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

**HEARING ON
U.S. MARITIME AND SHIPBUILDING INDUSTRIES:
STRATEGIES TO IMPROVE
REGULATION, ECONOMIC OPPORTUNITIES AND COMPETITIVENESS**

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Good morning, Chairman Maloney, Ranking Member Gibbs, and members of the Subcommittee. I appreciate the opportunity to discuss strategies to improve economic opportunities and the competitiveness in the U.S. maritime and shipbuilding industries.

The U.S. Merchant Marine, U.S. shipbuilding and repair facilities, the Nation's port system, and supporting industries (collectively referred to as the U.S. maritime industry) integrates our economy with a vast global system that moves more than 90 percent of the world's trade by tonnage, including energy, consumer goods, agricultural products, and raw materials. Of the goods that the U.S. imports and exports, approximately 69 percent by weight and 40 percent by value move by water and through our national port system. These industries, vessels, infrastructure, and personnel also play critical roles in national security, supporting our Nation's ability to provide sealift for the Department of Defense (DOD) during times of war and national emergency.

The mission Congress gave 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. Unfortunately, over the last few decades, the U.S. maritime industry has suffered losses as companies, ships, and jobs moved overseas. To reverse this multi-decade trend, MARAD is continuing to work with its industry stakeholders to identify ways our U.S.-flag commercial fleet can better compete for international cargoes and our U.S. shipbuilding and repair industry can grow and continue to meet commercial and military shipbuilding needs. In addition, MARAD continues to leverage its existing congressionally authorized programs to support mariner training, improve port infrastructure, and assist industry to address environmental challenges.

U.S.-flag Fleet

U.S. strategic sealift consists of 61 Government-owned vessels maintained in reduced operating status, augmented by the U.S.-flag commercial fleet. Commercial vessels crewed with civilian mariners transport equipment and supplies around the world and provide the pool of mariners with the unlimited tonnage/horsepower qualifications needed to provide the additional crew for Government ships when they are activated. Our Nation relies on the fleet of large oceangoing self-propelled commercial vessels operating in the domestic (Jones Act) and international trades to provide employment for these highly qualified mariners and auxiliary sealift capacity when needed.

U.S.-flag Vessels in U.S. Domestic Trades

U.S.-flag vessels operating in domestic trades sail on U.S. inland and intracoastal waterways, lakes, oceans along the coasts of the United States, and between non-contiguous States and U.S. territories. The domestic water transportation market is served by a diverse array of approximately 41,000 vessels owned, operated, and largely built by U.S. citizens. The majority of vessels in the domestic trades consist of tugs and barges, with a smaller number of work and supply vessels used in the offshore oil industry, and specialty vessels such as dredges. As of February 4, 2019, 99 of the vessels operating in the domestic market were large cargo-carrying, merchant-type vessels capable of self-propelled operation in the deep oceans. These are the types of vessels needed to provide an employment base for mariners with the unlimited credentials and training required to also crew Government ships when needed to meet DOD sealift requirements.

U.S.-flag Ships in International Trades

Cargo preference laws require shippers of Government-impelled cargo to use U.S.-flag vessels for the ocean-borne transport of a significant portion of certain cargoes purchased or guaranteed with Federal funds. Specifically, 100 percent of military cargo, and at least 50 percent of most non-military Government-owned or impelled cargo transported by ocean, must be carried on U.S.-flag vessels subject to a MARAD determination of vessel availability. U.S.-flag carriers engaged in international trading believe that shipping required by cargo preference laws provides critical revenue that significantly contributes to the economic viability of this portion of the U.S.-flag fleet.

As of February 4, 2019, there were 82 large, U.S.-flag merchant-type vessels operating in international trades. Estimates using 2016 U.S. Census foreign trade data indicate that just 1.5 percent of U.S. waterborne imports and exports by tonnage move on oceangoing commercial

vessels registered in the U.S. The last year in which the U.S.-flag fleet carried at least ten percent of our trade by tonnage was 1960 when the U.S.-flag commercial fleet consisted of well over 1,000 ships; the share remained close to four percent from 1977 until 1993, and fell to two percent as of 2003.

U.S.-flag ships must compete against foreign-flag carriers that benefit from major subsidies or state ownership. For example, one large Chinese-flag carrier that is wholly state-owned has received at least \$1.95 billion in state assistance over the last several years, and will soon carry the single largest share of containerized imports to the United States. Other foreign-flag carriers also receive state support through various means.¹ Absent other measures, cargo preference helps support the sustainment of a minimal U.S.-flagged, privately-owned internationally-trading commercial fleet and the continued employment of the associated American merchant mariners.

Supply of Qualified Mariners

To ensure that qualified mariners remain available to satisfy DoD sealift requirements, the Department of Transportation (DOT) and MARAD are firmly committed to mariner officer development at the U.S. Merchant Marine Academy (USMMA) and six State Maritime Academies.² Together, these academies graduate more than 1,000 entry-level new officers each year.

Hiring veterans makes good business sense, and in the case of the maritime industry, skills and experience from the sea services translate directly into qualifications needed in the U.S. Merchant Marine and maritime sector. In 2014, at MARAD's request, the U.S. Committee on the Marine Transportation System (CMTS) formed the Military to Mariner Task Force to help coordinate Federal efforts to facilitate the transition from military service to civilian employment in the U.S. Merchant Marine and other positions within the U.S. Marine Transportation System. The Maritime Administrator and the Executive Director of the Military Sealift Command lead this Task Force, with participation from all the sea services. As a direct result of this partnership, Federal agencies have committed time and resources to:

-) crosswalk military ship-board training and qualifications to civilian mariner credential requirements,
-) assign permanent staff to the Navy and USCG Credentialing Opportunity Online (COOL) projects,

¹ Cho Si-young, "Korean government pledges \$6 bn subsidy promotion for shipping sector," Pulse, October 31, 2016. <https://pulsenews.co.kr/view.php?year=2016&no=759165>

² The six State Maritime Academies (SMA's): California Maritime Academy, Maine Maritime Academy, Massachusetts Maritime Academy, Great Lakes Maritime Academy, Texas A&M Maritime Academy, and the State University of New York Maritime College.

-) enable USCG Academy graduates to receive a 100 Ton Master-Near Coastal Credential upon graduation,
-) increase the number of service training courses approved for Merchant Mariner Credentials, and
-) identify ways to recruit, train, and retain Merchant Mariners to support both national Defense and Federal mission accomplishment.

I am extremely proud of the Executive Order the President signed this week to address long-standing challenges to the transition of active-duty uniformed service mariners into civilian merchant mariners crewing U.S.-flag commercial vessels. The Military to Mariner Executive Order also directs the CMTS to pursue innovative ways to support merchant mariner credentialing through the existing Military to Mariner (M2M) Task Force and to provide a yearly status report on its efforts.

Ensuring the availability of sufficient qualified contract and obligated mariners for a prolonged activation of U.S. reserve sealift capacity is a continuing concern. In 2017, Congress directed MARAD to convene a Maritime Workforce Working Group (MWWG) to assess the size of the pool of U.S. citizen-mariners necessary to crew the sealift fleet in times of national emergency. At that time, U.S. Coast Guard data indicated that 33,125 U.S. mariners held unlimited credentials, however the MWWG estimated a value of 11,768. The MWWG determined that the disparity between these values will remain unresolved until more research is completed.

U.S. Shipbuilding

Among the foremost challenges to the U.S. Merchant Marine and shipbuilding industry are low-cost foreign competitors (including heavily subsidized, state-owned fleet operators), diminishing government cargoes, and reduced commercial ship orders. Over the last several decades, large U.S. shipyards and their skilled labor forces have atrophied due to the uneven playing field of low-cost, highly-subsidized international shipbuilding competition among other factors, resulting in shipyard closures and reductions in the U.S. vendor base.

The few remaining large U.S. commercial shipyards rely on the small U.S. domestic market. The successful, multi-decade industrial policies of the principal shipbuilding nations have virtually eliminated the ability for U.S. shipyards to compete in the global market. Over 90% of global shipbuilding occurs in three countries; China, Korea, and Japan. While the United States remains a global leader in naval shipbuilding, which represents the majority of the Nation's shipbuilding revenue, our large commercial shipyards are struggling to remain afloat. U.S. commercial shipbuilding of large merchant-type ships has been locked into a downward spiral of decreasing demand and an increased divergence between domestic and foreign shipbuilding productivity and pricing.

In the case of large self-propelled oceangoing vessels, U.S. shipyards still lack the scale, technology, and the large volume “series building” order books needed to compete effectively with shipyards in other countries.³ The five largest U.S. commercial shipyards construct limited numbers of large cargo vessels for domestic use, averaging five such vessels per year over the last five years, with a peak of ten such vessels in 2016. This production is small, however, relative to the worldwide production of 1,408 such ships in 2016.

U.S. shipyards have opportunities for growth. The expanding energy sector, and the Liquefied Natural Gas (LNG) market in particular, presents a unique opportunity to grow the U.S. shipping and shipbuilding industry, provided domestic LNG import demand can be grown to the needed levels. The global LNG market, however, is anticipated to expand over the next 20 years and it is estimated that the number of LNG ships necessary to service the market will nearly double by 2040. The U.S. could capitalize on this growing industry. Ship owners are more likely to be able to secure financing and invest in the construction of LNG vessels in the U.S. if there are long-term contracts for coastwise transportation for LNG that would provide a reliable flow of cargo for new vessels to carry at the necessary price levels once completed. Therefore, encouraging demand for U.S.-flag coastwise vessels in the domestic LNG market could foster an improved prospect for domestic construction of LNG tankers, and more LNG bunkering vessels.

The Jones Act requirement that vessels serving domestic markets must generally be built in the U.S, the Capital Construction Fund (CCF), and Construction Reserve Fund (CRF) programs are all tools Congress established to sustain U.S. shipyards. In addition, the Small Shipyard Grant Program is an important program for shipyard modernization. Since 2008, this program has provided grants totaling \$203.79 million to 216 shipyards.

Port Infrastructure/Freight Movement

Another challenge the U.S. maritime industry faces is the state of our Nation’s gateway port infrastructure. The ability of our ports to increase capacity and handle cargo more efficiently is vital to the health of many domestic industries. Freight volumes are projected to increase by 31 percent, and U.S. foreign trade will more than double between 2015 and 2045.

There is great potential to improve this system by increasing the efficiency of our ports. The newest tool available for DOT to improve efficiency is Port Infrastructure Development grants. The FY 2019 Consolidated Appropriations Act, Pub. L. 115–141, appropriated a total of \$292.7

³ The issue of government subsidies to foreign shipyards has received significant attention recently. See, for instance, Nick Savvides, “Japan complains over Korean shipyard subsidies,” Fairplay, April 11, 2017, <https://fairplay.ihs.com/ship-construction/article/4284711/japan-complains-over-korean-shipyard-subsidies>, and Myrto Kalouptsidi, “Detection and impact of industrial subsidies: The case of Chinese shipbuilding,” VOX, September 9, 2017, <https://voxeu.org/article/chinas-hidden-shipbuilding-subsidies>.

million for the Port Infrastructure Development Program, which is authorized under 46 U.S.C. § 50302. Through this program, MARAD will provide grants for coastal seaports for infrastructure improvement projects that are directly related to port operations, or intermodal connections to a port that improve the safety, efficiency, or reliability of the movement of goods into, out of, or around coastal seaports. Funds for the FY 2019 grants will be awarded on a competitive basis.

MARAD is also working through its America's Marine Highway Program to develop and expand services to move freight along our waterways and coastlines and to relieve land-side congestion. Given the immense economic and environmental benefits of increased waterborne transportation, this program represents an opportunity to enhance American supply-chain competitiveness. Working with local sponsors, this program is gaining support and making a difference for regional economies and transportation infrastructure. For example, a new Baton Rouge-to-New Orleans, LA, barge service was recently established to transport heavy weight export containers. In the past 90 days, more than 11,000 truckloads have moved via the Marine Highway, reducing highway congestion by one million vehicle miles traveled. The FY 2019 Consolidated Appropriations Act included \$7 million in grant funding for the program.

Environmental Issues

Finally, there is opportunity to foster the competitiveness of the U.S. maritime industry through MARAD's Maritime Environmental and Technical Assistance (META) program. Since maritime transportation is, by its nature, a global industry in most cases, U.S. vessel compliance with international environmental standards is required to compete in this realm. This program supports applied research and development to facilitate environmental compliance and enhance sustainability across the marine industry. Leveraging resources with the private sector and other government agencies, META's goal is to identify economically sustainable solutions to emerging maritime environmental challenges. The FY 2019 Consolidated Appropriations Act includes \$3 million for the META program. Following on the META model, MARAD is also exploring other areas in which partnerships with the private sector and other government agencies can be leveraged to further research, development, and technology transfer to make our fleets and ports safer, more efficient, and more competitive.

Thank you for the opportunity to highlight MARAD's programs that support the strength and competitiveness our U.S. maritime industry. I appreciate this Subcommittee's continued support for the U.S. Merchant Marine and look forward to working with you to address the challenges facing the U.S. maritime industry and take advantage of opportunities to enhance and improve the U.S. maritime transportation system. I am happy to respond to any questions you may have.