

**Statement of
USA MARITIME**

By

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**Before the
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of the
Transportation and Infrastructure Committee
United States House of Representatives**

THE STATUS OF THE MERCHANT MARINE

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Introduction

I appreciate the opportunity to testify today on the status of the United States merchant marine on behalf of USA Maritime and its member companies, a coalition that directly or indirectly represents virtually every one of the privately-owned United States flag oceangoing vessels operating regularly in the United States foreign trade. As the Chairman of Central Gulf Lines, Inc. (Central Gulf) and Waterman Steamship Corporation (Waterman), both members of USA Maritime, I confront the many challenges facing the United States flag shipping industry on a daily basis. My testimony will highlight the most pressing of these challenges and suggest concrete ways in which Congress and the Administration can provide much-needed support to our industry.

By way of background, Central Gulf and Waterman are both American-owned companies that, together with affiliates, currently operate 16 United States flag commercial vessels in the international and domestic trades that provide a wide-range of oceangoing commercial freight transportation services, including pure car/truck carriers and domestic coastwise services. We have been operating United States flag vessels for over 60 years, carrying significant amounts of United States military cargoes and other United States government-impelled cargoes during that time period. Our United States flag vessels have provided critical sealift support to the Department of Defense in every military conflict that has arisen over the past six decades.

The Challenge

Mr. Chairman, the Congress and the Administration have to answer a simple question: Do we want to have a robust United States flag merchant marine sufficient in size and capability to support our national and economic security for the rest of this century and beyond? USA Maritime strongly believes that the only answer to this question is 'YES'. In order to achieve this objective, however, the Federal government must act quickly and decisively to preserve the long-term health and viability of this industry. Absent aggressive action to develop and implement a comprehensive National Maritime Strategy, we fear that the decline of our industry will only accelerate and the valuable contributions that we make to the national and economic security of this country will be lost.

Mr. Chairman, you and your colleagues on this Subcommittee have been sounding the alarm for some time. You have held numerous hearings. You have introduced and passed meaningful legislation. And, you have urged the Departments of Transportation and Defense to be more aggressive in their efforts to preserve and enhance the sealift capabilities of our industry. Recently, Congressman Cummings brought together representatives of our industry with the senior leadership of the Department of Transportation and the Maritime Administration to commence an urgent dialogue that we hope will soon result in the release of a comprehensive National Maritime Strategy. USA Maritime is deeply appreciative of the bipartisan spirit that this Subcommittee has brought to this issue and together we must do even more.

Decline of the United States Merchant Marine

In late July of this year, Paul "Chip" Jaenichen, the head of the Department of Transportation's Maritime Administration (MarAd), stated in testimony before the House Armed Services Committee that:

The size of the U.S.-flag international trading fleet of privately-owned, self-propelled vessels decreased from the five-year average between 2008 and 2013 of 101 to 84 vessels as of July 2014, and is expected to decrease further in the years to come.

This 18% decline in a few short years has caused great concern within the Department of Defense (DOD) which depends so heavily on the United States flag commercial fleet in times of war and national emergency to provide strategic sealift support to our troops throughout the world. This reduction in the fleet has been caused by a sharp decline in United States military, food aid and other government-impelled cargoes moving on United States flag vessels; a multitude of United States government-imposed rules and tax obligations that are not applicable to our foreign flag competition; the proliferation of income tax and other economic incentives available to foreign flag vessel owners and foreign crews that are not available to United States ship owners and mariners; and the resulting higher operating costs of United States flag vessels. In order to reverse this negative trend, USA Maritime urges Congress to work with the Administration and our industry to take immediate and bold action to promote the restoration of the United States merchant marine.

The Merchant Marine is Critical to National Defense

Mr. Chairman, from its inception the United States merchant marine has provided sealift support to DOD for its global military operations. History has proven that the United States needs a strong, active, competitive and militarily-useful United States flag commercial merchant marine to protect and strengthen our Nation's military and economic security. Privately-owned United States flag commercial vessels and their United States citizen crews have always responded effectively to our Nation's call, providing the commercial sealift sustainment capability and civilian maritime manpower base needed by DOD to support America's military and political objectives around the world.

More than 200,000 United States merchant mariners performed the greatest sealift in history while more than 5,600 civilian mariners tragically died and thousands of others were wounded in support of Allied troops in World War II. Since that time, our U.S.-flag vessels and the dedicated American crews who served on those vessels proudly, willingly, and without hesitation, have delivered vital military equipment, supplies and other materiel into war zones and other hostile areas in direct support of DOD operations during the Korean War, the Vietnam War, Operation Desert Shield/Storm, Operation Enduring Freedom in Afghanistan, and Operation Iraqi Freedom. In fact, United States flag vessels participating in the Maritime Security Program (MSP) carried more than 90% of the war materiel to the forward-operating bases during the recent Afghanistan and Iraq conflicts. Moreover, United States flag carriers led development of essential multi-modal services into Afghanistan through the Northern Distribution Network, providing a critical alternative route to resupply and support United States military forces.

In 2002, General John W. Handy, then-Commander of the United States Transportation Command (TRANSCOM), said of the United States flag merchant marine:

We simply cannot as a Nation fight the fight without the partnership of the commercial maritime industry.

Earlier this year, General Paul J. Selva, the current Commander of TRANSCOM, echoed those sentiments when he said:

TRANSCOM's unrivaled ability to perform its global mobility mission supporting the other eight Combatant Commanders has been achieved due to the efficient and effective operations of the U.S. Navy Military Sealift Command and America's maritime industry, critical TEAM TRANSCOM partners.

And, in testimony delivered to the House Armed Services Committee in late July of this year, General Selva's Deputy Commander, Vice Admiral William A. Brown, emphasized the critical role that America's merchant marine plays in the national security of this country when he stated:

During large scale operations, sealift is the primary means for deploying the majority of equipment and sustainment for ground forces, and is essential to

building up combat power to meet Geographic Combatant Commander (GCC) requirements. In a typical combat operation, over 90 percent of all cargo is delivered by a combination of organic and U.S.-flagged commercial vessels, crewed by U.S. Merchant Mariners. USTRANSCOM could not accomplish its global mission without the capabilities provided by the U.S. strategic sealift fleets and our steadfast merchant mariners. As [DOD] postures its forces for the future, sealift will continue to be a key component in ensuring strategic agility and dynamic presence for our nation's military forces...

Currently, there is downward pressure on the number of qualified U.S. mariners because the [U.S.] flag fleet is shrinking. We remain concerned with the loss in the number of U.S.-flagged vessels in the international trading sector, specifically ocean going vessels in excess of 1,000 tons. Since 1990, the size of this segment of the U.S.-flag fleet has been reduced from 193 to 85 as U.S.-flag companies struggle to remain competitive with companies operating under foreign flags at lower operating costs. Although operations in Iraq and Afghanistan temporarily slowed this decline, the Nation's transition out of Afghanistan and current economic conditions may exacerbate the decline...

We are engaged with MARAD in its development of a National Maritime Strategy that is intended to grow the U.S. flag fleet and ensure the ability of the U.S. Merchant Marine to meet national security needs. We must ensure the continued support of the U.S.-flag fleet and retention of critical merchant mariner skills.

Mr. Chairman, while the United States flag fleet is declining, political and military challenges on the world stage are multiplying in rapid fashion. In the past few months alone, we have witnessed the emergence of the Islamic State of Iraq and Syria (ISIS) and the corresponding turmoil in Iraq; the escalation of hostilities and atrocities in Syria; unrest in Libya; renewed conflict between Israel and its Palestinian neighbors; a newly-aggressive Russia; and several provocative actions by China. We cannot predict when or if the American military will be called upon to respond to any of these or other conflicts that may arise. But, we must all ensure that our military is ready to answer the call when it inevitably comes and that our United States flag merchant marine is able to provide the essential sealift support that is critical to any successful military campaign. With all of the global challenges confronting the United States, this is certainly not the time to allow the sealift capability of the American maritime industry to decline any further.

Urgent Need for a National Maritime Strategy

USA Maritime believes that it is essential that the United States urgently develop a comprehensive maritime policy to reclaim its rightful stature on the high seas. We are pleased to recommend several specific initiatives that can lay the foundation for a new maritime strategy and enhance the military and economic benefits provided by the United States flag merchant marine.

Maritime Security Program. At the outset, I would like to address a program that has and is currently serving its intended purpose, the Maritime Security Program. A strong, fully-funded MSP must be a key component of any future maritime policy. MSP is the most cost-effective means to ensure that DOD has the access it needs to commercial U.S.-flag shipping and U.S. citizen merchant mariners for the Nation's military and economic security.

MSP provides an active, privately-owned, United States flag fleet of militarily-useful commercial vessels which are available to support the sustainment of the United States armed forces in a contingency. The MSP was established by the Maritime Security Act of 1996 and originally provided for the participation of 47 United States flag commercial vessels. Subsequently, due to the success of this program and the strong support of Congress and our partners at the Departments of Transportation and Defense, the program was reauthorized and expanded to 60 ships in 2005. Most recently, in 2012, the Congress reaffirmed its strong support for the MSP by reauthorizing and extending the MSP and its maritime security fleet of 60 vessels through 2025. Under the MSP, United States flag carriers also commit their global logistics networks of ports, rail, trucking, systems and infrastructure to support and supply American troops and to maintain America's readiness.

MarAd has stated that "if DOD needed to replicate the...capacity of the MSP fleet, the capital cost alone would be \$13 billion." MarAd also noted that TRANSCOM has estimated that "it would cost the U.S. government \$52 billion to replicate the intermodal system that has been developed, maintained, and continuously upgraded by MSP participants." Clearly, the MSP is a cost-effective means of providing sealift to DOD.

When the recent government-wide sequester was implemented, MarAd and TRANSCOM were very concerned that, due to funding constraints, the MSP fleet may be reduced. In a letter to the House Armed Services Committee, General William M. Fraser, then-Commander of TRANSCOM, expressed his concerns over the possible loss of any MSP vessels:

USTRANSCOM agrees with [MarAd's] assessment of potential losses to MSP. In addition to specific vessel capacity lost, the loss of mariner jobs, access to related intermodal logistics networks these companies provide, and potential loss of competition in certain trade routes may degrade our current support to forces deployed overseas and likely increase transportation costs to the government.

Additionally, the loss of commercial capability, combined with potential reductions to our organic sealift fleet due to fiscal cuts, heightens my readiness concerns. I understand the challenging and difficult decisions being made during fiscally-constrained times. However, concurrent degradation to both commercial and organic fleets may hinder our future ability to timely deploy and sustain our forces and project national power when required.

In his Fiscal Year 2015 budget, President Obama requested the fully authorized annual amount of \$186 million for the MSP. While the Senate recommended funding of MSP at that level, the House version of the Fiscal Year 2015 Transportation/HUD Appropriations bill unfortunately recommends only \$166 million, a \$20 million cut that, if enacted, would

undoubtedly result in the reduction in the size of the MSP fleet and a further decline in the United States merchant marine.

Mr. Chairman, USA Maritime was therefore gratified by your statement on the House floor in early June, when you said:

I know a lot of difficult decisions had to be made but I wanted to express my concern over a \$20 million reduction in funding for [MSP].

The U.S. flag fleet is critical to our military in delivering cargo overseas to our military to ensure proper readiness and sustainment. [DOD] for well over a decade has relied on MSP-enrolled vessels for sealift of necessary cargo into conflicts in Iraq and Afghanistan as well as other troubled areas in the world, all at a fraction of the cost of what it would cost DOD to replicate that sealift if it had to build its own vessels. These militarily-sensitive cargoes are handled by U.S.-flag ship operators and mariners that must meet DOD and homeland security standards. They have a demonstrated record of delivering these cargoes efficiently and safely.

I would like to encourage the bill's managers to bring the program's funding level to \$186 million in conference with the Senate.

So, Mr. Chairman, our first and most immediate request is for Congress to fully fund the MSP in Fiscal Year 2015 at the authorized level of \$186 million. Once that is accomplished, we will need to address the appropriate level of funding required to sustain the MSP fleet in future years. It is critically important that the level of support for MSP vessels be adjusted to achieve commercial viability and a more level playing field for MSP vessels when competing against foreign flag vessels. By so doing, the Congress and the Administration will ensure that the essential sealift capability of United States flag vessels and the associated American mariner jobs are preserved.

As a complement to MSP, DOD must continue to abide by its long-standing "commercial first" policy to provide military cargo to privately-owned United States flag vessels when available in lieu of government-owned or controlled vessels. This policy has resulted in military cargo support for the United States flag fleet, and we strongly urge Congress to ensure that DOD continues its unwavering adherence to this essential policy.

Cargo Preference. Mr. Chairman, while the MSP is critical to the continued existence of the United States flag merchant marine, it is only one of the elements necessary for the long-term health of our industry. It is equally important for United States flag ships to have access to a broad array of commercial and government cargo. USA Maritime therefore strongly supports cargo preference requirements for government-impelled cargo.

There are three cargo preference laws which must be preserved and, where possible, enhanced. First, the Cargo Preference Act of 1904 requires that all United States military cargo must be transported on United States flag vessels. Second, under "Public Resolution 17," cargoes

generated by the Export-Import Bank must be shipped on United States flag vessels. And, third, the Cargo Preference Act of 1954 requires that at least 50 percent of all government-generated cargoes must be transported on United States flag vessels available at fair and reasonable rates. The Food Security Act of 1985 increased that percentage to 75 percent for carriage of agricultural cargoes under certain foreign assistance programs of the Department of Agriculture and the Agency for International Development. Unfortunately, that percentage was reduced in 2012 from 75 percent to 50 percent – with very negative impacts on the United States flag commercial fleet.

Mr. Chairman, USA Maritime strongly supports the legislative provision that you and the Ranking Member, Congressman John Garamendi, included in H.R. 4005, the Coast Guard and Maritime Transportation Act of 2014 (the Coast Guard bill), that would restore the United States flag share of food aid cargoes to the 75 percent level. We look forward to continuing to work with you and your colleagues towards enactment of this vitally important legislation.

The cargo preference provisions that I just reviewed are a necessary and cost-efficient way to help sustain the privately-owned United States flag commercial fleet. Unfortunately, the amount of preference cargoes (particularly United States military and food aid cargoes) have declined precipitously in recent years. This dwindling cargo base has put additional pressure on MSP carriers and will lead to additional shrinkage of the United States flag fleet unless action is taken by Congress to address insufficient MSP funding levels and otherwise assist in increasing the available pool of government-impelled cargoes for United States flag vessels.

USA Maritime urges MarAd to redouble its efforts to rigorously enforce the existing cargo preference laws and ensure that all relevant Federal agencies and their contracting officers fully comply with the letter and spirit of the cargo preference requirements. In 2008, Congress plainly placed the responsibility for vigorous enforcement of the cargo preference laws on MarAd when it amended the Cargo Preference Act of 1954 to provide:

Each department or agency that has responsibility for a program under this section shall administer that program with respect to this section under regulations and guidance issued by the Secretary of Transportation. The Secretary, after consulting with the department or agency or organization or person involved, shall have the sole responsibility for determining if a program is subject to the requirements of this section.

The accompanying conference report noted that the Congress placed these duties on MarAd to ensure (1) uniform administration of cargo preference throughout the Federal government, and (2) that the purpose of promoting the United States merchant marine under the cargo preference laws was achieved.

Mr. Chairman, USA Maritime supports the additional cargo preference enforcement language that your Subcommittee included in the Coast Guard bill that passed the House earlier this year. Your language again makes it clear that MarAd has the responsibility to determine if a Federal program is subject to cargo preference and that it must exercise its broad authority to enforce those requirements. Congress should compel MarAd to report to Congress on a regular

basis and to document its actions and efforts, specifying the programs, Departments and agencies it has reviewed and the actions taken to ensure full compliance with cargo preference requirements. We urge MarAd to fully and aggressively use this authority to maximize the amount of United States government cargo moving on United States flag vessels.

Cooperation of the United States Coast Guard. When the Maritime Security Program was first enacted, Congress made it clear that one of its objectives was to incentivize ship owners to document new, modern vessels under the United States flag and to enroll those vessels, as appropriate, in the MSP. In order to carry out that mission, the full cooperation of the United States Coast Guard (USCG), the Federal agency with the responsibility to inspect and document vessels under the United States flag, was required. For many years, the USCG adhered to the original intent of Congress by working closely with MSP carriers, MarAd and TRANSCOM to expedite at little or no cost the documentation under United States flag of dozens of modern vessels. During that time, the USCG complied with the provisions of the Maritime Security Act that permit vessels to be inspected in accordance with international standards in order to enter the United States flag and enroll in the MSP fleet. Unfortunately, the USCG recently issued Navigation and Vessel Inspection Circular 01-13 (NVIC 01-13) that, if fully implemented, would dramatically alter its long-standing cooperative approach to the documentation of MSP vessels under the United States flag and impose yet another obstacle to the continued success of the MSP program. NVIC 01-13 proposes to require vessels entering the MSP to comply with more costly standards that exceed international standards routinely accepted by the USCG. This NVIC, if allowed to stand, will add millions of dollars in costs to United States flag vessel owners – and will be yet another impediment to a healthy United States flag merchant marine. USA Maritime urges this Subcommittee to request that the Coast Guard revoke NVIC 01-13 and return to the prior practice that has worked effectively since the inception of the MSP.

Removal of International Trade Barriers. Mr. Chairman, another challenge for United States flag carriers is that numerous countries around the world continue to erect trade barriers in foreign commerce that exclude or limit the ability of United States flag shipping companies to have access to those markets. As you know, the United States has one of the most open markets in the world. Yet, regrettably, many of our trading partners do not reciprocate our “open door” policy. Over the last 20 years, we have, on a limited basis, with the help of Congress, MarAd, the Federal Maritime Commission, the Department of Commerce, and the U.S. Trade Representative gained access to certain previously-closed markets for our vessels. As we work with the Congress and the Administration to develop a new maritime policy, we should include provisions designed to promote the use of United States flag vessels and eliminate unfair and anti-competitive trade practices throughout the world. The members of USA Maritime are prepared to compete effectively in the world market, but we must have access to markets which are currently not fully open to us. We stand ready to work in a collaborative fashion with all facets of the Federal government, particularly the United States Trade Representative, in a sustained effort to eliminate trade barriers wherever they exist around the world.

Conclusion

In conclusion, Mr. Chairman, as my testimony makes abundantly clear, the state of the United States merchant marine is precarious. Our industry is in the midst of a “perfect storm” – dwindling United States military cargoes, a precipitous drop in food aid cargoes, escalating costs and regulations from the USCG and other Federal agencies, and intense low-cost foreign competition. A National Maritime Strategy that addresses these issues in a comprehensive and thoughtful way must be developed and implemented immediately. Any such National Maritime Strategy must preserve and enhance the Maritime Security Program; reinforce and expand existing United States flag cargo preference requirements, while ensuring strict compliance with those requirements by all Federal agencies and Departments; and include immediate efforts to expand trading opportunities for United States flag vessels with the key trading partners of the United States. USA Maritime is fully prepared to work with this Subcommittee on these initiatives so that we can rebuild the United States flag fleet and reestablish a strong American presence on the oceans of the world.

Mr. Chairman, we look forward to working closely with you on this matter of vital importance to our national and economic security. Thank you for allowing me to appear before you today.