USA Maritime

October 16, 2015

David Gerson
Executive Vice President
American Enterprise Institute
1150 Seventeenth St., N.W.
Washington, D.C. 20036

Dear Mr. Gerson:

We write in response to the September 2015 American Enterprise Institute Publication "*Military Readiness and Food Aid Cargo Preference: Many Costs and Few Benefits*," authored by Stephanie Mercier and Vincent H. Smith. AEI gets the facts wrong, tells half the story, and thereby does a disservice to the debate surrounding the future of our US Merchant Marine.

The AEI report asserts that our cargo preference laws, which reserve half of civilian agency cargo to US-flag ships, are costing money while providing no offsetting benefit. Nothing could be further from the truth. US-flag vessels provided over 90% of the sealift needed in Iraq and Afghanistan at a fraction of the price it would cost the Department of Defense to do so on its own using DOD-owned and operated assets. According to the US Transportation Command, it would cost DOD an additional $65 billion to replicate the global shipping capacity made available through its commercial partners in the maritime industry.

The April 2015 US Maritime Administration report "*Impacts of Reductions in Government Impelled Cargo on the U.S. Merchant Marine*" includes hard data demonstrating the importance of food aid to sustaining our US Merchant Marine. The MARAD report indicates that the main reason our US Merchant Marine has declined in recent years has been the decrease in US Government preference cargoes. According to MARAD's data, food aid is the greatest source of such preference cargo—over half of all dry cargoes shipped by all agencies since 2002. *Id.* Since 2000, the US fleet has shrunk dramatically as food aid cargoes plummeted 77%, even though DOD cargoes increased by 60% during the same period. *Id.* And the loss of the fleet has accelerated in recent years, with 23% of the fleet reflagged just since 2010. *Id.* MARAD also notes that the Government Accountability Office concluded in an earlier report that without preference cargo, 77% of intermodal ships and 96% of bulk ships would leave the US fleet. *Id.*

General Duncan McNabb, then-commander of the US Transportation Command, foresaw the problem in 2011, when he wrote "The movement of international food aid has been a major contributor to the cargo we have moved under the cargo preference law that our U.S. commercial sealift industry depends upon. Any reductions will have to be offset in other ways to maintain current DOD sealift readiness." Letter from Gen. McNabb, Commander USTRANSCOM to Rep. LaTourette (May 4, 2011).

Although the budget for Food for Peace and other food aid programs has been under pressure in recent years as USAID seeks to give away envelopes of cash in developing countries instead of US food aid, the most damaging loss of food aid cargo occurred as a result of the 2012 reduction of cargo allocated to US-flag vessels from 75% to 50%, which took away a third of the cargo overnight. A 2010 Promar International Report found that food aid shipments sustained 33,000 jobs prior to the reduction in cargo preference. Promar International, *Impacts on the US Economy of Shipping International Food Aid* (June 2010).

While food aid cargoes for the US-flag have fallen precipitously in the last few years, nothing has taken their place. In March 2015, General Paul Selva, Commander, United States Transportation Command, stated "The reduction in government impelled cargoes due to the drawdown in Afghanistan and reductions in food aid . . . are driving vessel owners to reflag to non-US-flag out of economic necessity. . . With recent reductions, the mariner base is at the point where future reductions in U.S.-flag capacity puts our ability to fully activate, deploy, and sustain forces at increased risk." According to an August 2015 Government Accountability Office report, we are already now 1400 mariners short of the corps needed to sustain DOD readiness requirements. This problem will continue to fester as food aid volumes decline unless something is done to increase the US-flag share of these cargoes back to 75%, or to 100% in keeping with all other cargo preference programs.

With respect to the additional cost to government programs resulting from the employment of taxpaying US-flag ships, the AEI report again gets it wrong. The AEI report claims that, looking at data from January 2012 to May 2015, US-flag ships cost food aid shipping agencies an average of $39 million more per year than they would have paid to ship on foreign-flag ships which have a much lower cost structure because they do not employ US citizens, pay US taxes, or comply with US health, safety, and environmental laws. However, the data set chosen by the authors of the AEI report distorts the picture. Global shipping rates behave like all commodity markets, and are therefore subject to dramatic peaks and valleys. During the period in question, 2012-2015, the global foreign-flag rates were at an all-time low, whereas US-flag operators were permitted to recover a modest profit on operations subject to the US Maritime Administration's "fair and reasonable" guideline rates. *See, e.g., Why the Baltic Dry Index is at an All Time Low*, THE ECONOMIST (Mar. 10, 2015). In contrast, during 2007, US-flag rates were less than a third the rates prevailing on the foreign-flag market. U.S. Maritime Administration, Presentation Before the Food Aid Consultative Group (Dec. 2008).

The AEI report misstates the importance of the civilian preference cargoes for sustaining the US Merchant Marine, ignores the direct correlation between loss of food aid cargoes and the loss of national defense sealift capacity, and cherry-picks comparative foreign-flag costs to present an inflated calculation of the US-flag premium. In doing so, the AEI report fails to meet the high standards for which AEI has always been known and admired.

Sincerely,

James L. Henry
Chairman