

**STATEMENT OF PAUL N. JAENICHEN
ACTING MARITIME ADMINISTRATOR
MARITIME ADMINISTRATION**

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

**THE MARITIME ADMINISTRATION'S
FISCAL YEAR 2015 BUDGET REQUEST**

MARCH 26, 2014

Good morning Chairman Hunter, Ranking Member Garamendi, and Members of the Subcommittee. I am pleased to appear before you today, and I thank you for the opportunity to discuss the President's Fiscal Year (FY) 2015 budget priorities and initiatives for the Maritime Administration (MARAD). This budget request supports MARAD's mission to foster, promote and develop the U.S. Merchant Marine and it reflects MARAD's priorities of maintaining security and preparedness, investing in mariner training, enhancing U.S.-flag competitiveness and fostering environmental sustainability.

BUDGET REQUEST HIGHLIGHTS

One of the primary goals of the FY 2015 budget request is to continue funding for MARAD readiness programs that support Department of Defense (DOD) sealift capacity. These programs are critical to ensuring that vessels and mariners are available to meet national security needs, often with little notice. A recent example is the mobilization of the CAPE RAY, one of the 46 vessels in MARAD's Ready Reserve Force (RRF), which currently is being used as the platform for the destruction of the highest priority Syrian chemical weapons. The CAPE RAY is the United States' key contribution to the joint United Nations/Organisation for the Prohibition of Chemical Weapons (OPCW) international effort to eliminate the Syrian stockpile of chemical weapons and is the first time that destruction will be accomplished at sea. Converting a sealift vessel into an OPCW-verified chemical weapons destruction facility from concept to reality was no easy task. Preparations were completed in record time given the scope of the mission, the number of U.S. Government agencies and commercial companies involved, and the extensive vessel modifications required. The FY 2015 budget request includes a change with the direct transfer of \$291 million in funding from Navy DOD to MARAD for the RRF program. This funding will ensure these vessels continue to be available to support DOD strategic sealift requirements as well as the capacity to provide disaster response and humanitarian assistance.

Another MARAD program that is critical to meeting DOD sealift capacity requirements is the Maritime Security Program (MSP). The MSP provides operating assistance funds as a stipend to a fleet of 60 commercial privately-owned, militarily useful, U.S.-flagged and U.S.-crewed ships. The MSP fleet ensures DOD has assured access to a global fleet of ships in ocean-borne foreign commerce with the necessary intermodal logistics capability to move military equipment and supplies during armed conflict or national emergency. Moreover, as this Subcommittee knows,

the MSP fleet, supports a pool of actively sailing U.S. mariners to crew the government's sealift fleets, and I thank the Subcommittee for their role in providing funding at the full authorized level in the Consolidated Appropriations Act, 2014 (P.L. 113-76). The President's budget request continues full funding for the program in FY 2015.

The President's budget request also continues important investments in mariner training. Having a pool of qualified U.S. mariners is critical for emergency response and national security. The U.S. Merchant Marine Academy (USMMA) and the six State Maritime Academies (SMAs) educate and graduate Merchant Marine officers ready to serve the maritime industry and Armed Forces by providing the highest caliber academic study with state of the art learning facilities. The budget request reflects the Department of Transportation's (DOT) continued commitment to USMMA by providing funds to meet operational and academic needs, as well as to address critical capital improvements of the facilities on the campus. In addition, the budget provides support for the SMAs with funding for tuition assistance and direct support for maintenance and repair of each Academy's school ships.

The FY 2015 budget request includes funding to continue energy and environmental technology initiatives designed to enhance maritime sustainability and affordability, focusing on areas such as vessel and port air pollution reduction, invasive species control through ballast water management and underwater hull husbandry, improved and diversified marine propulsion systems and increased energy efficiency at sea. A critical focus area is the use of less polluting, domestically produced and more sustainable maritime propulsion fuels, such as natural gas, biofuel blends and fuel cell/hybrid technologies.

Funding is also requested to support the disposal of obsolete National Defense Reserve Force (NDRF) vessels and non-combatant auxiliary vessels to advance the agency's contribution to environmental stewardship. Due to the presence of hazardous materials, these surplus non-retention ships pose a risk to the surrounding environment. MARAD's Ship Disposal Program manages ship dismantling and recycling for obsolete, Federally owned, merchant-type vessels in an environmentally responsible manner that further reduces the risk of environmental contamination.

Other priorities for MARAD in FY 2015 include the continued oversight of Transportation Investment Generating Economic Recovery (TIGER) grant funding to complete maritime projects totaling \$415 million supporting new marine highway services, expanding port capacity and improving freight efficiencies. Additionally, the agency is committed to improving the management of our human resources, information technology and financial resources.

FY 2015 BUDGET REQUEST

The President's FY 2015 budget request for MARAD is \$658 million, which funds activities supporting ships and shipping, port operations, vessel operations, national security and strategic mobility, ship disposal, environment, safety and education. Significant changes in the budget request include a new initiative to mitigate the impact on mariner jobs from proposed reforms for P.L. 480 Title II Food Assistance, and a shift in the budgetary treatment of funding for the RRF and the NDRF. A summary of the FY 2015 request that supports MARAD program priorities of

security and preparedness, mariner training, economic competitiveness and environmental sustainability is provided below.

SECURITY AND PREPAREDNESS

National Defense Reserve Fleet (NDRF)/Ready Reserve Force (RRF)

MARAD manages and maintains a fleet of government-owned merchant ships in the NDRF, which includes a component of 46 RRF vessels that are maintained in an advanced state of surge sealift readiness for the ocean transport of cargo to a specific area of operation to satisfy Combatant Commanders' critical war fighting requirements, such as Operations IRAQI FREEDOM and ENDURING FREEDOM. The level of surge sealift readiness maintained allows MARAD to complete RRF vessel activation in five days or less to support DOD requirements. RRF vessels and NDRF school ships may also be called upon to provide relief effort and humanitarian assistance in times of national emergency, as was the case when one of the RRF ships was activated to provide support relief efforts following the November 2012 Hurricane Sandy. Additionally, each vessel can be configured to support other emergent situations as was the case in mobilizing the CAPE RAY for use in the international effort to destroy a portion of Syria's chemical weapons.

The RRF ships are berthed at 15 different ports around the country and serve as important assets supporting the Department's emergency preparedness and disaster response activities. RRF ships meet approximately half of the U.S. Transportation Command's surge sealift requirement during a mobilization. Without the RRF, DOD would have insufficient sealift capacity during armed conflicts.

The FY 2015 request reflects a direct transfer of \$291 million from Navy DOD to support the RRF and NDRF program activities. Historically, DOD provided these funds on a reimbursable basis from an appropriation to the National Defense Sealift Fund, but through a budget change, a direct transfer to MARAD's RRF account will serve as the funding mechanism. Funding provided by Navy DOD will allow MARAD to continue to provide ready surge sealift support in FY 2015 in the areas of activating, operating, deactivating and special mission requirements for RRF vessels and maintaining MARAD's three NDRF fleet sites.

Maritime Security Program (MSP)

The MSP complements the RRF vessels with a fleet of 60 commercial privately-owned, militarily useful, U.S.-flagged and U.S.-crewed ships. The primary purpose of the MSP is ensuring the military's access to a global intermodal system with sealift capacity using a U.S.-flag fleet and ready U.S. mariners, while also maintaining a U.S.-flag presence in foreign commerce. The MSP provides critical employment for 2,700 U.S. merchant mariners, creating a reliable pool of mariners ready to support the activation of the government's sealift fleets.

MSP vessels have been key contributors to our Nation's efforts in Afghanistan and Iraq over the last decade, moving over 50 percent of all military cargo – over 26 million tons – to the Middle East. Since 2009, MSP carriers have moved over 90 percent of the ocean-borne cargo needed to

support U.S. military operations and rebuilding programs in both countries.¹ Of even greater significance, MSP carriers led development of multi-modal services into Afghanistan via the Northern Distribution Network and establishing air-sea intermodal bridging to provide critical alternative routes to resupply and support our U.S. military forces.

While MSP carriers are a critical part of drawdown plans for the U.S. Military as Operation ENDURING FREEDOM in Afghanistan winds down; however, one of the challenges facing the MSP is declining DOD cargo due to the drawdown of activity in Iraq and Afghanistan. Declining cargoes create real challenges for all of the U.S.-flag fleet operating in international trade. This is why MARAD is actively working with industry and government stakeholders to develop a National Maritime Strategy to support the U.S. maritime industry and ensure the availability of U.S.-flag vessels for our nation's national security.

For FY 2015, a total of \$186 million at the authorized level for 60 vessels is requested for the MSP. Funding at this level will enable DOT to continue to maintain a U.S.-flag international trade merchant fleet, crewed by U.S. mariners, to be available to serve the Nation's homeland and national security needs. Without the MSP, there would be a significant reduction in the number of U.S.-flag vessels and the number of mariners available to crew U.S. Government surge sealift vessels.

Food Aid Reform

The President's FY 2015 budget request includes \$25 million as a component of Food Aid reforms proposed for P.L. 480 Title II Food Assistance that would provide a flexible option that has proven to be critical when the U.S. provides emergency food in conflict situations and logistically difficult crises like Syria and Typhoon Haiyan. If the reform is enacted, most P.L. 480 Title II food aid would still be sourced and shipped from the U.S. with this additional funding to mitigate the impact that such reforms could have on mariner jobs. Most of the request would be devoted to provide direct stipend payments to operators of vessels in foreign trade, separate from MSP payments. Additionally, some of the request would support training programs to retain and educate U.S. mariners for critical occupations to preserve mariner employment on U.S.-flag vessels. This summer, MARAD will begin to develop this mitigation program.

MARINER TRAINING

United States Merchant Marine Academy (USMMA)

The President's FY 2015 Budget requests \$79.8 million for USMMA. Of this, \$65.3 million will support Academy operations and \$14.5 million will fund the Capital Improvement Program. The FY 2015 request will maintain a sufficient base budget to support mission-essential areas and enable the Academy to effectively achieve its core responsibility of providing the highest caliber

¹ Report by NDTA Military Sealift Committee Maritime Policy Working Group, "The Use of Commercial Vessels and Intermodal Systems for Military Sealift," 2009-2011 Addendum.

academic study with state of the art learning facilities for the Nation's future merchant marine officers and maritime transportation professionals. The Academy anticipates graduating 210 licensed merchant marine officers for service in the maritime industry and the U.S. Armed Forces in 2015. Nearly all of USMMA graduates receive either an active duty or reserve commission in the U.S. Armed Forces or uniformed service (National Oceanic and Atmospheric Administration or Public Health Service) and provide a guaranteed source of mariners to crew surge sealift vessels

The agency's strong commitment to improved Academy facilities is reflected in the FY 2015 request for \$14.5 million for the Capital Improvement Program. The funding includes \$13 million for Bowditch Hall renovation, the second academic building renovation as identified in the Academy's Five-Year Capital Improvement Plan, and \$1.5 million for necessary building repairs. The budget request continues DOT's commitment to maintenance and improvement of Academy's 70-year-old facilities. The improvements are critical to creating an enriching educational environment. A number of major capital improvement projects are scheduled for completion or are completed. In July 2013, the Academy's fifth dormitory renovation was completed on schedule and within budget. The sixth and final dormitory renovation is currently underway and will be completed September 2014. The renovation of the Academy's main dining facility will be completed April 2014, on schedule and under budget. Additionally, the replacement of Mallory Pier, the Academy's main waterfront pier, is scheduled for completion in April 2014, within budget. Infrastructure improvements for the water distribution and electric power supply are also currently underway.

Significant progress in improving institutional management and oversight, and strengthening internal controls at the Academy has been accomplished. A broad range of corrective actions, controls and process improvements were implemented at the Academy over the past few years, in addition to an organizational restructuring and leadership changes. Of note, the Government Accountability Office (GAO) has confirmed closure of 46 out of 47 recommendations in the 2009 audit report. A USMMA Internal Control Program Plan was submitted for the remaining recommendation for "a comprehensive, risk-based internal control system for the Academy". GAO acknowledged the plan was responsive to the recommendation and will evaluate this action to close out the report.

State Maritime Academies (SMAs)

The President's FY 2015 budget requests \$17.7 million for the SMA program. This request includes \$2.4 million to fund the Student Incentive Payment (SIP) program, enabling enrollment of 300 students per year (75 graduates annually) who maintain a U.S. Coast Guard Merchant Mariner Credential and fulfill a service obligation through active or reserve duty in the U.S. Armed Forces or through employment in the maritime industry. Also, included in the request is \$3.6 million for annual direct payments to provide for operational support and school ship fuel; and \$11.3 million to fund maintenance and repair costs for federally owned training ships on loan to the SMAs.

The SMAs regard the SIP program and support for their training ships as among the most important recruiting tools to encourage potential academy cadets to pursue careers as merchant

marine officers. MARAD anticipates approximately 660 students in the license program will graduate from the academies in 2015. The SMA program contributes about 75 percent of the entry-level licensed mariners trained annually who begin working in various positions within the maritime industry.

Annually, the six SMA training vessels provide for approximately 123,000 cadet sea days which present opportunities for important hands-on license coursework and technical training. The quality and length of sea time these students receive aboard these vessels is a critical educational component needed to qualify to take the U. S. Coast Guard merchant marine officer examination. Maintaining the operating condition of these NDRF vessels as training ships is vital to ensure their safe and seaworthy condition and compliance with regulatory requirements. The training ships are approaching the end of their useful lives, and as they age, the costs of ship maintenance repair and spare parts increase significantly. MARAD will develop a school ship recapitalization proposal and analysis of alternatives with multi-year budget estimates to address replacement of these vessels.

Additionally, these ships have been called upon in the past to respond to emergencies or relief efforts. For example, during FY 2013, two training vessels were deployed to provide support to the Federal Emergency Management Agency (FEMA) as part of the Hurricane Sandy Relief efforts, combined with a Ready Reserve Force (RRF) aviation support ship for two months. These three ships eventually provided lodging and dining accommodations to nearly 1000 personnel from the Red Cross, FEMA, and other government and non-government relief organizations daily.

The agency is able to provide additional support to the six SMAs and the USMMA by distributing a portion of the funds accrued from recycling obsolete vessels from MARAD's NDRF. The National Maritime Heritage Act requires 25 percent of vessel sales to be provided to the academies to reimburse expenses in ship fuel and facility and simulator upgrades critical to meet emerging international training requirements. In the first quarter of FY 2014, MARAD provided \$7 million to the academies from the vessel scrap sales. Since 2009, MARAD has provided more than \$13.4 million in funding generated from vessel sales to the SMAs and USMMA. The agency remains committed to support the education that prepares the next generation of maritime professionals.

ECONOMIC COMPETITIVENESS

Maritime Guaranteed Loan Program (Title XI)

The Maritime Guaranteed Loan Program, commonly referred to as Title XI, encourages investment in the maritime sector. The primary purpose of the program is to promote the growth and modernization of the U.S. Merchant Marine and U.S. Shipyards. Title XI offers loan guarantees for shipyard modernization projects and for building vessels in U.S. shipyards. The loan guarantees enable applicants to secure long-term financing at favorable interest rates, thereby sustaining facilities for shipbuilding and ship repair within the U.S., and promoting system capacity and jobs.

The current portfolio is \$1.7 billion in Title XI outstanding loan guarantees and 39 individual loan guarantee contracts, covering approximately 250 vessels to foster efficiency, competitive operations, and quality ship construction, repair, and reconstruction. The President's FY 2015 budget requests \$3.1 million for administration of the loan portfolio to ensure agency compliance with the Federal Credit Reform Act requirements, borrower compliance with loan terms, and to process new loan applications. The current Title XI subsidy balance for new loan applicants is \$73 million. This will support approximately \$735 million in shipyard projects assuming average risk category subsidy rates.

ENVIRONMENTAL SUSTAINABILITY

MARAD environmental programs are aimed at reducing and mitigating maritime transportation-related impacts on ecosystems and communities; with a focus on obsolete vessel disposal, reducing port and vessel air emissions, testing and verification of ballast water treatment technology and underwater hull husbandry, improving and diversifying marine propulsion systems and fuels, and increased energy efficiency at sea.

Ship Disposal

The 2015 budget request for the Ship Disposal Program is \$2 million, consistent with FY 2014 funding. The request will support the continued priority emphasis on the disposal of worst condition non-retention NDRF vessels.

MARAD currently has 25 obsolete vessels that are not yet under contract for disposal, which is an historic low. By the end of FY 2014, we anticipate contracting for the disposal of 20 remaining obsolete ships. With the requested funding level in FY 2015, and available carry-over balances, MARAD plans to remove approximately 10 additional obsolete ships through competitive vessel sales from the James River and Beaumont Reserve Fleets, assuming scrap steel prices remain stable. The requested funding level does not include the purchase of ship recycling services for vessels that do not sell, or for the removal of Suisun Bay Reserve Fleet (SBRF) vessels, which require dry docking and hull cleaning to meet California regulations. However, MARAD is currently two years ahead of the SBRF vessel removal schedule required by the court-ordered settlement with California. With 49 of the 57 vessels already removed, MARAD expects to dispose of an additional three vessels from the SBRF in FY 2014, and the five remaining SBRF vessels will be removed for disposal by FY 2017.

Funding in the President's request will also cover the costs related to risk mitigation for compliance with the National Invasive Species Act (NISA) and Clean Water Act (CWA), as well as lessen the environmental risk at the fleet sites and recycling facilities.

Nuclear Ship SAVANNAH

The President's FY 2015 request includes \$2.8 million for the inactive Nuclear Ship SAVANNAH (NSS), providing for the continuation of support activities including nuclear license compliance, radiological protection, ship husbandry and custodial care, decommissioning planning and preparation, and historic preservation.

The NSS, the world's first nuclear powered merchant ship, is a legacy asset assigned to the NDRF in retention status. The ship's activities and maintenance are actively licensed and inspected by the Nuclear Regulatory Commission (NRC) which oversees the regulated process of decommissioning, which includes dismantling, removing, and properly disposing of residual nuclear facilities. MARAD is currently developing formal decommissioning project execution plans and future multi-year budget estimates to meet the NRC's required nuclear reactor core decommissioning activities, which must be initiated by 2026 and completed by 2031.

Maritime Environment and Technology Assistance

The President's FY 2015 budget requests \$3 million for urgent environmental challenges facing the maritime industry in such areas as invasive species in ballast water, energy use, and air emissions.

MARAD actively supports research, demonstrations, and technology development efforts to facilitate environmental compliance and enhance sustainability in the marine industry. One important focus area is the use of lower-polluting, domestically-produced, and more sustainable maritime propulsion fuels, such as natural gas, biofuel blends, fuel cells and hybrid technologies. Other focus areas include ballast water management and hull cleaning technology to control invasive species, and development of technologies that improve the efficiency of marine engines and reduce air pollution. An underlying principle of MARAD's initiative is collaborative engagement of other stakeholders, including Federal and state partners, the maritime industry, and academia, to leverage and focus resources on identifying realistic and economically viable ways to address today's maritime industry environmental challenges. The budget request will continue to advance critical research and development to assist the maritime industry in meeting the ballast water discharge standard, advance infrastructure and methodologies for certifying and verifying ballast water technologies, reduce port and vessel emissions, and increase knowledge regarding appropriate methods for addressing these challenges in the unique setting of ships and ports.

Maritime transportation, which includes U.S. vessel operations in deep sea, coastwise, Great Lakes, and inland rivers and waterways, is a vital industry, supported by more than 38,000 U.S.-flag commercial vessels of all types ranging from oceangoing ships to tugs, tow boats, barges and ferries. MARAD programs help to strengthen and improve the water transportation industry, shipyards, ports and other components of the Marine Transportation System. Collectively, this system provides reliable transportation to industry and relieves traffic congestion and wear-and-tear on roads and railways by offering an alternative to landside movements. Waterborne transport is the most fuel-efficient transportation mode per ton-mile, saving energy resources and reducing the Nation's carbon footprint.

The above items represent the key policy proposals and initiatives highlighted in the President's FY 2015 Budget. We will continue to keep this Committee apprised of the progress of our program activities and initiatives in these areas in the coming year and in particular to work with the Congress on the development of a National Maritime Strategy.

Mr. Chairman, thank you for the opportunity to present and discuss the President's FY 2015 request for MARAD. I appreciate the Subcommittee's continuing support for maritime programs and I look forward to working with you on advancing maritime transportation in the United States. I am happy to respond to any questions you and the members of the Subcommittee may have.

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