

R. Christian Johnsen

Chair

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U.S. Maritime Administration U.S. Department of Transportation 1200 New Jersey Avenue SE Room W12-140 Washington, DC 20590

Re: Request for Information: Administration of the Cargo Preference Act of 1954, 88 Fed. Reg. 13,010 (Mar. 1, 2023)

Ladies and Gentlemen:

I am writing on behalf of the undersigned organizations belonging to the USA Maritime Coalition in response to the Maritime Administration's Request for Information regarding the administration of the Cargo Preference Act of 1954. USA Maritime is a coalition whose membership includes shipping companies operating U.S.-flag, U.S. citizen-crewed vessels in our nation's foreign trades, maritime labor unions representing the licensed and unlicensed men and women who crew these vessels, and their related American maritime associations. Included among our members are virtually every one of the privately owned, U.S.-flag oceangoing commercial vessels operating regularly in the U.S. foreign trade that depend on cargo preference.

Introduction

USA Maritime supports and calls for the immediate and strongest possible enforcement of the cargo preference laws, and urgently requests an implementing regulation to 46 U.S.C. § 55305, which would give the Maritime Administration ("<u>MARAD</u>") the necessary enforcement tools to strengthen the economic viability of the U.S.-flag internationally-trading fleet in this time of great national need. Cargo preference is a necessary and cost-efficient way to sustain the privately owned U.S.-flag commercial fleet, which is both a critical national defense asset and a critical component of domestic supply-chain resilience. Without cargo preference, the U.S. Government would have to spend far in excess of the cost of cargo preference in direct spending to replicate the national security capabilities of the privately owned U.S.-flag commercial fleet.

The history of cargo preference administration indicates that cargo preference reservation requirements are often not self-enforcing and strict MARAD oversight is necessary to ensure that the law is followed. Now, more than ever, rigorous enforcement of cargo preference requirements is needed to preserve and grow the existing fleet of militarily useful U.S.-flag oceangoing vessels.

Through this regulatory review, MARAD has an opportunity to improve its oversight of cargo preference requirements and thereby achieve its mission of promoting the U.S. Merchant Marine by increasing the amount of U.S. Government-impelled cargo carried by U.S.-flag vessels.

USA Maritime is pleased to provide a statement for the record in response to MARAD's March 1, 2023 Request for Information: Administration of the Cargo Preference Act of 1954 (the "<u>RFI</u>").¹ The RFI "requests comments and information from the public to assist MARAD in understanding individuals' experience with civilian federal agencies' implementation of the CPA [Cargo Preference Act of 1954] requirements." USA Maritime offers the following overview of members' experience with civilian federal agencies' implementation of the Cargo Preference Act of 1954 ("<u>CPA</u>") and suggestions with respect to MARAD's implementation of the CPA.

1. <u>Implement the 2008 Duncan Hunter National Defense Authorization Act Cargo Preference Authority</u>

All too often, cargo preference is either not complied with at all or applied in a way as to make it ineffective. This is not a new phenomenon. For example, the U.S. Senate Commerce Committee found in 1962 that

Controversy within the United States usually has evolved from decisions by departmental or agency officials adverse to cargo preference, based on what they considered to be "special circumstances," or on the contention that the statutory requirements as to "availability" of U.S.-flag vessels were not being met. . . . All too often, the committee has felt, there has been evidenced in at least several of the administrative departments an apparent desire on the part of those responsible for shipping arrangements to evade the cargo preference requirement whenever opportunity offered. Cargoes alone can cure the ills that beset the U.S. merchant marine. In properly administering the cargo preference laws, Government will be giving a much needed helping hand to this strategic segment of our economy.²

Unfortunately, the 1962 Senate Commerce Committee Report could have been written today. In that report, the Committee found, among other things, that shipping agencies "had revised certain procedures [charter terms] for the handling of Government-financed cargoes, to the detriment of U.S.-flag vessel owners"; that petroleum had been purchased on a "destination delivered basis" that excluded U.S.-flag carriers; and that U.S.-flag ship owners were not given

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¹ 88 Fed. Reg. 13,010 (Mar. 1, 2023).

² S. Rep. 87-2286 (1962).

sufficient opportunity to bid for the carriage of materials sent overseas by the U.S. Government for overseas construction of aid projects.

Another congressional conference report accompanying the enactment of MARAD's cargo preference authority states clearly that Congress placed these responsibilities on MARAD for two reasons: (1) to ensure uniform administration of cargo preference agency-by-agency, and (2) to ensure that the purpose of promoting the U.S. Merchant Marine via cargo preference was fulfilled. Specifically, the conference report provided that

There is a clear need for a centralized control over the administration of preference cargoes. In the absence of such control, the various agencies charged with administration of cargo preference laws have adopted varying practices and policies, many of which are not American shipping oriented. Since these laws were designed by Congress to benefit American shipping, they should be administered to provide maximum benefits to the American merchant marine. Localizing responsibility in the Secretary [of Transportation] to issue standards to administer these cargo preference laws gives the best assurance that the objectives of these laws will be realized.³

The Department of Justice ("<u>DOJ</u>") has opined that "[t]his legislative history confirms that Congress intended the Secretary [of Transportation acting through MARAD] to have substantial authority and leeway in imposing a degree of uniformity upon other departments and agencies in the administration of their cargo preference programs."⁴ Moreover, the DOJ concluded that "MARAD may regulate the administration of cargo preference programs with a view to achieving recognized goals of the [Merchant Marine Act] and the CPA: developing a merchant fleet that is at "parity with foreign competitors," reducing the costs of the cargo preference program, and eradicating divergent agency practices in the preference trade that are "not American shipping oriented."⁵

From 1970 to 2008, the CPA provided that any "agency having responsibility under this section shall administer its programs with respect to this section under regulations prescribed by the Secretary of Transportation." In 2008, Congress made it even clearer that it was MARAD's responsibility to enforce the CPA by adding this language:

Each department or agency that has responsibility for a program under this section shall administer that program with respect to this

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³ Conf. Report No. 91-1555 (1970), reprinted in 1970 U.S.C.C.A.N. 4260 (emphasis added).

⁴ Dep't of Justice Office of Legal Counsel, MARAD Rulemaking Authority Under the Cargo Preference Laws, 18 U.S. Op. Off. Legal Counsel 78, 1994 WL 810697 (Apr. 19, 1994).

⁵ *Id.* (internal citations omitted).

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.⁶

Yet, despite this clear congressional direction, MARAD has failed—for 14 years—to deploy its cargo preference enforcement authority. MARAD claims that it cannot apply the law as Congress directed because it must first promulgate a rule—yet it has failed to do so over the entire 14-year period since Congress took action to empower the agency and restore the U.S.-flag Merchant Marine that is dependent upon cargo preference. This is inexcusable.

In May 2020, President Biden wrote to the Presidents of the maritime unions acknowledging the importance of cargo preference:

I understand that merchant ships do not sail, and U.S. merchant mariners do not work, unless they have cargo to carry. I strongly support America's cargo preference laws and the Cargo Preference Act. Americans have big hearts while also caring deeply about defending democracy and America's allies around the world. The surest expression of America's commitment to these values is to ensure that the U.S. flag flies over the U.S.-built and U.S.-crewed vessels that are delivering either humanitarian aid or military supplies to countries around the world.⁷

In September 2022, the Government Accountability Office ("<u>GAO</u>") released a congressionally mandated report, *Maritime Administration—Actions Needed to Enhance Cargo Preference Oversight*, ⁸ regarding MARAD's enforcement of cargo preference laws. In its report, the GAO recommends that MARAD take steps to develop regulations to oversee and enforce cargo preference requirements, including the long-neglected enforcement authority provided by Congress in 2008.

The James M. Inhofe National Defense Authorization Act for Fiscal Year 2023 requires that MARAD issue its final rule to implement and enforce its cargo preference authority by September 23, 2023, with annual reports to Congress on the administration of cargo preference rules.⁹ MARAD should respect the clear will of Congress and promulgate a rule forthwith,

⁶ Duncan Hunter Pub. L. No. 110-417, § 3511, 122 Stat. 4356, 4769-70 (2008) (emphases added).

⁷ Letter from J. Biden to D. Marcus (May 26, 2020).

⁸ GAO-22-105160.

⁹ Pub. L. No. 117-263, § 3502.136 Stat. 2395.

implementing its cargo preference authority to enforce cargo preference to the fullest extent of the law.

2. <u>Curb Abuse of "Notwithstanding" and "Non-Availability" Waivers</u>

International food aid programs, especially Food for Peace (PL 480), are an important source of preference cargo for the U.S.-flag fleet trading internationally—the largest source of cargoes by tonnage in many years and second only to Department of Defense ("<u>DOD</u>") by value.¹⁰ As the U.S. Maritime Administrator testified in 2015, "I will note that although the revenue base is about 15% for food aid, in terms of tonnage its about 50%. It's tonnage that fills ships, not revenue."¹¹

The Yemen program has grown to 40% of all PL 480 cargoes, but the shipping agency has prevented all U.S.-flag ships from participating in the program since 2019, using blanket authority under the Food for Peace Act to administer the program "notwithstanding any other provision of law." Variously, the shipping agency also uses its authority to ship cargoes on foreign-flag vessels instead of U.S.-flag vessels when it determines, unilaterally, that U.S.-flag vessels are not available at fair and reasonable rates under the CPA, a so-called "non-availability" waiver.

Making matters worse, when the agency ships foreign using its "notwithstanding" authority or "non-availability" waivers, it does not count those cargoes as shipped foreign for purposes of calculating compliance with cargo preference requiring at least 50% U.S.-flag shipping. The shipping agency simply pulls those cargoes out of the denominator as if they never happened. The result: The shipping agency's cargo preference compliance for FY20, FY21, and FY22 was only 42%, 31%, and 40% U.S.-flag, respectively, but it claimed 88%, 89%, and 100% compliance in those years. Cumulatively, U.S.-flag carriers have lost at least 485,000 tons of cargo since 2019.

The shipping agency has said its reasons for preventing use of the entire U.S.-flag fleet from Yemen are alternatively because (a) Yemen is safe enough for foreign carriers but not safe enough for the American mariners who have reliably delivered war materiel to conflict zones since the birth of the Republic—or (b) several years ago there were minor incidents where a U.S.-flag

¹² 7 U.S.C. § 1722(a).

¹⁰ United States Maritime Administration, A Report to Congress: Impacts of Reductions in Government Impelled Cargo on the U.S. Merchant Marine (Apr. 21, 2015); *Hearing Before the Subcomm. on Livestock and Foreign Agriculture, H. Agriculture Comm., and Subcomm. on Coast Guard and Maritime Transportation, H. Transp. & Infrastructure Comm.*, 114th Cong. (Nov. 17, 2015) (Statement of Paul N. Jaenichen, United States Maritime Administrator) (food aid constitutes half of all preference cargo shipped).

¹¹ Hearing before the Subcomm. on Livestock and Foreign Agriculture, H. Agriculture Comm. and Subcomm. on Coast Guard and Maritime Transportation, H. Transp. & Infrastructure Comm., 114th Cong. (Nov. 17, 2015) (Statement of Paul N. Jaenichen, United States Maritime Administrator).

ship or ships underperformed. The shipping agency has admitted its reasons for excluding U.S.flag carriers from Yemen are contained in an undisclosed memo it has refused to release.

MARAD is the agency with the "sole responsibility for determining if a program is subject to the requirements" of the CPA.¹³ Yet, the PL 480 shipping agency has unilaterally exempted 40% of cargoes from the CPA for reasons hidden from the public in an undisclosed memo and articulated as either prejudicing the entire U.S.-flag fleet for one or two isolated events over four years ago, or because the shipping agency unilaterally deems the U.S. mariner unfit to be trusted to execute America's foreign policy objectives in potentially hostile waters. MARAD should immediately seize control of its authority and reverse this damaging policy, which has directly and immediately contributed to the substantial reduction in the U.S.-flag fleet over the last decade and the ongoing mariner shortage.¹⁴

3. Increase Transparency Regarding Cargo Preference Compliance

As set forth above in Section 2, MARAD has allowed shipper agencies to camouflage their noncompliance with the CPA by publishing their own cargo preference compliance statistics, which do not count foreign-shipped cargoes when shipper agencies unilaterally determine to ship foreign-flag under self-granted "notwithstanding" or "non-availability" waivers. This presents a false public narrative of cargo preference compliance. Even though MARAD has "sole responsibility" for ensuring other agencies' compliance with cargo preference compliance under the CPA, MARAD ceased publishing its own cargo preference compliance statistics years ago, abdicating the field to the very shipper agencies that Congress directed MARAD to keep in line.

Seapower and Projection Forces and Subcomm. on Readiness, 115th Cong. (2018) (statement of U.S. Maritime

¹³ 46 U.S.C. § 55305(d). ¹⁴ Hearing on Mobility and Transportation Command Posture Before the Committee on Armed Forces, Subcomm. on

In September 2022, the GAO released a congressionally-mandated report, *Maritime Administration—Actions Needed to Enhance Cargo Preference Oversight*, ¹⁵ regarding MARAD's enforcement of cargo preference laws. In its report, the GAO recommends increased program transparency, including MARAD annual public reports on cargo preference compliance. MARAD has adopted this recommendation.

MARAD should immediately implement the recommendations and commence publication of cargo preference compliance statistics that reflect the actual volumes of government-impelled cargo shipped on foreign vs. American vessels, in the interest of transparency and good governance in keeping with the will of Congress.

4. Enforce the Court-Mandated "By Geographic Areas" Requirement

The CPA requires:

When the United States Government procures, contracts for, or otherwise obtains for its own account, or furnishes to or for the account of a foreign country, organization, or persons without provision for reimbursement, any equipment, materials, or commodities, or provides financing in any way with Federal funds for the account of any persons unless otherwise exempted, within or without the United States, or advances funds or credits, or guarantees the convertibility of foreign currencies in connection with the furnishing or obtaining of the equipment, materials, or commodities, the appropriate agencies shall take steps necessary and practicable to ensure that at least 50 percent of the gross tonnage of the equipment, materials, or commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) which may be transported on ocean vessels is transported on privately-owned commercial vessels of the United States, to the extent those vessels are available at fair and reasonable rates for commercial vessels of the United States, in a manner that will ensure a fair and reasonable participation of commercial vessels of the United States in those cargoes by geographic areas.¹⁶

A 1994 DOJ Opinion prepared for the Department of Transportation lends further clarity to the meaning of the "by geographic areas" requirement:

15 GAU-22-105160

¹⁵ GAO-22-105160.

¹⁶ 46 U.S.C. § 55305(b) (emphasis added).

The meaning of this particular clause of the CPA was explained by the Seventh Circuit in *City of Milwaukee v. Yeutter*, 877 F.2d 540, 543 (7th Cir. 1989), as follows: "The command . . . speaks of 'a fair and reasonable participation of United States-flag commercial vessels in such cargoes', not of a fair and reasonable participation of ports or port ranges. Section [55305(b)] is special-interest legislation, but the interest is that of U.S.-flag lines, not of ports. "By geographic areas" means "by destination", not "by origin". This ensures that the government can't short-haul domestic carriers. It can't send shipments from Bangor, Maine, to Providence, Newfoundland, on U.S. ships while reserving all the traffic from Philadelphia to Bangkok for foreign bottoms.

Thus, MARAD's regulation under the CPA may include measures intended to assure that U.S.-flag carriers receive a proportional share of CPA shipments to particular geographic destinations, such as the former Soviet republics or other distant regions.¹⁷

The requirements of the "by geographic areas" requirement have been interpreted by the U.S. District Court for the District of Columbia, which held in 1998 that the provision requires compliance with the U.S.-flag minimum cargo reservation "on a country-by-country basis." ¹⁸

Yet, despite the clear congressional intent recognized by both the DOJ Office of Legal Counsel and the United States District Court for the District of Columbia that the "by geographic areas" requirement was intended to ensure fair participation by U.S.-flag carriers in long-haul cargo preference shipments, administered on a country-by-country basis, MARAD has not enforced cargo preference consistent with the law. At least one shipping agency has, unhindered by MARAD, issued an interpretation that there are only two geographic areas—"the U.S. and all other countries."

¹⁷ Dep't of Justice Office of Legal Counsel, MARAD Rulemaking Authority Under the Cargo Preference Laws, 18 U.S. Op. Off. Legal Counsel 78, 1994 WL 810697 (Apr. 19, 1994).

¹⁸ Farrell Lines v. U.S. Dep't of Agriculture, Civ. A. No. 1:98CV02046EGS (D.D.C. Sept. 17, 1998). See also Zivotofsky ex rel. Zivotofsky v. Clinton, 2012 566 U.S. 189, 194 (2012) ("[I]ssues of statutory and constitutional interpretation [are] plainly within the constitutional authority of the Judiciary to decide"). Chevron v. Natural Resources Defense Council, Inc., 467 U.S. 837, 845 (1984) held that where Congress has not spoken, a reviewing court must grant great deference to agency interpretations of regulations, but it still must be a "permissible construction," and the judiciary still gets the final say. See Nat'l Wildlife Fed'n v. Gorsuch, 693 F.2d 156 (D.C. Cir. 1982) ("If we conclude that EPA's interpretation is inconsistent with the language of the Clean Water Act, as interpreted in light of the legislative history, or if it 'frustrate[s] the policy that Congress sought to implement,' no amount of deference can save it.").

¹⁹ 22 C.F.R. § 221.15(a)(1).

In other words, a statutory rule intended to ensure U.S.-flag vessels get a fair 50% share of carriage to far-away discharge ports has been nullified by a shipping agency's interpretation that the whole world constitutes one super-region and therefore it meets the requirement no matter how much cargo it ships from the U.S. to any country. Under the shipping agency's interpretation, the shipper could in fact use U.S.-flag carriers for shipments to Newfoundland and save the Bangkokbound cargoes for foreign vessels, contravening the *Yeutter* and *Farrell* decisions. The shipping agency has flouted the law by singling out the largest source of preference cargo under the CPA—Title II of PL 480—and exempting it from the "by geographic areas" statutory requirement.²⁰ This contradicts the legislative intent of the provision and the congressional intent that agencies and programs be administered in a uniform fashion under the unitary authority of MARAD.

MARAD has, and should immediately exercise, its authority as the supreme administrative agency charged with the uniform application and enforcement of the cargo preference law, to restore the application of the congressionally mandated "by geographic areas" requirement and cease shipping agencies' rendering of the provision as a complete nullity.

5. Enforce the "Fix American First" Rule

MARAD's own regulations provide:

Fix American-flag tonnage first.

Each department or agency having responsibility under the Cargo Preference Act of 1954 shall cause each full shipload of cargo subject to said act to be fixed on U.S.-flag vessels prior to any fixture on foreign-flag vessels for at least that portion of all preference cargoes required by that Act and the Food Security Act of 1985 to be shipped on U.S.-flag vessels, computed by purchase authorization or other quantitative unit satisfactory to the agency involved and the Maritime Administration, except where such department or agency determines, with the concurrence of the Maritime Administration, that (a) U.S.-flag vessels are not available at fair and reasonable rates for U.S.-flag commercial vessels, or (b) that there is a substantially valid reason for fixing foreign-flag vessels first.²¹

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²⁰ U.S. Maritime Administration, Advanced Notice of Proposed Rulemaking, Regulations to Be Followed by All Departments and Agencies Having Responsibility to Provide a Preference for U.S.-Flag Vessels in the Shipment of Cargoes on Ocean Vessels, 64 Fed. Reg. 4382, 4384 (Jan. 28, 1999) ("Only with regard to the Title II program has MARAD informally acquiesced to measurement of compliance on a 'global' basis by vessel type.").

²¹ 46 C.F.R. § 381.5.

MARAD's rules thus require shipper agencies to fulfill their full 50% U.S-flag requirement "prior to any fixture on foreign flag vessels" (emphasis added). Promulgating its final rule, MARAD explained its purpose was "to ensure fair and reasonable participation by U.S.-flag commercial vessels in full ship loads of cargoes subject to the Act." The Fix American First Rule is a simple way to ensure that shipper agencies fulfill their U.S.-flag requirement before the cargo preference year runs out, and as such simplifies administration and compliance, avoiding the need for carryover make-up cargoes and cargo bunching at the end of the year, which of course conveniently triggers "non-availability waivers" by shipper agencies avoiding compliance with the law.

MARAD's Fix American First Rule is still valid and stands as the law of the land.²³ MARAD has not undertaken Administrative Procedure Act procedures to appeal or amend its rule. Yet, without public notice and comment, MARAD appears to have inexplicably ceased to enforce the law that MARAD created to ensure fair and reasonable participation by U.S.-flag commercial vessels.²⁴ MARAD has abandoned its responsibility.

MARAD should immediately return to enforcing its own rule and requiring that shipper agencies meet their 50% mandate prior to fixing *any* tonnage on foreign-flag vessels, subject to the availability of U.S.-flag vessels at fair and reasonable rates for commercial vessels of the United States. This will help simplify and streamline shipper agencies' compliance with their obligations under the CPA.

6. <u>Migrate to a Simplified, Uniform 100% Requirement for All Government-Impelled Cargoes</u>

As recognized by Congress time and again, and as set forth above, the 50% requirement has proven confusing and subject to manipulation by shipper agencies. Gimmicks include awarding only short-haul routes to U.S.-flag carriers in violation of the geographic areas requirement, failure to count cargoes shipped foreign-flag as shipped foreign-flag when under a "notwithstanding" or "non-availability" waiver, or failure to comply with the Fix American First Rule, running out of cargoes at the end of the preference year.

MARAD should eliminate these abuses by advocating for an executive order or proposing statutory changes requiring 100% compliance with cargo preference rules under the CPA,

²² MARAD, Cargo Preference – U.S.-Flag Vessels, 71 Fed. Reg. 19,253 (Oct. 1, 1971).

²³ Damus v. Nielsen, 313 F. Supp. 3d 317, 335-36 (D.D.C.2018) ("[r]egulations with the force and effect of law supplement the bare bones" of federal statutes, and, even in areas of expansive discretion, agencies must follow their own "existing valid regulations.") (quoting *Accardi v. Shaughnessy*, 347 U.S. 260, 74 S. Ct. 499, 98 L.Ed. 681 (1954)). ²⁴ Letter from J. Downing, Director, Office of Cargo and Commercial Sealift, MARAD (Jan. 21, 2019) ("MARAD does not enforce 46 CFR 281.5 Fix American flag tonnage first[.]").

consistent with all other cargo preferences,²⁵ when U.S.-flag vessels are available at fair and reasonable rates. Such an action would eliminate gamesmanship, ensure fair participation by U.S.-flag vessels consistent with MARAD's mandate, align all cargo preferences under the same 100% standard, and vastly simplify cargo preference compliance for shipper agencies, contractors, and subcontractors up and down the Federal procurement and logistics enterprise.*

Threats to cargo preference enforcement are the number one challenge to the continued commercial viability of the U.S. Merchant Marine, fueling an ongoing mariner shortage. MARAD must substantially improve its cargo preference efforts to prevent a significant decrease in the number of vessels and mariners sailing under the U.S. flag. By doing so, MARAD can grow the fleet to better service the American public and Federal agencies who rely upon the U.S. Merchant Marine, ensuring that we are not, as a nation, at the mercy of foreign-controlled ocean supply lines in times of war and peace.

Respectfully submitted,

USA Maritime R. Christian Johnsen, Chairman www.usamaritime.org

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²⁵ See 46 U.S.C. § 55304 (exports financed by the U.S. Government) & 55302 (transportation of personnel); 10 U.S.C. § 2631 (military cargo preference).