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ON BEHALF OF USA MARITIME

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES

TRANSPORTATION & INFRASTRUCTURE COMMITTEE

COAST GUARD & MARITIME TRANSPORTATION SUBCOMMITTEE

JANUARY 17, 2018

Introduction

Good morning Chairman Hunter, Ranking Member Garamendi, and members of the Committee. Thank you for the opportunity to appear before you today to discuss the state of the U.S.-flag international fleet.

My name is Eric Ebeling and I am testifying today on behalf of USA Maritime, a coalition consisting of American vessel owners and operators, trade associations, and maritime labor. USA Maritime is committed to ensuring that the U.S. Merchant Marine will always be available to support our warfighters, enhance our economy through trade, and provide great jobs to tens of thousands of Americans across the country. In peace and war, the United States Merchant Marine has always answered America's call.

As the President and CEO of American Roll-On Roll-Off Carrier Group (ARC), a New Jersey-headquartered company, it is my honor to lead an incredibly talented team of men and women at the largest U.S.-flag Ro-Ro operator, and the third largest U.S.-flag international carrier overall. We own and operate eight roll-on roll-off (Ro-Ro) vessels in international trade, all of which are enrolled in the Maritime Security Program (MSP). ARC's trans-Atlantic liner service has carried the preponderance of U.S. military vehicles and other government rolling stock cargoes in the U.S.-Europe trade since 1990, and ARC was the first U.S.-flag Ro-Ro carrier to offer liner service in support of Operations Enduring Freedom (OEF) and Iraq Freedom (OIF).

ARC Group is committed to investing in the U.S.-flag fleet and U.S. Merchant Marine, and to operating the most militarily-useful and economically viable ships to support our armed forces around the world. Our newest ships, M/V PATRIOT and M/V LIBERTY, joined the fleet in 2016 and 2017 respectively. ARC's M/V ENDURANCE is the largest Ro-Ro ship in the U.S.-flag commercial fleet, and the four most militarily-useful Ro-Ro ships in the MSP are owned and operated by ARC Group. All our vessels are crewed by American mariners and fly the American flag.

The U.S.-flag fleet has been at a crossroads in recent years. Declining cargoes resulted in a shrinking fleet, which led to a shortage of qualified mariners, and these factors in turn impacted national defense readiness in terms of sealift and logistics support available to support the needs of the Department of Defense. Congress has passed smart new maritime policies in recent years, and the fleet has now started to stabilize. We have knowledgeable and supportive leaders at both the Department of Transportation in Secretary Elaine Chao, and the Maritime Administration in Administrator Mark "Buz" Buzby. We also have had steadfast leadership and support from U.S. Transportation Command and its commander General Darren McDew. Carriers have started to recapitalize their fleets, and good jobs have followed.

My goal today is to provide some background on the current state of the U.S.-flag international fleet, context on recent challenges, and recommendations to further stabilize and grow the fleet.

Importance of the U.S-flag Fleet to National Security

It is no coincidence that the historical highpoints for the U.S.-flag international shipping industry have occurred in the years following World War II, during and immediately after both the Korean War and the Vietnam War, and most recently during OIF and OEF. Over 90% of all military equipment is shipped overseas by sea because of the scale and scope of the cargo, and the cost efficiency of moving it by sea versus air, with the preponderance of it shipped via the U.S.-flag international fleet.

The commitment U.S. carriers make to the national security of the U.S., through programs like MSP and iron-clad contracts like the Voluntary Intermodal Sealift Agreement (VISA), and the global shipping,

intermodal, and logistics services U.S. carriers provide to the Department of Defense are a clear best value buy for the taxpayer. As defined by the Maritime Administration (MARAD), VISA “provides commercial sealift for a seamless, time-phased transition from peacetime to wartime operations”. It is well documented that the U.S. Government does not have a sufficient organic fleet, nor the intermodal and logistics capabilities, to do the job entirely on its own. As Gen. Darren McDew noted in his 2017 USTRANSCOM posture statement, "Assured access provided via the Voluntary Intermodal Sealift Agreement ultimately ensures the U.S. maintains its capability to meet sealift requirements in peace, crisis, or war."

Particularly when viewed against the requirements of operating an integrated global network of ships, marine terminals, intermodal services, information systems, and logistics services, the U.S. Government would be unable to effectively duplicate the global network and logistics footprint available to it through the MSP. Studies have shown that it would cost the U.S. Government tens of billions of dollars to obtain the total shipping and logistics capability comparable to that offered by the MSP-enrolled U.S.-flag international carriers.

Hence the positive case for the Department of Defense to utilize the commercial fleet as the best value to the taxpayer for sealift. But it's not just sealift. The conflict in Afghanistan encompassed unique logistical challenges for military planners due to the country's landlocked borders and exceedingly difficult operating terrain. Alongside our partners from USTRANSCOM, U.S.-flag carriers created a network of solutions in support of OEF including the Pakistan ground lines of communication (PAK GLOC), the Northern Distribution Network (NDN), and innovative sea-air multimodal options. We have a great Industry/Government/Labor partnership with clear and significant mutual benefit, and we must maintain it, or risk losing the ability to deploy and sustain such asymmetrical logistics advantages.

Challenges & Opportunities: MSP and the Cargo Preference Laws

According to MARAD, there are currently 82 (non-Jones Act) U.S.-flag international fleet vessels. Over the last five years, the U.S.-flag international fleet has decreased by about 25%. The decline can be attributed to two major factors: a dramatic decrease in government cargoes for which U.S.-flag carriers compete; and rising costs of the U.S.-flag fleet compared to international registries. Not only do U.S.-flag carriers in international trade compete in a hypercompetitive global marketplace, but we are also uniquely sensitive to the ebb and flow of Government policy-making, which, when translated to an economic impact on the U.S.-flag carriers can destabilize, support, or even turbocharge investment in the U.S.-flag fleet.

The Maritime Security Program is a proven national security program enacted to ensure that the United States has the U.S.-flag sealift capability and trained American citizen merchant mariners it needs in time of war or other international emergency. It is one of the most cost-effective defense-related private industry and government partnerships. At the ship-naming ceremony for ARC's M/V LIBERTY in June 2017, Department of Transportation Secretary Elaine Chao called MSP a “model public-private partnership”. The program ensures that we will in fact be able to support our troops overseas by guaranteeing that U.S.-flag vessels and U.S. citizen crews are available to transport the supplies and equipment our troops need.

MSP is an incredibly well conceived program and has been an outstanding success. The relationship between commercial industry, maritime labor, the Maritime Administration and the Department of Defense has solidified into a true partnership. The initial program for 47 ships established in 1996 was expanded to the current 60 ships upon reauthorization in 2005. At a cost of \$300M as currently authorized, the program is an exceptional value for DOD and the taxpayer.

The program is authorized until 2025 and it is critical that it is extended significantly beyond 2025 as soon as possible. Participating companies must finance the purchase of replacement tonnage, a 30-year asset that may cost up to \$80-100 million (not including containers and other equipment), based on a program that expires in about seven years, and is subject to the annual appropriations process. This could be considered akin to going to your local bank with a proposal to buy a home with a 30-year mortgage knowing that you only have one year of income. Carriers have collectively invested billions of dollars, but for this investment to continue, or increase, continued stable funding is vital, and the program must be extended, or simply made permanent.

The MSP is a critical component to ensure the continued existence of a U.S.-flag fleet, but it is only one element in a larger statutory and legislative framework that supports the viability of the U.S.-flag fleet. Cargo preference is the reservation, by law, for transportation on U.S.-flag vessels of all, or a portion of all, ocean-borne cargo which moves in international trade, either as a direct result of the Federal Government's involvement, or indirectly because of the financial sponsorship of a Federal program or guarantee provided by the Federal Government. Preference cargoes are the key incentive for U.S.-flag carriers operating in international trade to remain under U.S. registry and are part of Congress' long-established intent to support the privately-owned and operated U.S.-flag fleet and merchant marine.

Smart and effective management by the U.S. Maritime Administration, and full cooperation of the shipper agencies such as the Department of Defense, Export-Import Bank, USAID, and other Government shipping agencies is critically important to the U.S. international fleet, and to the survival of the U.S. Merchant Marine, which provides the loyal, competent, well-trained mariners for our vessels. It is a rather simple equation. Without cargo, carriers will not invest in ships, and without ships, there will not be jobs for merchant mariners. Without those merchant mariners, the Government-owned reserve fleet cannot be crewed.

Unfortunately, due to dramatic declines in military cargoes due to the changing overseas footprint maintained by America's armed forces (an 80% reduction since 1990), the lack of a fully functioning U.S. Export-Import (Ex-Im) Bank, and drastic reductions in USAID and other food aid cargoes, U.S.-flag international carriers have faced a relentless decline in the amount of available government preference cargoes. To that end, we offer three suggestions.

First, Congress passed legislation in 2008 to give MARAD stronger cargo preference enforcement tools. Unfortunately, the previous Administration did not implement them. Congress should work with the Administration to ensure faithful implementation and execution of these laws.

Second, under America's cargo preference laws, 100% of all military cargoes and at least half of all civilian agency cargoes must be shipped on U.S.-flag vessels. This has been the official policy of the Federal Government since at least 1904, and it has long been a cornerstone of American national defense. Why not require 100% of all government-owned or financed cargoes to move on U.S.-flag ships?

Lastly, Ex-Im Bank, the national export credit agency (ECA) of the United States, needs a board quorum that can approve new projects. There are at least 25 countries that require support from an export credit agency before they will even consider a bid from an international company, and there are over 80 ECAs offering such financing. Such ECAs collectively exceed the size of the entire World Bank Group and fund more private-sector projects in the developing world than any other class of finance institution. Without an Ex-Im Bank, America has, at least in part, effectively unilaterally disarmed, and while most of the impact has been felt by the American manufacturing base and workforce, there has been an attendant impact to national

security in the form of a reduced U.S.-flag fleet and reduced mariner manpower pool. A fully-functioning Ex-Im Bank will help support the U.S.-flag fleet.

“The Nation is Going to Come Calling”

In a theoretical free enterprise economic model, and absent DOD cargoes, other preference cargoes, and the MSP, there would be no American citizen crews and no U.S.-flag international carriers. Today, as a result of the commitment of the Department of Defense to the utilization of the U.S.-flag commercial fleet and the support of the Maritime Security Program, the U.S.-flag fleet in international trade is stable.

But U.S.-flag shipping will remain dependent for its survival on smart legislation and committed long-term maritime policies. And in the next few years, the U.S.-flag international shipping industry will again face critical challenges. It is important to understand the reasons underlying the relative success of the U.S.-flag international fleet, or lack thereof as the case sometimes may be, as absent such an understanding, we risk the further decline or disappearance of an active U.S.-flag fleet operating in international commerce, and all the benefits that attach to it. We must recognize those facts and reality, and maintain an MSP program and other smart maritime policies.

As USTRANSCOM commander Gen. Darren McDew noted in an October 2017 speech, “We don’t know when, but someday the nation is going to come calling. When she does, she will need us, she will need our ships, she will need our mariners... if we do nothing now, the strength of the maritime fleet that brought the nation to war throughout history... that strength will not be here. It’s already in decline.” It is incumbent on all of us as Americans to stay that decline and ensure that this crown jewel capability continues to be available to USTRANSCOM, and the nation.

Thank you for the opportunity to offer my views on the critical factors pertinent to maintaining a strong U.S.-flag international fleet. I look forward to your questions.