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BEFORE THE
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SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION

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

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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 benefitting 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 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.