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BEFORE THE
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION
U.S. HOUSE OF REPRESENTATIVES

THE STATE OF THE U.S. FLAG MARITIME INDUSTRY

January 17, 2018

Good afternoon, Chairman Hunter, Ranking Member Garamendi and members of the Subcommittee. I appreciate the opportunity to discuss the state of the U.S Flag Maritime Industry, and ask that my written statement be entered in the record.

The statutory mission of the Maritime Administration (MARAD) is to foster, promote, and develop the maritime industry of the United States to meet the Nation's economic and security needs. Congress long ago recognized that it is necessary for national defense, and development of domestic and foreign commerce, that we have a U.S. merchant marine capable of serving in times of war or national emergency, and composed of the best-equipped, safest, and most suitable types of vessels, constructed in the U.S., and crewed by trained and efficient citizen mariners.[1]

Unfortunately, over the last few decades, the U.S. Maritime industry has suffered losses as companies, ships, and jobs moved overseas. MARAD will continue to leverage, as appropriate, the current mainstays of the Merchant Marine: the Jones Act, the Maritime Security Program (MSP), and Cargo Preference. Cargo is a main factor determining the number of ships in the U.S. flagged fleet, and the number of ships then influences the number of mariners who are available to run those ships and maintain a strong, resilient, U.S. Merchant Marine. However, as illuminated by the President's National Security Strategy, we live in an increasingly competitive world which requires us to rethink how we address long-term strategic issues facing the industry.

[1] 46 U.S.C. 50101

THE U.S.-FLAG FLEET

MARAD is charged with ensuring that U.S.-flag ships and merchant mariners are available to meet Department of Defense (DOD) sealift requirements. A key to completing that mission is doing what we can within the law to make them better able to compete in international commerce.

The fleet of U.S.-flagged, privately-owned, and commercially operated vessels, along with government-owned vessels, provides critical sealift surge and sustainment capacity to move equipment and materials for the Armed Forces. When needed, these resources can also support other Federal agencies during times of humanitarian crises, and natural disasters such as we witnessed this summer in the wake of Hurricanes Harvey, Irma, and Maria.

The following example draws a distinction between two conflicts. During one of these conflicts, the U.S. military overseas relied on foreign vessels and, during the other, they relied on U.S. flag vessels, including the Reserve Ready Force. During the first Gulf War, the U.S. found it necessary to employ foreign vessels to meet sealift needs; however, 13 of the 177 foreign vessels carrying essential supplies hesitated or refused to enter the area of operations, resulting in a loss of 34 transit days for ships carrying cargo for U.S. troops.[2] During later U.S. military overseas contingency operations in Iraq and Afghanistan from 2002 to 2010, over 95 percent of all military ocean-borne cargoes were moved on U.S.-flag vessels and government-owned sealift vessels activated from reserve status and crewed by U.S. citizen mariners. The U.S. military, the most powerful military in the world, relies on U.S.-flag vessels crewed by U.S. civilian mariners, operating from strategic ports, and using intermodal systems to ensure delivery of vital supplies and equipment to service members and their families stationed overseas.

This transportation partnership between the U.S. military and the U.S.-flag merchant marine has been proven as reliable, enabling, and cost effective to meeting sealift requirements[3]. DOD has long relied on commercial augmentation to meet sealift requirements in peace and war. Access to commercial fleets is formalized through DOD contracts, MARAD 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 the merchant mariners that will crew the government fleet. Since their inception in the mid 1990's, these commercial augmentation programs have provided the federal government assured access to a significant amount of capacity and intermodal capabilities that cannot be replicated by government sources. One alternative to support for a mix of Government and privately-owned vessels contemplated by current authorities, is the development of an expanded, all Government-

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[2] So Many, So Much, So Far, So Fast: United States Transportation Command and Strategic Deployment for Operation Desert Shield/Desert Storm/ James K. Matthews, Cora J. Holt, p. 136.

[3] Global Reach: Revolutionizing the Use of Commercial Vessels and Intermodal Systems for Military Sealift, 1990-2012. A.J. Herberger

vessel fleet the cost of which would be dramatically larger, because we would have more vessels to maintain in standby status

The U.S.-Flag Fleet in Facilitating Coastwise Trade and Supporting National Security

As early as 1817, Congress established legislation restricting foreign flag vessels from trading between US ports. Current U.S. coastwise trade laws[4], commonly referred to as the Jones Act, require the use of qualified U.S.-flag vessels to carry goods in domestic commerce, which includes transportation between and among the U.S. mainland, Puerto Rico, Hawaii and Alaska.[5] This law aims to supplement our national security priorities by supporting the shipyards, repair facilities, and supply chains that produce and repair American built ships, supports a pool of professional Mariners to operate them, and ensures that intermodal equipment, terminals and other domestic infrastructure are available to the U.S. military in times of war or national emergency. Coastwise trade laws promote a strong and vibrant U.S. domestic maritime industry, which helps the United States maintain its expertise in shipbuilding and maritime transportation. The Jones Act also ensures that vessels navigating on a daily basis among and between U.S. coastal ports and vulnerable inland waterways are operating with U.S. documentation and crew rather than under a foreign flag with foreign crew.

More than 40,000 vessels operate in U.S. coastwise and inland trades. While most of this number represents non-self-propelled barge vessels, there are one hundred large privately-owned, self-propelled oceangoing vessels (1,000 gross tons or more) in domestic U.S. trade.[6] While the number of large self-propelled coastwise vessels is down from 221 in 1992, almost 100 ships of that number resulted from the retirement of older single hull, self-propelled tankers, and reduction of Alaska North Slope oil production.

U.S. Shipbuilding Industry

In 2013, American shipbuilders directly employed 110,000 Americans and produced $37.3 billion in gross domestic product.[7] As of January 2018, there are five large oceangoing container vessels (some with roll-on/roll-off capacity) under construction, four on order, and plans for two more. In addition, there are many hundreds of commercial tugs, barges, and

[4] Now codified at chapter 551 of 46 United States Code.

[5] Currently, 91 large U.S.-flag self-propelled ocean-going vessels operate in U.S. domestic commerce. Although this segment of the fleet does not depend on government-impelled cargos, the crews of these vessels are qualified to operate sealift ships in the Government reserve fleet.

[6] Sources: 1992 fleet size from MARAD Historic Fleet Reports and Fleet Lists. December 1, 2017 fleet size from MARAD Merchant Fleet Report. See: https://www.marad.dot.gov/resources/data-statistics/

[7] USDOT/Maritime Administration, The Economic Importance of the U.S. Shipbuilding and Repairing Industry, November 2015, at https://www.marad.dot.gov/wp-content/uploads/pdf/MARAD_Econ_Study_Final_Report_2015.pdf

specialty vessels for the Jones Act market under construction or on order. These civilian shipyards and related industries are part of the Nation's shipbuilding and repair industrial base. Demand for vessels qualified for Jones Act trade plays an important role in ensuring that there is adequate American expertise and capacity to meet national shipbuilding needs and that these shipyards remain available when the military needs them. This is particularly true for the skilled shipbuilding and repair workforce.

The U.S. Flag-Fleet in International Trade

Over the last 25 years, the number of U.S. flagged vessels sailing in the international trade has varied from 183 ships in 1992 to 82 as of December 2017 (Figure 1).[8] There was a rise and decline in the number of U.S. flagged vessels beginning in 2001 triggered by military operations in Iraq and Afghanistan and the subsequent drawdown.

The change in the tonnage capacity since 1992 is significantly less than the change in vessel numbers. In 2014, the total deadweight ton capacity of containerships and roll-on/roll-off vessels was about 95 percent of its 1992 total even though the number of U.S.-flag vessels in 2014 was only 81 vessels.[9] The percentage of U.S. international commercial cargoes by weight carried on U.S. flagged vessels has fallen from 4 percent in 1992 to approximately 1.5 percent today (Figure 2).[10] However, even though the tonnage capacity has not decreased at the rate ships, fewer vessels means fewer jobs available to U.S. mariners, which could impact readiness.

Given the comparatively higher costs of operating a U.S. flag vessel, privately-owned.[11] and -operated ships remain under U.S.-flag only if there is dedicated cargo to move. U.S.-flag vessels have higher operating costs than a foreign flag carriers competing for US commercial imports and exports (i.e., not government-impelled) absent U.S. government direct and indirect subsidies.[12] Moreover, the reductions in government-impelled defense cargoes due to the winding down of wars in Iraq and Afghanistan have been the principal cause of the decline in recent years. Other factors, such as the decline of non-military cargo volumes have also contributed to the decline.

[10] MARAD Calculation using CBP, Census, and commercial data sources
[11] MARAD Calculation using CBP, Census, and commercial data sources
[12] USDOT/MARAD, COMPARISON OF U.S. AND FOREIGN-FLAG OPERATING COSTS, September 2011.

Figure 1: U.S.-Flag Share of Foreign Trade (2005-2015) Based on Cargo Weight. Source: Maritime Administration Analysis based on Census data. Prepared 7/7/2017.

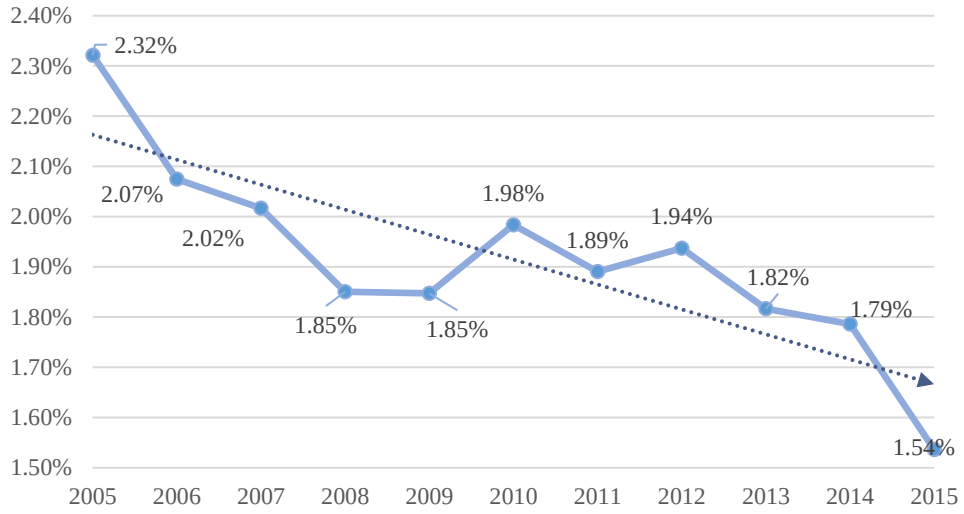
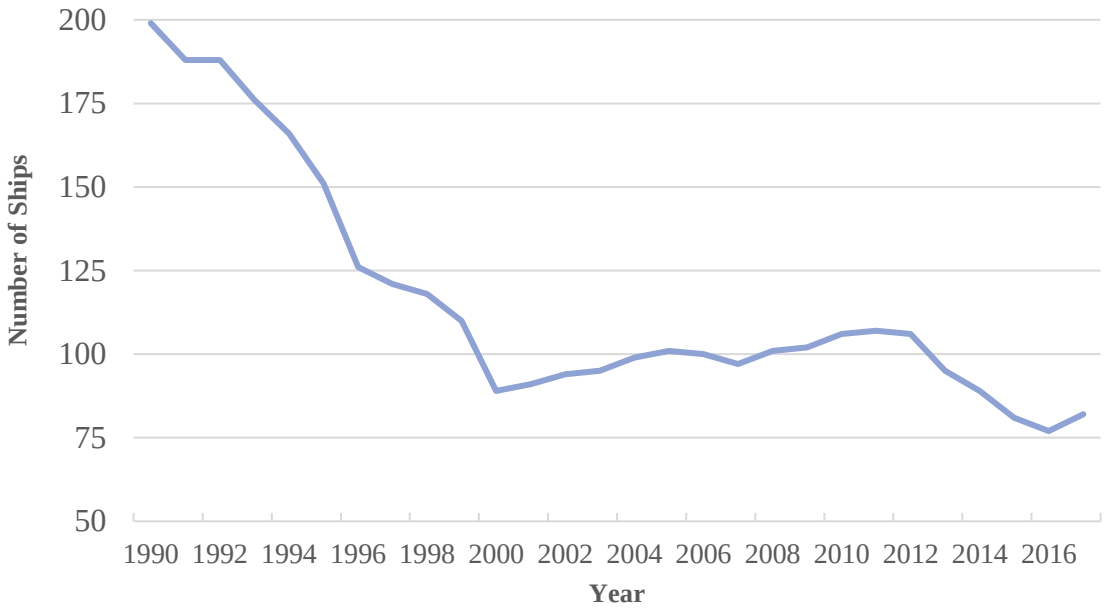


Figure 2: United States Privately-Owned Oceangoing Self-Propelled Vessels 1,000 Gross Tons and Above Operating in International Trades (1990-November 1, 2017). Source: MARAD 2000 – 2016 U.S.-Flag Privately-Owned Fleet Summary and MARAD Calculation using CBP, Census, and commercial data sources.



Cargo Preference Laws

Reacting to a decline in the number of US-flag ships available to move military equipment and to encourage an active, privately-owned and -operated, U.S.-flag fleet, Congress enacted several measures known as "cargo preference" laws between 1904 and 1954. These laws require shippers to use U.S.-flag vessels for ocean-borne transport of significant portion of certain cargoes purchased with Federal funds.

Specifically, 100 percent of military cargo, and at least 50 percent of most non-military government cargo transported by ocean, must be carried on U.S. flag vessels subject to vessel availability and fair and reasonable rates. The cargoes generated because of these programs help ensure the availability of a fleet of privately-owned U.S.-flag ships. The availability of preference cargoes helps to ensure these ships, mariners, and the supply networks they employ are available to transport Government supplies and equipment in the event of an emergency or armed conflict.

Maritime Security Program

The Maritime Security Program (MSP) subsidy program helps offset the costs of operating under the U.S. flag. The Maritime Security Act of 1996 (as amended) authorizes direct annual stipends for up to 60 active, commercially viable, militarily useful, privately-owned U.S.-flag vessels and crews operating in U.S. international trades, in return for the owner/operators' agreement to make the vessels available to the Government in times of war or national emergency. The MSP fleet ensures access to U.S.-flag ships, and estimated employment of up to 2,400 highly qualified U.S. merchant mariners, in ocean-borne foreign commerce – and most critically - with the necessary global intermodal logistics capability to move military equipment and sustainment cargo. Ships operating under the MSP may also carry cargo preference loads, which is an important incentive for vessels to participate in the MSP.

Under this program, participating operators must commit their ships, crews, global network of intermodal facilities and transportation resources upon request by the Secretary of Defense. Of the 82 U.S.-flag vessels that trade internationally, 60 currently participate in the MSP program. Over the past several years, MARAD has strengthened the process for retaining militarily useful ships in the program and has increased the militarily useful capacity of the fleet to meet DOD's requirements. The MSP has supported every U.S. conflict since its inception in 1996, including Operations Enduring Freedom and Iraqi Freedom, and these vessels stand ready to play a vital role in support of U.S. military operations worldwide.

The National Defense Reserve Fleet (NDRF) and Ready Reserve Force (RRF)

MARAD manages and maintains the bulk of our Nation's surge capacity, which is organized in the Ready Reserve Fleet. These 46 ships must be ready for operation within five days for transport of military cargo to critical areas of operation. The RRF functions as a part of the National Defense Reserve Fleet of retention and disposal vessels, and training ships which MARAD provides to state maritime academies, and serve additionally for disaster response in an emergency. RRF and NDRF ships were activated to provide support to other government agencies for recent relief efforts following Hurricanes Harvey, Irma, and Maria, and previously for Hurricanes Katrina, Rita, and Sandy and earthquake relief effort in Haiti. During these deployments these vessels supplied first responders with housing logistical support, and needed relief supplies, including critical Federal Aviation Administration air navigation equipment. MARAD is working with the U.S. Transportation Command (USTRANSCOM) and the US Navy to address the urgent need for recapitalization of the RRF to ensure the readiness of these 46 ships, the average age of which is 43 years.

Availability of Qualified U.S. Mariners

MARAD and DOD rely on the U.S.-flag commercial fleet operating in both the coastwise and international trades to employ enough qualified mariners to crew all the commercial cargo ships that might support military operations, plus the "surge fleet" of 61 Federally-owned cargo ships. As of today, the size and composition of the U.S.-flag commercial fleet is just adequate to meet immediate military contingencies; however, due to the historically low number of ships in both the domestic and international trading U.S.-flag oceangoing fleets over the past several years, MARAD is concerned that there might not be enough qualified mariners with required endorsements to operate unlimited horsepower and unlimited tonnage necessary to sustain a prolonged activation of the entire sealift fleet.

While it appears possible to find enough qualified American mariners for an initial four to six months of sealift surge, sustaining safe operations with qualified crew could be impacted if a sealift surge exceeded six months. Currently, we estimate that there are 11,768 qualified unlimited tonnage/horsepower active mariners available to crew either commercial or Government reserve sealift ships. The initial activation of the 46 MARAD and 15 Military Sealift Command surge vessels would require roughly 3,860 mariners for sustained operation. This is in addition to continued operation of much of the privately-owned commercial fleet.

In particular, there is a shortage of senior-level mariners with unlimited credentials who have sailed within the past 18 months. Contributing factors to this shortage include more stringent international training requirements and medical fitness standards, and the overall declining pool of billets in the U.S.-flag fleet. Given this assessment, I am working closely with the USTRANSCOM, the U.S. Navy's Military Sealift Command, the U.S. Coast Guard and the commercial maritime industry to develop proposals to maintain an adequate number of trained

mariners. Part of our coordinated effort is to further the Military to Mariner program which makes it easier for transitioning servicemen and women to obtain their mariner credentials based on their service experience. Additionally, MARAD is working with the U.S. Coast Guard and the maritime industry to better track licensed mariners who may no longer be sailing, but could serve in a time of crisis. Finally, MARAD is working to develop tools to understand and analyze changes in the numbers of fully qualified mariners in deck and engineering job categories who are trained and available to meet the Nation's commercial and sealift requirements at any given time.

The National Defense Authorization Act for Fiscal Year 2017 (FY 2017 NDAA) established the Maritime Workforce Working Group (MWWG) to examine and assess the size of the pool of qualified U.S.-citizen mariners necessary to support the U.S.-flag fleet in times of national emergency. The MWWG developed a report which is still being reviewed within DOT.

MARITIME TRAINING

MARAD provides funding and support for mariner training programs to produce highly skilled, U.S. Coast Guard (USCG) credentialed, officers for the U.S. Merchant Marine.[13] The U.S. Merchant Marine Academy at Kings Point (USMMA) and State Maritime Academies (SMAs) graduate the majority of entry-level officers with unlimited USCG-credentials. This cadre of well-educated and trained merchant mariners support the U.S. marine transportation infrastructure, and serve our Nation when called upon to support military operations worldwide, national emergency, and humanitarian missions.

The U.S. Merchant Marine Academy

Like the other four other Federal service academies, West Point, the U.S. Naval Academy, the U.S. Air Force Academy, and the U.S. Coast Guard Academy, the USMMA is a premier accredited institution of higher education. Operated by the DOT and managed by MARAD, the USMMA offers a four-year maritime-focused program, centered on rigorous academic and practical 12 month at-sea technical training aboard US Flag ships that leads to a Bachelor of Science degree, a USCG merchant mariner credential with an unlimited tonnage or horsepower officer endorsement, and, upon application and acceptance, a commission as an officer in the Armed Forces or other uniformed services (National Oceanographic and Atmospheric Administration Corps or the U.S. Public Health Service Corps) of the United States. USMMA graduates incur an obligation to serve five years as a merchant marine officer aboard U.S. documented vessels or on active duty with the U.S. Armed Forces or uniformed services. If not on active duty, they must serve as a commissioned officer in a reserve unit of the U.S. Armed

[13] The Secretary of Transportation is specifically authorized to provide education and training to U.S. citizens for the safe and efficient operation of the U.S. Merchant Marine in 46 U.S.C. § 51103(a). See also, 46 U.S.C. Subtitle V Part B. See Chapters 511, 513, 515 and 517.

Services for eight years. The USMMA is the single largest annual contributor to the US Navy's Strategic Sealift Officer community, sponsored by the Commander of the Military Sealift Command. These officers form a critical part of the sealift manning equation because of their service obligation to maintain their license and respond to emergency manning of RRF shipping.

DOT, MARAD, and the USMMA take sexual assault and sexual harassment at the Academy very seriously. The Academy is implementing provisions included in both the Fiscal Year 2017 and Fiscal Year 2018 National Defense Authorization Act aimed at improving the Academy's sexual assault and sexual harassment prevention and response efforts. Actions include enhancing prevention training, increasing campus security, initiating an on-campus culture change program, hiring additional staff for the Sexual Assault Prevention and Response Office, and most recently, testing satellite communication devices that will be made available to midshipmen going on Sea Year and upgrading the 24/7 sexual assault hotline.

State Maritime Academies

In addition to providing oversight of the USMMA, MARAD provides assistance, including training ships, to six state maritime academies (SMAs), which collectively graduate more than two-thirds of the entry-level Merchant Marine officers annually.[14] Approximately 991 Cadets are expected to graduate from the SMAs in 2018.

MARAD provides assistance to fund the enrollment of 75 new cadets each year (across all SMAs) in the Student Incentive Payment (SIP) program for a period of four years. The SIP program provides cadets with funds to be used for uniforms, tuition, books, and subsistence. Upon graduation, SIP students must maintain an unlimited USCG credential for six years, fulfill a three-year service obligation in the maritime industry, and serve in a reserve unit of an Armed Forces or uniformed service for eight years. Assistance provided to the SMAs also includes funding for maintenance and repair costs for training ships on loan from MARAD.

Ensuring the continued availability of SMA training vessels is a critical need and high MARAD priority. Training ship maintenance work is increasingly important and costly as the ships age and approach or exceed their designed service life. Accordingly, MARAD is using funds to address priority maintenance across all the training vessels, with emphasis on the two ships which are more than 50 years old – the EMPIRE STATE (NY) and KENNEDY (MA). These two vessels are now serving beyond their designed service lives. The SMA Cadets receive most of their sea time on these training ships.

[14] The six SMAs are: California Maritime Academy in Vallejo, CA; Great Lakes Maritime Academy in Traverse City, MI; Texas A&M Maritime Academy in Galveston, TX; Maine Maritime Academy in Castine, ME; Massachusetts Maritime Academy in Buzzards Bay, MA; and State University of New York (SUNY) Maritime College in the Bronx, NY. See: 46 U.S.C. Chapter 515.

MARITIME TRANSPORTATION INFRASTRUCTURE

Ports and the U.S. Marine Transportation System are critical to our Nation's economy and to the wellbeing of the U.S. Merchant Marine. As required by 46 U.S.C. § 50302, MARAD established a port infrastructure development program called StrongPorts to better support the development of our port facilities. That program delivers tools and technical assistance to ports and works with state and local partners to integrate ports and maritime transportation into the larger U.S. surface transportation system. MARAD also oversees funding for port infrastructure projects provided through the DOT grant programs.

The America's Marine Highway Program (AMHP) is designed to expand the use of our Nation's navigable waterways to relieve landside congestion, reduce air emissions, provide new transportation options, and generate other public benefits by increasing the efficiency of the surface transportation system. There are currently 24 designated Marine Highway Routes.

The program encourages partnerships with a variety of stakeholders including shippers and manufacturers, truckers, ports and terminals, ocean carriers, and domestic vessel operators to create new supply chain options that use our waterways. America's Marine Highway projects also allow for the optimization of equipment relocation and help to reduce wasteful movement of empty shipping containers.

CONCLUSION

At MARAD, we strive to serve the American people and uphold their right to a government that prioritizes their security, their prosperity, and their interests. MARAD implements programs that promote the economic competitiveness, efficiency, safety and productivity of the U.S. maritime transportation system while ensuring that sealift capability and capacity is available to support the national and economic security needs of the Nation.

I appreciate the Subcommittee's continuing support for maritime programs and I look forward to working with you on advancing the U.S. Maritime Industry in the United States. I will be happy to respond to any questions you and the members of the Subcommittee may have.