U.S. Department of Transportation

Cargo Preference Program

Maritime Administration Fact Sheet

Strategic Objective: Assure that sufficient capability and intermodal transportation infrastructure exists to support vital homeland and national security interests.

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Cargo Preference— What is it? Why Do We Have it?

The cargo preference laws serve to provide a basic lifeline of cargo necessary to maintain the American Merchant Marine. Absent cargo preference, our fleet would undoubtedly be driven out of business by the highly-subsidized fleets of our near-peer competitors (e.g. China) or those sheltered under tax exempt flags of convenience (e.g. Panama, Vanuatu).

Experience demonstrates the need to support the U.S. Merchant Marine in peacetime to ensure its readiness in time of war or national emergency. During the recent conflicts in Iraq and Afghanistan, over 90% of material destined for the warfighting effort was transported by our merchant fleet, evidencing our critical dependence on commercial maritime assets as the means to bring the fight to the enemy. As these vessels are neither owned nor operated by the Government, they rely upon a dedicated stream of federally financed cargo as a means to remain economically viable.

The number of U.S.-flag vessels in international commerce has dropped from 107 vessels in 2011 to our present low of 81. Coupled with the loss of our commercial sealift capability is the compounding challenge of manning the government-owned Ready Reserve Fleet in time of war or national emergency as the available mariner pool withers with the loss of each merchant vessel. The recent decline in our merchant fleet is directly linked to the reduction in cargo due to the drawdowns in Iraq and Afghanistan and the reduced military presence in Europe and Korea. The impact of these reductions in available cargoes was exacerbated in 2012 when the U.S.-flag requirement for food assistance was scaled back from 75-to-50% of tons shipped; and, more recently, with the cessation of Export-Import Bank activity.

The loss of our merchant fleet and access to its intrinsic intermodal capabilities and assets is an unavoidable certainty should the cargo preference requirements be further lessened or removed. Should these requirements expire, the estimated replacement cost for the USG to procure equivalent capabilities would require an initial capital investment of approximately $54B with another $1B for annual maintenance.

Preference cargoes provide incentive for vessels to remain under the U.S.-flag and employ U.S. citizen crews.

What Are the U.S. Cargo Preference Laws?

- The Cargo Preference Act of 1904 requires that 100 percent of Department of Defense cargoes be shipped in U.S.-flag vessels, if available at fair and reasonable rates for commercial vessels of the United States. (10 U.S.C. § 2631)

- The Cargo Preference Act of 1954 requires that at least 50 percent of non-military government-impelled cargoes must be shipped in U.S.-flag vessels, if available at fair and reasonable rates for commercial vessels of the United States. (46 U.S.C. § 55305)

- Public Resolution 17 requires that 100 percent of cargoes moving as a result of Government loans or credit guarantees must be shipped on U.S.-flag vessels. (46 U.S.C. § 55304)

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