USA Maritime

November 15, 2016

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 November 2, 2016 American Enterprise Institute publication *"US Food aid's costly problem: Why it's time to eliminate cargo preference,"* authored by Montana State University Professor Vincent H. Smith and his assistant Ryan Nabil. The analysis of maritime shipping economics and programs by the author, who is an agricultural economist, 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 publication asserts that our cargo preference laws, which reserve half of civilian agency cargo to American-crewed ships, are costing money while providing no offsetting benefit. Nothing could be further from the truth. American-crewed ships provided over 90% of the sealift needed in Iraq and Afghanistan at a fraction of the price it would have cost the Department of Defense to do so on its own. According to the US Transportation Command, it would cost American taxpayers an additional $65 billion to replicate the global shipping capacity made available to DOD through its commercial partners in the American maritime industry. In July 2015, the Assistant Secretary for Administration, US Department of Transportation, Jeff Marootian, testified "Cargo preference is a pillar that ensures America can activate and sustain a sealift fleet adequate to deploy and support the United States Armed Forces anywhere in the world. So the benefits of cargo preference are clear . . . This program, which benefits both the public and private sectors, is less of a burden on the tax payer than other options that provide the same capability."

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 cargoes. According to MARAD's data, food aid is the greatest source of such cargo—over half of all dry cargoes shipped by all agencies since 2002. *Id.* Since 2000, the American 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 lost just since 2010. *Id.* MARAD also notes that the Government Accountability Office concluded in an earlier report that without Federal government 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 form 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 reliable, transparent US food aid, the most damaging loss of this essential cargo occurred as a result of the 2012 reduction of cargo allocated to American mariners 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 American 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 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 put our ability to fully activate, deploy, and sustain forces at increased risk."

The AEI publication quibbles with the military utility of some ships under the US Flag, but ignores completely the key issue—the mariner pool able to crew militarily useful vessels. 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. Thus, Scott Dilisio of the U.S. Navy's Strategic Mobility and Combat logistics Division testified before Congress in May 2016: "What we've described is a catastrophe in the making, as the quality of the mariner pool continues to shrink, the people that are going to be on the pointy end delivering Marine Corps and Army equipment are going to be at risk." This problem will continue to fester as food aid volumes decline unless something is done to increase the

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American mariners' 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 Federal agencies resulting from the employment of American taxpayers, AEI again gets it wrong. Professor Smith claims that employing Americans to carry food aid costs Federal agencies an average of $60 million more per year than they would have paid to outsource these jobs to low-wage foreign workers. First, we note that this claim is based upon a cherry-picked set of cargoes, not the full range of food aid cargoes actually shipped by the agencies. Second, freight rate data selected by the agricultural professor distort 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 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. US Maritime Administration, Presentation before the Food Aid Consultative Group (Dec. 2008). Third, Professor Smith completely ignores the economic benefits of employing Americans instead of outsourcing jobs to low wage workers exempt from equal employment rules.

The AEI publication 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 both US and foreign-flag costs to present a slanted case against American workers. It also ignores the analyses of authorities qualified in matters of national maritime sealift policy, including DOD, MARAD, and Merchant Marine. In doing so, AEI fails to meet the high standards for which it has always been known and admired.

Sincerely,

James L. Henry
Chairman
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