of the Subcommittee:

This statement is submitted on behalf of the American Maritime Officers (AMO), the International Organization of Masters, Mates & Pilots (MM&P), and my union, the Marine Engineers' Beneficial Association (MEBA). We appreciate the opportunity to present our views on "Maritime Transportation: The Role of U.S. Ships and Mariners."

Our maritime labor organizations represent primarily ships' Masters, Licensed Deck Officers and Licensed Engineers working aboard U.S.-flag commercial vessels operating in our nation's foreign commerce and domestic trades. The federal programs and policies that support this fleet and increase its ability to compete for a larger share of America's foreign trade are extremely important to the jobs of the men and women our labor organizations represent as well as our country's national security. The jobs that American merchant mariners do, and the ships that they man, are in turn vital to U.S. national security and defense, and to sealift support of the U.S. Armed Forces.

History has repeatedly proven, and policymakers have recognized, that it is in the best interest of the United States to maintain and support a strong, active, competitive and militarily-useful privately-owned U.S.-flag merchant marine in order to protect, strengthen and enhance our nation's economic and military security. In times of war or other international emergency, U.S.-flag commercial vessels and their United States citizen crews have steadfastly responded to our nation's call, providing the commercial sealift capability and civilian maritime manpower necessary to transport and support American forces overseas. Without a strong U.S.-flag shipping capability, the United States may find itself at great risk as we become even more dependent on foreign flag shipping operations for the carriage of our domestic and international trade.

It is important that our nation has the United States-flag commercial vessels and the trained and loyal United States citizen crews needed to support our troops, to protect and enhance America's economic interests at home and abroad, and to strengthen United States defense operations around the world. Section 101 of the Merchant Marine Act of 1936 states:

It is necessary for the national defense and development of its foreign and domestic commerce that the United States shall have a merchant marine (a) sufficient to carry its domestic water-borne commerce and a substantial portion of the water-born export and import foreign commerce...

Today, U.S.-flag commercial vessels and their American merchant mariners are responsible for transporting only two percent of our country's foreign commerce. Mr. Chairman, that is hardly a "substantial portion." We believe that the best way to achieve these goals is for Congress and the Administration to (1) support and fund the existing programs, and (2) promote forward-thinking policies and laws that encourage new tonnage to operate under the U.S.-flag.

The Carriage of U.S. Government Generated Cargo

U.S. cargo preference statutes are among the cornerstones of American maritime policy. The laws require the utilization of U.S.-flagged vessels for the transportation of U.S. military cargoes and a percentage of certain government-impelled and generated cargoes, thereby providing essential assurance that active U.S. merchant mariners and U.S.-flagged vessels are ready and available to support military sealift missions, and that government defense reserve vessels can be manned rapidly and effectively in times of war, conflict and crisis. Cargo preference statutes provide U.S.-flag vessels with a critical base of cargo. They give U.S.-flag vessels the opportunity to stay active while they compete against lower-cost and often subsidized foreign flag vessels for the carriage of commercial cargoes to and from the U.S.

The commercial viability of the U.S.-flag fleet ensures that the U.S.-flag vessels and their American crews remain available to the Department of Defense in time of war or other international or domestic emergency. In May 2011, General Duncan McNabb, Commander of the United States Transportation Command, stated that "To date, over 90 percent of all cargo to Afghanistan and Iraq has been moved by sea on U.S.-flag vessels." He went on to note that U.S. cargo preference laws have helped in "ensuring the continued viability of both the U.S.-flag fleet and the pool of citizen mariners who man those vessels."

We are deeply troubled by the Administration's recent proposal to replace the existing Food for Peace program with the "Emergency Food Security Program" -- a program that simply provides U.S. taxpayer dollars to other nations to be used to purchase foreign agricultural commodities and foreign shipping services. As presently implemented, the Food for Peace Program provides U.S. agricultural commodities to needy nations and requires that a percentage of these commodities be transported on U.S.-flag vessels. While serving U.S. humanitarian and foreign aid objectives the Food for Peace program also provides a significant return to the American taxpayer by creating and maintaining American jobs, and by generating income for American ports and the domestic agricultural and transportation industries.

Most importantly, the Food for Peace program is integral in supporting the U.S. vessels and highly trained U.S. mariners that stand ready to serve the U.S. military wherever and whenever needed. The same mariner that is employed in peacetime in the safe transport of U.S. food aid is available in wartime to deliver the bullets and blankets to our troops overseas. Without the cargo preference statutes, and more specifically the continuation of in-kind food aid, our nation's ability to project and maintain force abroad will be diminished.

In 2004, the Deputy Undersecretary of Defense for Logistics and Material Readiness stated that, "The Department of Defense supports a strong and viable United States merchant marine which provides DOD with needed U.S.-flag vessels and mariners during war. Any change in cargo preference that would adversely impact the U.S. merchant marine will have a similar negative impact on DOD's mobilization capabilities."

American taxpayers and the Federal government should be proud that the Food for Peace not only demonstrates the willingness and generosity of the American people to help the world's neediest people, but at the same time results in significant economic and strategic benefits for our country.

The Administration's 2014 budget proposal regarding Food for Peace comes on the heels of the passage of the "Moving Ahead for Progress in the 21st Century Act" (MAP-21) in July 2012, in which the Food for Peace cargo preference suffered an unprecedented setback. Without committee review or Floor consideration, Congress reduced the 75% U.S.-flag shipping requirement to 50%. The results of this change were the nearly immediate loss of U.S.-flagged commercial vessels from the merchant fleet and the loss of hundreds of American jobs. We thank Congressman Don Young, Congressman John Garamendi, and Chairman Nick Rahall for their support and urge the other Members of the Subcommittee to support H.R. 1678, introduced by Congressman Elijah E. Cummings and Congressman Scott Rigell, which would reverse the cuts made to cargo preference.

It is equally important that all other federally funded cargoes are in fact transported in compliance with the existing cargo preference laws. Unfortunately, both the letter and the spirit of the law have been neglected. There should be no question that, in order to grow and maintain the U.S. merchant marine, U.S.-flagged vessels should be used to the greatest extent possible when shipping government-impelled cargoes.

For instance, we support the goal of doubling exports by 2015. Government agencies and the private sector should view the U.S. merchant marine as a partner. When U.S. taxpayer dollars are used to ship cargoes, whether governmental or private sector through the utilization of grants, loans and loan guarantees, the cargo should be shipped on U.S.-flag vessels. Using foreign flagged vessels in order to save a nominal amount of money disregards the spirit of the cargo preference laws and neglects the importance of the U.S.-flag merchant marine.

We note that the Duncan Hunter National Defense Authorization Act of 2009 (Public Law 110-417) encourages greater adherence to the cargo preference laws. We would ask this Subcommittee to do whatever it can to ensure full compliance with the both the spirit and letter of cargo preference laws by all Federal departments and agencies.

Maritime Security Program

One of the cornerstones of American maritime policy is the Maritime Security Program (MSP). The MSP fleet was originally established by the Maritime Security Act of 1996 and has since expanded to include 60 U.S.-flagged, privately owned, militarily useful vessels. These vessels and the global intermodal cargo systems established and maintained by the private-sector operators are made available to the Department of Defense through the Maritime Security Program for sealift missions, and provide a crucial, effective and highly efficient supply and delivery network for the U.S. Armed Forces.

The Department of Defense testified that it would need more than \$10 billion in capital costs and \$1 billion in annual operations costs to replicate the commercial sealift capability and worldwide logistics network that the MSP and the commercial maritime industry provide to the Department of Defense at a fraction of the cost: authorized at \$186 million in FY'13. This equates to an annual per vessel payment \$3.1 million in order to help offset the enormous tax, regulatory, and other economic incentives given to foreign flag vessels and foreign crews by foreign governments.

In order to ensure the continued availability and operation of the fleet, the Department of Defense requested, and the Congress reauthorized the Maritime Security Program for an additional ten-year period through fiscal year 2025. This extension gives the Department of Defense the opportunity to undertake long-term planning so that it can count on the ships, civilian maritime manpower, and logistical resources that MSP provides.

We would point out that *ExpectMore.gov*, a web site developed by the Office of Management and Budget (OMB), contains the results of an assessment of every Federal program, including the Maritime Security Program. “Effective” is the highest rating a program can achieve and a rating of “effective” means that a program has “set ambitious goals, achieves results, [is] well-managed and improves efficiency.” It is especially important to note that *ExpectMore.gov* has rated the Maritime Security Program as “Effective”. Only 193 programs out of a total of 1,015 programs assessed by *ExpectMore.gov* received a rating of “effective”.

Unfortunately, the MSP has been affected by the Sequester. Due to the across-the-board cuts associated with Sequestration, the program has realized a reduction of approximately \$22.8 million. This means that, one way or another, the Maritime Administration will not be able to fulfill their contractual obligation to the MSP carriers. Should the trend of financial uncertainty continue in the Program and government generated cargoes continue to decrease, U.S. shipping companies will be forced to decide whether keeping vessels under the U.S.-flag is economically feasible. A loss of ships would immediately trigger a decrease in American jobs and military sealift capability. It is essential that Congress approve full funding for this program at the Congressionally-authorized level of \$186 million.

The Jones Act

The U.S.-flag domestic shipping industry is paramount to the unimpeded flow of domestic cargo. In order to maintain this capacity, we must uphold the body of law commonly referred to as the Jones Act and the requirement that vessels operating between American ports must be built in the United States, owned by United States citizens, crewed by American mariners, and operated in accordance with all U.S. rules, regulations and tax obligations.

The construction of vessels in the United States and the operation of these vessels by American citizens for the domestic trades ensures that maritime and maritime related jobs will not be outsourced to foreign shipyards and seafaring workers. The full enforcement of the Jones Act helps guarantee that our nation will have the domestic shipyard mobilization base and the American merchant mariners available to support Department of Defense requirements. Equally important, the full implementation and enforcement of the Jones Act means that the waterborne transportation of America’s domestic commerce will not fall under the control of foreign shipping interests but will instead remain under the control of American companies and American crews who, unlike foreign mariners, are subject to U.S.-government imposed background and security checks.

As noted by the Government Accountability Office (GAO) in a report released in March 2013, the Jones Act ensures orders for commercial shipbuilding projects at American shipyards. A loss

or even a reduction in commercial shipbuilding orders will compromise U.S. shipyards, which are in turn essential for U.S. military shipbuilding projects. The GAO, in its report, pointed out: "Although the Department of Defense does not administer or enforce the Jones Act, the military strategy of the United States relies on the use of commercial U.S.-flag ships and crews and the availability of a shipyard industrial base to support national defense needs."

Bolstering the U.S. Merchant Marine by Leveling the International Playing Field

Congress and the Administration should explore a number of proposals that can help increase the competitiveness of U.S.-flag shipping in the foreign trades, and thereby increase American jobs and national security.

Maritime Tax Reform

As Congress considers a broad overhaul of U.S. tax policies, we believe that the competitiveness of the U.S. merchant fleet and U.S. mariners should be a top priority. We agree wholeheartedly that America's tax laws and policies should encourage, and not discourage, investment in the United States and the employment of American workers.

To this end, we believe that there are changes that should be made in our tax laws that can foster the growth of the United States maritime industry, preserve and create jobs for American maritime workers, and help reduce the disparity in tax treatment that gives foreign flag vessels and foreign mariners a significant economic advantage over the United States-flag merchant marine as they compete for the carriage of commercial cargoes.

We would note at the outset that we greatly appreciate the support the Members of this Subcommittee gave for the enactment in 2004 of tonnage tax legislation for U.S.-flag vessels. Enacted as part of the American Jobs Creation Act of 2004, the tonnage tax alternative to the normal corporate income tax system was made available to U.S.-flag vessels operating exclusively in the U.S. foreign trades or in the domestic trades for less than 30-days in each year.

The tonnage tax is intended to help American vessels compete on a more equal footing in the international shipping arena. A significant number of foreign flag and foreign crewed vessels had already enjoyed the advantages of a tonnage tax and many other foreign flag and foreign crewed vessels operated in what is essentially a tax-free environment, enabling them to capture approximately 95 percent of all the commercial cargo entering and leaving our country. In response, Congress wisely enacted the tonnage tax, eliminating one of the tax-related disincentives to operating vessels under the U.S.-flag with U.S. citizen crews.

Nevertheless, as important as the applicability of the tonnage tax is, it is equally important that Congress build on this provision and explore other tax-related provisions that encourage the operation of vessels under the United States-flag and the employment of American mariners.

For example, the limitation that precludes vessels that operate in the domestic trades for more than 30 days from using the tonnage tax for their U.S.-flag operations in the foreign trade should be eliminated. We ask that you support this initiative and work with us for its enactment.

The existing 30-day limitation precludes United States shipping companies, which operate vessels in both the foreign and domestic trades, from benefiting from the tonnage tax when it competes against foreign flag vessels in the international trades. We are convinced that unless the 30-day limitation is removed, domestic shipping companies, including those with an experienced record of operating vessels under the U.S.-flag with American crews, will be effectively precluded from successfully expanding their operations into the U.S. foreign trades and recapturing a share of America's trade for American ships. Removing the 30-day limitation will help achieve the primary objective of the tonnage tax: retaining, attracting and expanding U.S.-flag vessel operations.

Any maritime tax reform proposal should include the extension of the foreign source income exclusion contained in section 911 of the Internal Revenue Code to American merchant mariners working aboard commercial vessels engaged in the foreign trades. Section 911 of the Internal Revenue Code was originally enacted in 1926 in order to place American citizens working or seeking to work outside the United States "in an equal position with citizens of other countries...who are not taxed by their own countries" (Senate Report No. 781, 82nd Congress, 1951). The Internal Revenue Code allows American citizens employed outside the United States to exclude from their gross income for Federal income tax purposes a portion of their foreign-earned income. At present, the Internal Revenue Service does not permit United States citizen merchant mariners working on commercial vessels in United States-foreign commerce or in international commerce to exclude income under section 911. The Internal Revenue Service has taken the position that an individual is working outside the United States for purposes of section 911 (the foreign earned income exclusion) only when he is working in a foreign country as defined in IRS regulations. The current tax liability for wages earned by American mariners is an indirect cost borne by United States vessel owners but not by their foreign competitors who benefit from the tax exclusion granted by their home countries for their citizen-crew wages. In fact, every open and traditional shipping registry nation except the United States, China and Japan have adopted some form of seafarer's tax and manning incentives. For example, British seafarers working on a U.K.-flag vessel in the foreign trades are generally entitled to a 100 percent foreign earnings deduction on their U.K. income tax, and no taxes are imposed on mariners working aboard vessels flying the flag of Panama, Liberia, the Bahamas, Cyprus, Malta, Hong Kong, or the Marshall Islands.

A change in section 911 of the tax code would put U.S. mariners on equal economic footing as their foreign counterparts. This would allow U.S. companies and mariners to compete in new fields. Given a fair playing field, we know that U.S. mariners will succeed.

Domestic Shipping

There are a number of things that we believe Congress can and should do in order to strengthen the domestic maritime industry.

First, Congress should enact policies that promote a vibrant Short Sea Shipping industry. America's coasts and inland rivers are underutilized as a means of cargo transportation. Water transportation is the most fuel efficient and environmentally beneficial way to ship goods. As a

complement to our highways and railroads, which are garnering drastically more traffic, moving goods by vessels along our coasts offers an opportunity to complement our national transportation system. To that end, we ask that the Transportation and Infrastructure Committee, through its formation of the panel on “21st Century Freight Transportation”, include maritime and Short Sea Shipping as a top priority as they move forward.

Second, Congress should support the Title XI ship construction loan guarantee program and appropriate the funds necessary for this program. Even as Congress reviews all accounts carefully, this program deserves full support. It guarantees commercial loans for privately financed ship construction and shipyard modernization – all in the United States. And, since it is a guarantee, no funds are actually spent unless there is a default. Funding and implementation of the Title XI program will help grow the economy, create and maintain shipbuilding and shipboard jobs, and protect national security by ensuring a U.S. capacity to move domestic cargoes.

The Title XI ship construction loan guarantee program fosters the continuation of commercial shipbuilding orders at American shipyards — orders that help ensure the U.S. shipbuilding industrial base remains active and able to provide effective production and service for U.S. military shipbuilding projects.

We further believe the Maritime Administration should consider an expedited Title XI application review process for ship construction projects in which the applicant is seeking to replace a vessel with a newer vessel on a route it has served. We believe this will help American shipping companies upgrade and modernize their fleets, creating even greater economic and environmental benefits for the United States.

Finally, we would ask that Congress enact legislation that would eliminate another anomaly in the tax law that impedes the ability of American companies to repair their vessels in United States shipyards. Under existing law (Title VI of the Merchant Marine Act of 1936), American companies are able to establish a tax deferred Capital Construction Fund (CCF) in order to accumulate the capital necessary to build vessels in the United States. Unfortunately, the statute does not allow a company to withdraw its funds without penalty from a CCF to be used for the maintenance and repair of its vessels in an American shipyard. Expanding the permissible use of CCF funds to include maintenance and repair will help reduce the outsourcing of business and jobs from the domestic ship repair industry to the benefit of the foreign ship repair industry.

New Opportunities for the U.S. Merchant Marine

The export of Liquefied Natural Gas (LNG) and the growth of the cruise ship industry represent very large and potentially booming industries for the U.S. merchant marine. Both the potential export of LNG and the current operation of cruise ships into and out of U.S. ports rely on America’s natural and financial resources. These industries require mariners, very few are Americans.

Our unions variously have supplied and currently supply licensed LNG deck and engineering officers to crew and operate numerous LNG ships. U.S. merchant marine officers are now

working aboard LNG carriers operating in the international fleet. The benefit plans of the unions operate their own training facilities, at which we train both current and future LNG officers for shipboard employment. Through these training facilities, U.S. merchant mariner officers have access to U.S. Coast Guard certified LNG training and certification programs, as well as simulation training specific to LNG tankers and carriers. One of these training facilities provides training for U.S. merchant marine officers certified to the standards of the Society of International Gas Tanker and Terminal Operators and has trained U.S. Coast Guard Marine Inspectors in this field. Another training course provides comprehensive lectures and computer-based cargo handling simulator training which includes: LNG science, engineering systems, cargo systems, ship/shore interfaces, rules and regulations, and safety. This class complies with the IMO and USCG requirements for a liquefied gases PIC (Person In Charge).

The cruise industry continues to be a potential area of growth for U.S. merchant mariners. Ten million passengers boarded cruise ships in the United States in 2012 and there are about 300 cruise ships in operation around the world. While we are among the highest trained and most rigorously certified, U.S. mariners are notably absent in the operation of cruise ships internationally.

In China, the cruise industry is booming and the Chinese government has invested billions to further that success. Although we understand that the current fiscal environment prevents Congress from making such an investment here in the United States, we encourage Congress and the Administration to do whatever possible to encourage the employment of U.S. merchant mariners. It is only logical that a business that relies so heavily on the United States should be encouraged to employ Americans.

Conclusion

President Ronald Reagan once said that "The maritime industry has been a key contributor to our economic strength and security since our Nation was founded. Its continued growth and prosperity is necessary for the economic renewal we all seek."

We agree.

In order to best serve the economic and military interests of the United States by promoting a competitive U.S.-flag shipping industry, Congress and the Administration must take a number of important and innovative steps. We have raised what we consider to be many of the most important, immediate steps that should be considered, and we look forward to working with you Mr. Chairman and your Subcommittee on these and other essential maritime initiatives.

MARINE ENGINEERS' BENEFICIAL ASSOCIATION (AFL-CIO)

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MIKE JEWELL
PRESIDENT

BILL VAN LOO
SECRETARY-TREASURER

November 25, 2013

The Honorable Duncan Hunter
Chairman
Subcommittee on Coast Guard and Maritime Transportation
House Transportation and Infrastructure Committee

Chairman Hunter,

Thank you again for holding the hearing titled "Maritime Transportation: The Role of U.S. Ships and Mariners" on May 21, 2013. Your interest in and support for the U.S. maritime industry is greatly appreciated. Below are my responses to your questions for the record.

How important is the MSP Program to the economic viability of the U.S. foreign trade carriers? How important is the MSP as a source of jobs for U.S. seafarers?

One of the most critical issues facing America's commercial sealift capability and our country's ability to provide assured support to American troops overseas is the potential shortfall in funding for the Maritime Security Program (MSP) in Fiscal Year 2014. Unless the full Congressionally authorized amount of \$186 million for the MSP is available, United States-flag ships will be forced out of this Program, weakening our nation's commercial sealift capability, sending American maritime jobs overseas, and costing the taxpayer significantly more as the Federal Government must step in to support American troops by providing this commercial sealift capability itself.

While the fleet must be commercially viable, the MSP program helps to offset the inherent costs of operating under the U.S. flag. Without the MSP, many ocean going vessels would not be able to compete internationally thus removing the base of employment for the U.S. merchant mariners who are critically important to the nation's sealift capability.

Have the \$22.8 million in cuts imposed by sequestration affected MSP carriers and job opportunities for U.S. mariners?

Fortunately, the sequestration cuts implemented in 2013 have not affected the make-up of the MSP fleet. Although the cuts have been economically damaging and signal inconsistency in the program, the various shipping companies and merchant mariners operating under the MSP have been able to absorb the shortfall. This trend cannot continue though. Without full funding, MSP ship operators are forced to decide whether or not to remain under the U.S. flag without the certainty promised under the program. There is no doubt that, should sequestration cuts continue, the MSP fleet will be affected and America's readiness will suffer as a result.

Marine highways appear to offer great potential to increase the efficiency and capacity of our freight transportation system and alleviate congestion. What policy options should the Congress consider to enhance short sea shipping and the use of marine highways?

Congress should do everything within their power to encourage marine highways. In addition to creating good middle class jobs, an investment in America's marine highways would create jobs in the trucking industry, relieve traffic congestion at our ports of entry, and reduce greenhouse emissions.

Specifically, Congress should pass legislation that would exempt from the Harbor Maintenance Tax non-bulk commercial cargo that is loaded at a port in the United States mainland and unloaded at another port in the United States mainland after transport solely by costal or river route or unloaded at a port in Canada located in the Great Lakes/St. Lawrence Seaway System. In addition the exemption should apply to commercial cargo that is loaded at a port in Canada located in the Great Lakes Seaway System and unloaded at a port in the United States mainland.

Currently, if a cargo owner chooses to utilize America's marine highway, their cargo will be taxed each time it enters a port creating a double taxation situation. This low-cost change would remove a large impediment imposed on those looking to the water to alleviate landside congestion and reduce emissions.

How important is the Title XI loan guarantee program in maintaining the U.S. merchant fleet and U.S. shipbuilding capacity? How does this program benefit maritime labor? What options might the Congress consider to improve and enhance the Title XI program?

The Title XI Shipbuilding Program is vital to the U.S. merchant marine and warrants support even as Congress understandably reviews all accounts carefully. The program guarantees commercial loans for privately financed commercial ship construction and shipyard modernization – all in the United States.

Billions of dollars in new investment in the American maritime industry is needed, in part to respond to explosive growth in the domestic energy industry, renew domestic liner shipping fleets, and for other purposes. We therefore recommend not less than \$70 million per year, consistent with the FY 2013 level reported by the Senate Appropriations Committee in 2012. Funding and implementation of the Title XI program will help grow the U.S. economy and create and maintain American jobs in the domestic shipbuilding and related service and supply industries, as well as aboard United States-flag commercial vessels.

Full funding will help maintain the nation's defense shipbuilding base and an active U.S.-flag merchant marine, which is essential to U.S. defense sealift requirements. The program has created and maintained tens of thousands of well-paying seagoing and shoreside jobs, and helped to ensure that an adequate pool of vessels and mariners and a shipyard industrial base, including associated supply industries, is available to meet U.S. economic, homeland and national sealift needs. Maintaining commercial vessel construction in U.S. shipyards can also help reduce overhead charges assessed to DOD on military shipbuilding contracts, as some overhead could be assessed to commercial work. Moreover, newly constructed vessels are equipped with improved environmental control systems.

Beyond the obvious need for a sufficient budget and reliable annual appropriations to support the U.S. merchant marine, what are the three highest priorities that you would recommend the Congress consider to address these objectives? Are there specific programs that should be reformed to better align with contemporary and future needs? Are there some existing programs that should be repealed in favor of other alternatives? Conversely, are there some programs previously repealed that might be reconstituted?"

While Congress has repeatedly recognized the value of the U.S. Merchant Marine, one issue that persists is a lack of support for and compliance with the longstanding cargo preference laws.

The number of vessels in the U.S. flag and the percentage of U.S. cargoes carried on American vessels have continued to fall in recent decades. Currently, there are fewer than 100 U.S.-flagged vessels in the foreign trade, and these vessels carry less than two percent of U.S. cargoes.

In order to maintain a vibrant U.S. flagged fleet, Congress has implemented a number of cargo preference laws that reserve a percentage of cargoes shipped or financed by the U.S. government for U.S. flagged vessels. In order to maintain the vital seafight capacity provided by the commercial vessels and U.S. mariners, Congress must maintain the government's commitment to cargo preference.

In Section 100124 of MAP-21, the amount of U.S. food aid required to be carried on U.S. flagged ships was reduced from 75% to 50%. This change was made in the dead of the night in order to pay for the overall bill without regard to how it would affect the U.S. maritime industry. As the amount of military cargo decreases, Congress must return the food aid cargo preference requirement to 75%.

Further, there are a number of government agencies that ship cargoes without regard for existing cargo preference laws. While Congress explicitly gave the Maritime Administration (MARAD) the authority to enforce the law in 2008, MARAD has yet to promulgate a rule. Congress should continue to pressure MARAD enforce the existing cargo preference laws.

Finally, Congress should support the current system of international food aid assistance. While Congress rightfully rejected an Administration proposal to shift to monetary donations from the current proven system of in kind food donations, the attacks continue. Presently, in the Senate version of the Farm Bill, there exist a number of proposals that would shift funding away from purchasing U.S. commodities toward administrative activities as well as Local and Regional Purchase. Congress should reject those proposals and continue to deliver U.S. grown, processed, and shipped commodities that bear the American flag. Otherwise, it is no longer U.S. food aid.

Cordially,

A handwritten signature in black ink that reads "Michael Jewell". The signature is written in a cursive, flowing style.

Michael Jewell
President, Marine Engineers' Beneficial Association

TESTIMONY OF AUGUSTIN TELLEZ
EXECUTIVE VICE PRESIDENT
SEAFARERS INTERNATIONAL UNION

HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE
COAST GUARD AND MARITIME TRANSPORTATION SUBCOMMITTEE

HEARING ON MARITIME TRANSPORTATION: THE ROLE OF U.S. SHIPS AND
MARINERS

MAY 21, 2013

Good morning, Chairman Hunter, Ranking Member Garamendi and members of the subcommittee.

On behalf of the Seafarers International Union thank you for conducting this hearing and on allowing me the opportunity to testify. I would also like to thank Chairman Hunter specifically for his excellent piece in the Washington Times addressing the importance of the Maritime Security Program and our merchant marine to America.

Tomorrow is National Maritime Day. Each year, on the anniversary of the first transatlantic voyage by steamship, we commemorate the importance of the American merchant marine to our national life. It is altogether fitting that we are here on the eve of National Maritime Day to discuss the role of U.S. ships and U.S. mariners to America's maritime transportation system.

Since our founding in 1938, the Seafarers International Union has represented mariners engaged in waterborne transportation in the United States. Over the last 75 years, we have continually expanded, and today we crew ships in every aspect of the domestic and international trades both here in the United States and in Canada. You can find SIU members in the domestic Jones Act fleet, the deep-sea international fleet, on the inland waterways and on the Great Lakes. We crew government owned vessels in MARAD's Ready Reserve Fleet, on vessels belonging to the Military Sealift Command, and on NOAA's oceanographic fleet. Our members see the impact of the merchant marine on America each and every day. Unfortunately, not every American can say the same.

Like many industries in the United States today, the maritime industry is faced with global competition. Yet unlike many industries, the competition between American companies and foreign companies never happens on a level playing field. Foreign ship operators are not subject to the same safety standards American operators are subject to,

our mariners do not benefit from the highly favorable tax regimes and nationalized health care of many of our largest competitors, and our companies do not receive the generous tax breaks and special treatment many of their competitors enjoy.

In similar circumstances, other industries that have faced unfair competition have simply faded away. But unlike those industries, the American maritime industry is a critical component of our defense capability. Because of that fact, the United States simply cannot allow the merchant marine to fade away. Without a U.S.-Flag merchant marine – both ships and mariners – our nation would cease to be a superpower, would not be able to project power around the globe, and we could not meet our many foreign commitments. The last ten years have proven that fact, with over 95% of the war materiel and hardware for our troops in Afghanistan and Iraq traveling on commercial U.S.-Flag ships. Without those ships – and more importantly without the mariners who crew them – the United States would have been faced with the daunting task of trying to move millions of tons of supplies into a war zone and not having the ability to do so.

Congress has recognized this fact, and that's why it has been the policy of the United States Government for almost a century to support the American Merchant Marine.

Over the years, Congress has created a number of programs designed to support the U.S. Merchant Marine. In the 1880s Congress passed the Passenger Vessel Services Act, and followed it up in the 1920s with the Jones Act. Both laws are designed to reserve domestic shipment of cargo and passengers to American built and American flagged ships with American crews owned by American citizen companies. In 1904, Congress passed the first Cargo Preference Act, which reserved all military cargoes for American ships. In 1954, Congress expanded the Cargo Preference Act to include foreign food aid and other civilian cargoes. In 1996, Congress created the Maritime Security Program. MSP created a fleet of militarily useful commercial ships that would be provided a stipend to help offset the costs of remaining under the U.S.-flag in the international trades. In return, the Defense Department has access to those ships when needed in time of war or national emergency, and DOD only pays for that portion of the vessel it needs, ensuring every tax dollar spent is spent wisely. The program worked so well it was expanded in 2003. And in 2004, Congress created the tonnage tax, which allowed American ship operators to elect a tax regime that was far closer to the tax systems of their foreign competitors and helped level the playing field for them internationally.

These programs all have a lot in common – they are all designed to ensure that the U.S. Merchant Marine continues to exist. They are all interconnected – the entire system is designed to work together, with each piece functioning alongside the others to make the entire system work. And the other thing they all have in common is that each piece has been targeted for reform or repeal in the last few years. Since 2010, we have seen an unprecedented number of attacks on each of these fundamental programs, and unfortunately some of these attacks have been successful.

Enough is enough. We cannot allow the continued death-by-a-thousand-cuts dismantlement of the foundational programs that make the American merchant marine

possible.

If the United States is going to maintain a merchant marine capable of carrying our waterborne commerce and capable of serving as part of our defense sealift in times of crisis, we must stop this destructive trend. The constant attacks on the merchant marine must end and we must start using our energies to expand our maritime industry, not shrink it.

On the Jones Act, we've seen a unprecedented level of attacks over the last year. Most recently the Jones Act was blamed for a spike in gas prices in the Northeast following Super Storm Sandy. Later, as gas prices rose nationally, the Jones Act was again blamed for those increases. As is usually the case with these kinds of nonsensical attacks on the Jones Act, these claims were completely unfounded and were easily refuted. Industry analysts in both the transportation and energy sectors confirmed that the rising cost of crude oil was to blame for the increase in gas prices, and that transportation costs played a minimal role. In a recent study commissioned by the Transportation Institute, the cost of waterborne transportation was proven to have a negligible impact on the cost of fuel at the pump.

In addition to attacks from those ideologically opposed to the Jones Act, we've also had to focus our attention on the large number of Jones Act waivers – many we considered unnecessary – that have occurred within the last two years. We supported legislative language sponsored by members of this committee that would require greater transparency in the waiver process so the industry can be sure that we only waive the Jones Act when critically necessary.

On Cargo Preference, we have seen two major attacks, including one that was successful. The first came last year on the MAP-21 transportation law. In that law, Congress cut by a third the percentage of foreign food aid cargo reserved for American-flag ships, ostensibly to offset the costs of the overall law. Since 1985, American ships have carried 75% of all PL-480 Food For Peace program cargoes. That percentage is now 50%. What's worse is that the cost savings for reducing the percentage were incorrectly estimated by the Congressional Budget Office, a fact which has since been acknowledged by CBO. Our industry lost a third of our cargo with little benefit to anyone, including the American taxpayer.

At the same time, overall funding for PL-480 itself has seen drastic cuts over the last few years. As recently as 2008, the program had funding levels of over \$2 billion a year. Today, funding levels have fallen to \$1.4 billion in 2013, even as worldwide food prices have increased significantly. Between the cargo preference cut in MAP-21, the significant cuts in appropriations, and the rising cost of food, the program is significantly smaller than it has been in the past, despite the fact that its importance to the Merchant Marine is steadily increasing.

As the wars in Iraq and Afghanistan continue to wind down, the industry is seeing a major reduction in defense cargoes. That reduction has placed renewed emphasis on non-

defense preference cargo, such as food aid and Export-Import Bank financed cargoes. Unfortunately, despite needing that cargo now more than ever, we are faced with the stark reality of losing the PL-480 program entirely.

Earlier this year, the Administration proposed a radical reform of PL-480 – a “reform” that would effectively result in the complete dismantling of that program. Despite being America’s flagship foreign aid program – one that has endured and thrived for almost 60 years – the Administration is seeking to make major modifications that would be disastrous for the U.S.-Flag fleet. Instead of the current in-kind aid program where American agricultural commodities are purchased and shipped on American ships overseas, the Administration is proposing to instead move to a system based on buying food abroad, providing food vouchers and even cash transfers.

This “reform” threatens the long-term viability of the program. When originally enacted, PL-480 was designed with multiple goals in mind – as a diplomatic tool, as a humanitarian assistance tool, as a way to support American farmers and advertise the quality of our commodities, and as a way to support the merchant marine. The Administration’s proposal would wipe out all of the domestic benefits of this program. We are very concerned that in the current budget environment, ending the domestic benefits of Food Aid would quickly put the program on a path to extinction. That is why we have worked hard to educate Congress on the need to maintain PL-480 in its current form.

Budget battles have also struck the Maritime Security Program. Despite being one of the most effective public-private partnerships in government, as scored by the Office of Management and Budget and others, MSP was subject to cuts totaling over \$17 million through sequestration. We remain very concerned that the sequestration cuts to MSP may cause disruption in the program and we remain committed to working with Congress to avert those cuts.

All that being said, thanks to concerned members of Congress, we have seen some positive legislative action, and I am confident that we stand poised to expand on that action.

Earlier this year, Congress reauthorized the Maritime Security Program for an additional ten years, keeping the program running through 2025. This was critical as it allows for the stability and long-term contracts that make the MSP so successful. The additional ten years will continue the recapitalization of the fleet, which has been one of the key goals of the program since its inception. It also provides reassurance to thousands of mariners that even as the wars in Iraq and Afghanistan wind down, their jobs will still be there for another decade.

We also saw the release of a Government Accountability Office study of the Jones Act and its impact on Puerto Rico. The GAO study confirmed what we in maritime have been saying for a long time – the Jones Act ensures that Puerto Rico has efficient and reliable maritime transportation service and that the Jones Act is a critical part of our

national security. The GAO report also confirmed that past studies and claims that the Jones Act drastically increased costs in Puerto Rico were indefensible.

In terms of our existing programs, we continue to push for full funding of the Maritime Security Program each year. The benefits MSP provides to DOD are immense, and the cost of replicating those benefits is almost incalculable. The ships and intermodal connections alone would cost billions, and the manpower pool – in terms of both time and money – is a priceless resource. We must not let sequestration put the Maritime Security Program at risk.

On the cargo preference front, we are actively working with Congress to restore the cuts made in MAP-21. Congressman Elijah Cummings, a former Chairman of this subcommittee, and Congressman Scott Rigell of Virginia have co-sponsored legislation in this Congress that would restore those cuts. We hope Congress acts swiftly on this legislation. Restoring these cuts will help maintain our competitiveness and keep the U.S.-Flag fleet moving.

We are also monitoring the Water Resources Development Act legislation that has passed the Senate and is still in the drafting stages here in the House. The Senate-passed legislation includes the RAMP Act, legislation designed to ensure that the money collected into the Harbor Maintenance Trust Fund is used for the purpose for which it was intended. Adequate dredging and maintenance of our inland waterways and ports is critical to keeping commerce flowing freely, will have a positive impact on jobs and will help us prepare for the opening of the Panama Canal next year – an opening that has the potential to see significant increases in cargo flow through our ports.

On the Jones Act front, we continue to support an expansion of America's Marine Highway initiative begun by the Maritime Administration. Increasing the flow of domestic cargo by ship would provide a variety of benefits, including easing traffic congestion, reducing fuel consumption and air pollution, enhancing opportunities for domestic shipbuilding all while creating thousands of good jobs here at home. MARAD should continue to work with operators to define routes, and Congress should adequately fund the Title XI shipbuilding program to ensure that short-sea Jones Act qualified vessels can be built in an economically viable way.

As we look to the future, our future must be one in which America's merchant marine is expanding, not shrinking. We cannot afford to simply protect and defend our current programs, because as long as we remain on defense we can't move forward. That is why the SIU and the rest of the maritime industry are actively working together to promote an expanded merchant marine and an expanded industry. We stand on the cusp of some exciting new developments and we want to ensure we are ready to take advantage of those developments. American mariners and American ships can play an expanding role in our maritime transportation system if we seize those opportunities and U.S. citizen mariners should play a part in these opportunities.

There are a number of areas in which we see the potential for growth for the industry, and

we are actively working to take advantage of them. One major area for growth we see is in the energy sector. Given the abundant natural gas resources in the United States and the significant international demand for natural gas, we expect to see a number of new liquefied natural gas export terminals built across the United States in the next ten years. The American merchant marine has ample experience in the safe and effective shipping of LNG, and given the need for trained and professional crews to carry this hazardous cargo, we are encouraged by the potential opportunities in this expanding sector of the industry. Just this month, Crowley Maritime, one of the largest Jones Act operators, announced they will be entering the LNG export trade, and we look forward to working with them to make those efforts successful.

LNG isn't just a commodity for ships to carry, it's also a fuel. Given that LNG is one of the cheapest, most abundant and cleanest fuels available today, using LNG to fuel ships is viewed as the future of our industry. And that future is happening now, as we have seen two contracts with American shipyards to build LNG powered ships for the Jones Act trades. America is leading the push for LNG as vessel fuel, and the two container ships being built at NASSCO for TOTE, Inc. will be the largest LNG powered container ships in the world. As has historically been true, the United States is continuing our solid track record of innovation and environmental stewardship when it comes to maritime transportation.

We are also encouraged by the push for increased use of wind power. Wind farms off the east and west coasts have the potential to create thousands of good maritime jobs both in the construction of wind farm fields as well as in the on-going maintenance of those fields. As America continues to explore the potential benefits of alternative energy, we must be ready to take advantage of any opportunities in both the domestic and international trades for an expansion of our Merchant Marine.

Providing incentives, in the form of preferences or tax credits for companies willing to use U.S.-Flag ships and mariners in the energy sector could spur job creation and lead existing companies to take advantage of this expanding trade.

One traditional area of the maritime industry that has a potential for growth is in the cruise ship arena. As this committee is well aware, the cruise industry has almost completely left the U.S.-Flag. Right now, of the major cruise lines in the world, only Norwegian Cruise Lines operates a U.S.-Flag vessel. The recent serious incidents at sea on cruise ships have highlighted the need for well-trained crews, solid maintenance procedures, and effective ship inspections – areas in which the American maritime industry has long excelled. We hope that these recent incidents will cause the foreign flag cruise industry to rethink their unwillingness to hire American mariners, thus opening a potential area for growth.

As we continue to look to the future, one thing will never change: the U.S. merchant marine is critical to the economic, national and homeland security of our country. It is high time that we, as a nation, rededicate ourselves to the principles that have kept our maritime industry afloat since the founding of the Republic.

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In conclusion, as we continue to move forward, I strongly believe that American ships and American jobs are going to be at the center of our maritime transportation system for many, many years to come.

Mr. Chairman, again I thank you for this opportunity and I look forward to working with you and the rest of the subcommittee in the future.

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**Subcommittee on Coast Guard and Maritime Transportation
Hearing on Maritime Transportation: The Role of U.S. Ships and Mariners
Tuesday, May 21, 2013**

**Questions for the Record to Mr. Augustin Tellez,
Executive Vice President, Seafarers International Union**

Questions from the Honorable Duncan Hunter (R-CA):

1. In his testimony, General Frazier stated there was a pool of 15,000 mariners available to the Department of Defense if needed. Do you believe this number is accurate? If not, what do you believe is the accurate number of available mariners for defense sealift needs today?"

Please see the attached manpower study, which answers this question fully.

Questions from the Honorable John Garamendi (D-CA)

P.L. 480 Food for Peace Restructuring

Mr. Tellez, as you stated at the hearing, Congress has passed numerous laws and created several programs to support the U.S. flag merchant marine because it is a critical component of our national defense capability. The Jones Act and Passenger Vessel Services Act; the Cargo Preference Acts of 1904 and 1954; the Maritime Security Program; and the passage of the tonnage tax in 2004 have each helped maintain a viable U.S. flag merchant marine. Yet these laws and programs continue to come under attack, most recently last year with the provision included in MAP-21 which cut the cargo preference requirement for food aid shipments from 75 percent to 25 percent.

- *What has been the effect of this change in policy?*

Since the MAP-21 law was passed reducing the percentage reserved for U.S.-Flag vessels, we have seen at least one major shipping company reduce the size of their fleet by four vessels. Another reduced their fleet by two. We have also seen a number of other companies begin discussions both internally and externally about the continued viability of the U.S.-Flag operations.

- *How has this reversal in policy affected job opportunities for U.S. seafarers?*

By reducing the percentage of Food Aid cargo reserved for U.S.-Flag vessels, the resulting loss ships will result in the loss of U.S. seafaring jobs. While it is hard to put a specific number on the lost jobs, each vessel lost represents between 20-25 billets and each billet represents 2.3 seafaring jobs. One lost ship typically represents somewhere

between 50 to 60 mariner jobs, as well as the downstream loss of jobs that would be needed to service those vessels.

Any instability in one of the major maritime programs has an impact on the full array of Federal programs designed to support the maritime industry. The attack on Food Aid and cargo preference has resulted in the widespread belief that the maritime industry's future viability is in question. That is having a significant impact on job opportunities for U.S. mariners, as the instability affects our employers.

- *Have any vessels flagged out of the U.S. foreign trade fleet because of this reduction in the amount of available food aid cargo?*

While our contracting companies tend to cite multiple reasons for flagging vessels out of the U.S.-Flag, it is clear that at least two of our companies that relied on Food for Peace cargoes have scrapped or flagged out ships. We have lost a total of six ships since MAP-21 was passed, and we believe that the MAP-21 change coupled with the Administration's proposal to radically change how the PL-480 Food for Peace program is administered played heavily in our contracted companies' decision to flag ships out.

Jones Act Waivers

Mr. Tellez, over the past couple years there has been greater concern raised about waivers of the Jones Act, especially the administration's decision in 2011 to grant 46 waivers to allow foreign tankers to transport within the United States oil released for sale from the Strategic Petroleum Reserve. Congress responded last year by including a provision in the Coast Guard and Maritime Transportation Act of 2012 requiring MARAD to implement a more transparent and open notice process for any proposal to waive the coast wise laws.

- *Have you monitored MARAD's implementation of that provision? Is MARAD providing better notice and information concerning potential waivers?*

Yes, we have been monitoring MARAD's implementation of the new transparency requirements and have been actively working with our contracted companies and the American Maritime Partnership to monitor all waivers of the Jones Act. Overall, we believe that MARAD is complying with the spirit of the provision and has been more transparent in their Jones Act waiver process.

That being said, since the passage of that provision, there has not been a major test case, like a release of oil from the Strategic Petroleum Reserve, that would give MARAD the opportunity to demonstrate clear compliance with the new transparency requirements.

We strongly believe that transparency, coupled with the sparing use of the Jones Act waiver authority, is key to ensuring the Jones Act remains strong and stable. We have urged the administration to adopt a very narrow view of the "national defense"

definition in the President's waiver authority. There are few areas, we believe, where the U.S.-flag domestic fleet is not capable of responding effectively, even in an emergency.

- *Is there anything else the Congress can do to improve the notice and review requirements for any waiver of the Jones Act?*

Right now, Jones Act waivers are published in the Federal Register and little information beyond the name of the vessel and the requested use is provided. Having that information in one location – on the MARAD website, for example – would make it easier to ensure that nothing is missed. As the saying goes, sunlight is the best disinfectant, and by providing us with both the information and the time to ensure the Administration has heard from stakeholders in the industry, we can ensure that only the most meritorious waivers are approved, and the Jones Act continues to function as it was intended to function.

Support for the U.S. Merchant Marine

In general, there appears to be a strong consensus that the Congress and the Federal Government should do more to promote the U.S. merchant marine. More specifically, the government should better support efforts by the maritime industry to recapitalize assets and modernize and expand capabilities, should preserve existing cargoes and identify new cargoes for U.S. carriers, both in the Jones Act trade and the U.S. foreign trade, and promote opportunities to expand U.S. shipbuilding capabilities.

- *Beyond the obvious need for a sufficient budget and reliable annual appropriations to support the U.S. merchant marine, what are the three highest priorities that you would recommend the Congress consider to address these objectives?*

The top three priorities for the industry include the following (in no particular order):

1) Enactment of a Comprehensive National Maritime Policy – It has been decades since the last time Congress passed a comprehensive Merchant Marine Act that reviewed current maritime policy on a national level. Since the Merchant Marine and Fisheries Committee's jurisdiction was split amongst a variety of House Committees, it has been difficult to pass a comprehensive Merchant Marine Act given the multiple cross jurisdictions. Now, however, given the changes in the industry we've seen over the last twenty years, both domestically and internationally, it's time we addressed our maritime policy in a comprehensive way. This would include both the domestic and international side of the industry, port and waterways infrastructure, tax reform, short sea shipping (America's Marine Highways and other related programs) and a review of the Administrative agencies tasked with both regulating and promoting the Merchant Marine. A comprehensive approach would also allow for Congress and the Administration to work together to craft a single policy that has support from all aspects of government industry. Finally, a comprehensive policy could also be used as

a vehicle to demonstrate the critical role the merchant marine plays in national defense. Since each program touches military readiness, a Comprehensive National Maritime Policy would necessarily allow for greater public awareness of the role maritime plays in America's national security.

2) Repeal the Food for Peace Program Changes from MAP-21 and Increase Cargo Preference Requirements from 50% to 100% - The repeal of the ocean freight differential and the reduction of the percentage of Food for Peace cargo subject to cargo preference from 75% to 50% was a major hit the industry. We feel it is both cost effective and good policy to restore the ocean freight differential from MAP-21 to ensure that the difference in cost between U.S.-Flag vessels and foreign flag vessels does not reduce the funds available to purchase American agricultural commodities. Further, we strongly feel that instead of simply restoring the 25% that was cut from cargo preference, we should instead require that 100% of all Food for Peace cargoes purchased with American taxpayer dollars be carried by American ships. This would reduce the administrative burden on USAID and USDA in complying with the cargo preference laws, and would help the U.S.-Flag fleet remain viable as the amount of defense cargo (already subject to a 100% requirement) continues to drop as we disengage from overseas contingency operations around the world.

3) Develop New Export Related Programs to Boost Employment – As we continue to focus on increase exports of American resources – especially energy resources – and products overseas, there is the potential to develop new programs that could provide incentives for shippers to utilize U.S.-Flag vessels to ship their cargoes overseas. Reserving a portion of LNG exports shipments, for example, for U.S.-Flag ships as that industry comes on line in the next few years could boost employment. These incentives could come in the form of tax credits or tax breaks for companies who choose to use U.S.-Flag vessels to carry their exports or cargo preference laws could be enhanced to include provisions reserving specific types of exports to U.S.-Flag ships. While care would need to be taken to ensure these laws do not run afoul of any trade provisions, we are confident that a system could be developed that would boost employment opportunities without a direct cost to the American taxpayer.

- *Are there specific programs that should be reformed to better align with contemporary and future needs?*

For the most part, the various maritime programs administered by the government are working well and as intended. Where reform is most necessary is not on the programmatic side, but on the policy side. Programs like the Maritime Security Program are working well and we do not see a pressing need for major reforms there. Where we do see the need for reform are in areas like tax policy and environmental regulation, where the issues do not revolve around specific programs.

- *Are there some existing programs that should be repealed in favor of other alternatives? Conversely, are there some programs previously repealed that might be reconstituted?*

Again, for the most part, our programs are working well and we would not favor repeal of any of them at this time. We would support a comprehensive review of all maritime policy, including our programs, to ensure that they continue to work as a cohesive whole.

Deep Sea Manpower Study

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2013- 2018

*Prepared by Seafarers International Union
October, 2013*

Background

During testimony by DOD in May 2013 before the House Transportation and Infrastructure Committee, it was reported that there was a pool of more than 15,000 mariners available for the crewing of the RRF and MSC Surge Fleets. The presidents of the unions representing the deep-sea mariners decided a manpower study was needed to quantify the actual number of actively sailing seafarers available.

This analysis was conducted by unions representing U.S. deep-sea mariners to provide the most accurate determination of their collective ability to man the reserve and surge fleets during a crisis, both now and five years into the future.

Deep-Sea Union Officers

AMO	2344
MEBA	900 (Estimated)
MM&P	900 (Estimated)
Total	4,144
	3,936 (MARAD JUL 2013 Data)
	<u>Delta 208 5%</u>

Deep-Sea Unlicensed Ratings

Deck Department	2,851
Engine Department	1,571
Steward Department	868
Entry Ratings	1,881
Total	7,171*

The total number of available officers and unlicensed ratings is approximately 11,315**

*This total reflects the available seafarers including the private commercial deep sea and Great Lakes sectors, MSC CO-CON, and MARAD RRF vessels. Based on a 2 to1 seafarer to billet requirement the total reflects a shortage of 443 unlicensed seafarers. Also, this figure is constantly subject to change due to the transient nature of the industry. It does not include the number of mariners who are eligible to sail but for various reasons are not captured by the studies.

** Finally, when compared to MARAD's June 2013 availability study, which identified the number of available mariners as 15,000, the Delta was -3,685. As of August 2013 the MARAD study has been updated and revised and now reflects a mariner pool of 11,506, now with a Delta of -191.

Mariner Availability

The following information provides the SIU Manpower Pool's ability to man every vessel under contract inclusive of Commercial Sector, MSC, Great Lakes Sector and MARAD Ready Reserve Fleet.

Ratings	Billets	2:1 requirement	Availability	Delta	Surplus	Total Delta
Deck Department	1528	3056	2851	205		
Engine Department	844	1688	1571	117		
Steward Department	517	1034	868	166		
Entry Level	918	1836	1881		45	
Total All Departments	3807	7614	7171	488	45	443

Conclusions

2013 - The deep-sea unions can man full activation of all RRF and MSC Surge vessels at this time. Shortages in individual unions can be made up through what are known as pass-through agreements, which allow for sharing manpower to fill vacancies regardless of union affiliation.

2013 - The deep-sea unions can support a one-year sustainment of a full break out at this time.

2018 - With the current number of RRF and MSC Surge vessels and the projected net loss of at least 10 vessels the officers unions would not be able to man all the vessels in a full activation scenario.

2018 - With the current number of RRF and MSC Surge vessels and the projected net loss of at least 10 vessels the officers unions would not be able to support a one-year sustainment operation.

2018 - With the current number of RRF and MSC Surge vessels and the projected net loss of at least 10 vessels the unlicensed unions would be able to man all vessels in a full activation scenario.

Conclusions – Continued

2018 - With the current number of RRF and MSC Surge vessels and the projected net loss of at least 10 vessels* the unlicensed unions would not be able to man all vessels in a one-year sustainment operation.

2018 - Within the one-year period the unlicensed unions can take various steps, (i.e. accelerate upgrading classes at the Paul Hall Maritime Center, increase recruitment) to mitigate shortages in the individual shipboard departments.

2018 - The mean age of Masters and Chief Engineers at this time is 52. Based on current average retirement rates and no change to advancement rates the unions can expect a shortage of Senior Officers beginning in 2014-2015 and becoming chronic in 2018. It takes 10-12 years to produce a Master or a Chief Engineer.

* The projected number of lost vessels is far greater when considering estimated cuts in the Food for Peace (PL-480), Maritime Security Program (MSP) and organic fleets.

Observations

In the 5-year period 2008-2013 according to MARAD there has been a net loss of 1,093 commercial mariner billets (approx. 2,250 mariners) and a net increase of 477 CIVMAR billets. This trend is eliminating the labor pool that would fill billets in the RRF and MSC Surge fleets in a full activation scenario.

This decline has dramatically affected the SIU skilled labor pool. We cannot create qualified, skilled Deck and Engine ratings with a decline in seafaring jobs. Sea time is the gateway to the skilled positions. While serving in lesser capacities, mariners obtain the base knowledge to motivate them in attending school to qualify themselves to move into the more-skilled positions.

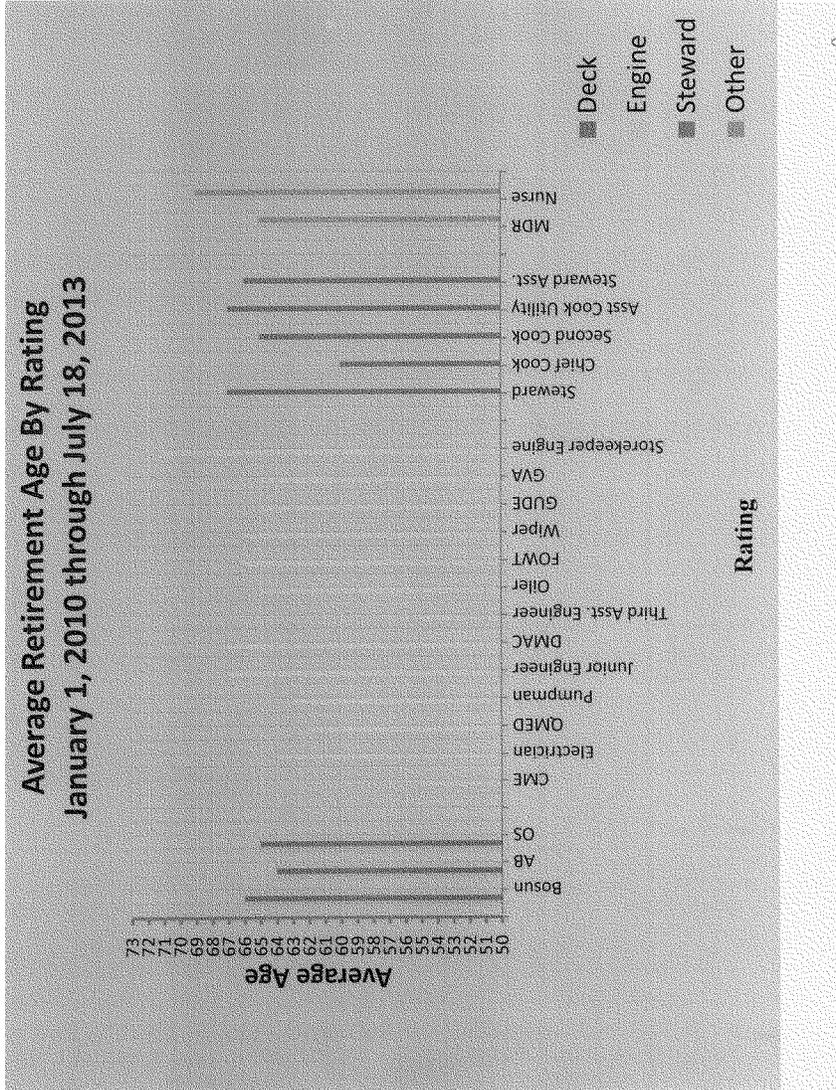
We believe once it becomes apparent to officers that the U.S.-flag fleet is on a terminal trajectory, a tipping point will be reached in a matter of months precipitated by a mass exodus of officers. This will quickly erode and possibly cripple our capacity to crew what is left of the commercial and government fleets.

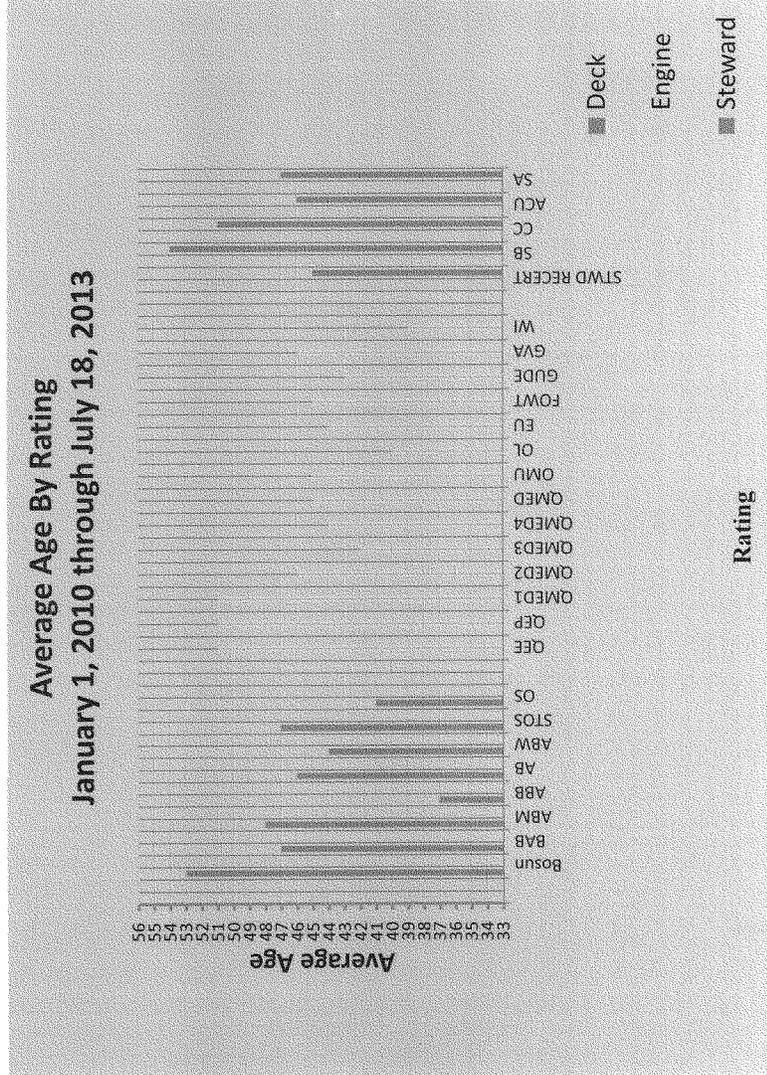
We believe that that the loss of commercial vessels, due to the impending impacts from fiscal pressures bearing down on the full funding of Maritime Security Program, the Food for Peace Program (PL480) and the sequester-driven cuts in the privately manned MSC vessels and the RRF fleet will seriously threaten our ability to support our forces as we have always done in the past, and most recently in the conflicts in Iraq and Afghanistan.

Observations - Continued

Although the population of mariners is relatively small compared to other industries, the value they provide to our national and economic security completely outweighs the size. The logistic capability provided in support of hundreds of thousands of our armed forces is categorized by DOD as the best return on a relatively small investment. To replicate this capability would cost the government billions of taxpayer dollars.

We believe that all necessary steps must be taken to restore the programs that support the US fleet to the programs' optimum levels, and furthermore that a national maritime policy should be developed with the objective of expanding opportunities, both domestically and internationally, for US-flag ships and US mariners.





Maritime Administration
U.S. Department of Transportation
Mariner Supply (Oceans)



As of Jun 30, 2013 (Jun 2013)

Mariners by License	Qualified	Sailed Last 18	CIVMARs (1.22)	Total Sailed
Licensed	12,993	3,864	831	4,715
Unlicensed	75,017	7,822	4,829	12,451
Total	88,010	11,686	5,660	17,166

Deck Mariners	Qualified	Sailed Last 18	CIVMARs (1.22)	Total Sailed
Licensed Deck	6,686	1,841	373	2,214
Able Seamen	9,729	2,304	1,534	3,836
Total	16,415	4,145	1,907	6,052

Deck Overview	Qualified	Sailed Last 18	CIVMARs (1.22)	Total Sailed	% Of Total Sailed
Master	2,126	774	55	829	37.4%
Chief Mate	670	270	82	352	15.9%
Second Mate	1,535	429	107	536	24.2%
Third Mate	2,355	368	129	497	22.4%
Total	6,686	1,841	373	2,214	100.0%

Engine Mariners	Qualified	Sailed Last 18	CIVMARs (1.22)	Total Sailed
Licensed Engine	6,307	2,043	458	2,501
QMEDs	6,495	1,350	739	2,089
Total	12,802	3,393	1,197	4,590

Engine Overview	Qualified	Sailed Last 18	CIVMARs (1.22)	Total Sailed	% Of Total Sailed
Chief Engineer	2,085	655	62	917	36.7%
1st Assistant Engineer	864	379	57	436	17.4%
2nd Assistant Engineer	1,442	435	101	536	21.4%
3rd Assistant Engineer	1,916	374	237	611	24.4%
Total	6,307	2,043	457	2,500	100.0%

Entry Level Mariners	Qualified	Sailed Last 18	CIVMARs (1.22)	Total Sailed
Entry Level Mariners	56,793	3,968	2,556	8,524

Total Mariners Not Included	Licensed	Total
	2,063	
	29,742	
Total	31,805	

Report Run Date: Aug 06, 2013

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Mariner Outreach System

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SIU/MARAD Mariner Availability Comparison

The current delta between the SIU Manpower Pool’s ability to man every vessel under contract, inclusive of Commercial Sector, MSC, Great Lakes Sector and MARAD Ready Reserve Fleet and MARAD’s Availability study is 5.9%.

SIU/MARAD Mariner Availability Comparison				
Ratings	SIU	MARAD	Delta	Surplus
Deck Department	2851	2304		547
Engine Department	1571	1350		221
Entry Level	1881	3968	2087	
Steward Department	868			
NET Delta	SIU	MARAD	NET DELTA	
Total	7171	7622	451	