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PRESIDENT'S FISCAL YEAR 2014 BUDGET REQUEST FOR COAST GUARD AND MARITIME TRANSPORTATION PROGRAMS

(113–9)

HEARING

BEFORE THE

SUBCOMMITTEE ON
COAST GUARD AND MARITIME TRANSPORTATION

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

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† Master Chief Michael P. Leavitt did not submit a prepared statement.

Committee on Transportation and Infrastructure
U.S. House of Representatives

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Washington, DC 20515

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April 12, 2013

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SUMMARY OF SUBJECT MATTER

TO: Members, Subcommittee on Coast Guard and Maritime Transportation
FROM: Staff, Subcommittee on Coast Guard and Maritime Transportation
RE: Hearing on "President's Fiscal Year 2014 Budget Request For Coast Guard and Maritime Transportation Programs"

PURPOSE

On Tuesday, April 16, 2013, at 2:00 p.m. in 2167 Rayburn House Office Building, the Subcommittee on Coast Guard and Maritime Transportation will hold a hearing to examine the fiscal year (FY) 2014 budget requests for the United States Coast Guard, the Federal Maritime Commission, and the Maritime Administration.

BACKGROUND

United States Coast Guard

The United States Coast Guard was established on January 28, 1915, through the consolidation of the Revenue Cutter Service (established in 1790) and the Lifesaving Service (established in 1848). The Coast Guard later assumed the duties of three other agencies: the Lighthouse Service (established in 1789), the Steamboat Inspection Service (established in 1838), and the Bureau of Navigation (established in 1884).

Under section 2 of title 14, United States Code, the Coast Guard has primary responsibility to enforce or assist in the enforcement of all applicable Federal laws on, under, and over the high seas and waters subject to the jurisdiction of the United States; to ensure safety of life and property at sea; to carry out domestic and international icebreaking activities; and, as one of the five armed forces of the United States, to maintain defense readiness to operate as a specialized service in the Navy upon the declaration of war or when the President directs.

The Coast Guard is directed by a Commandant, who is appointed by the President with the advice and consent of the Senate to a four-year term. In 2010, President Obama appointed Admiral Robert J. Papp, Jr. as Commandant of the Coast Guard.

FY 2014 Coast Guard Budget Request: The President requests $9.79 billion in FY 2014 for the activities of the Coast Guard, $582.3 million (or 5.6 percent) less than the FY 2013 enacted level. Of the $9.79 billion requested, $7.99 billion is for Coast Guard discretionary accounts, $728 million (or 8.3 percent) less than the FY 2013 enacted level. This amount does not include funding for Overseas Contingency Operations/Global War on Terrorism (OCO). The Administration is expected to send Congress a FY 2014 budget amendment in the coming weeks that will request OCO funding for the Coast Guard through the Department of Defense (DoD).

Program	FY 2013 Enacted*	FY 2014 President's Budget Request	*Difference Bet. FY2014 Request and FY2013 Enacted*	*% Difference Bet. FY2014 Request and FY2013 Enacted*
Operating Expenses	$6,811,779,000	$6,755,383,000	*-$56,396,000*	*-0.8%*
Environmental Compliance & Restoration	$13,134,000	$13,187,000	*$53,000*	*0.4%*
Reserve Training	$132,353,000	$109,543,000	*-$22,810,000*	*-17.2%*
Acquisition, Construction & Improvements	$1,543,353,000	$909,116,000	*-$634,237,000*	*-41.1%*
Alteration of Bridges	$0	$0	*$0*	*0.0%*
Research, Development, Test & Evaluation	$19,664,000	$19,856,000	*$192,000*	*1.0%*
Medicare-Eligible Retiree Health Care Fund Contribution	$201,610,000	$186,602,000	*-$15,008,000*	*-7.4%*
Subtotal, Discretionary	**$8,721,893,000**	**$7,993,687,000**	***-$728,206,000***	***-8.3%***
Retired Pay	$1,440,157,000	$1,452,150,000	*$11,993,000*	*0.8%*
State Boating Safety Grants	$113,199,000	$109,464,000	*-$3,735,000*	*-3.3%*
Oil Spill Liability Trust Fund Claims	$101,000,000	$238,600,000	*$137,600,000*	*136.2%*
Subtotal, Mandatory	$1,654,436,000	$1,800,294,000	*$145,858,000*	*8.8%*
Total	**$10,376,329,000**	**$9,793,981,000**	***-$582,348,000***	***-5.6%***

**Does not include reductions from sequester*

Operating Expenses: The President requests $6.75 billion for Coast Guard Operating Expenses (OE) in FY 2014, $56.4 million (or 0.8 percent) less than the FY 2013 enacted level. The OE account supports the day-to-day activities of the Coast Guard including administrative expenses, support costs, travel, lease payments, and the operation and maintenance of infrastructure and assets. The OE account also funds personnel compensation and benefits for the Service's approximately 42,000 active duty military members, 8,000 reservists, and 8,000 civilian employees.

The budget for OE includes increases in funding to cover follow on costs for the operation and maintenance of new assets and technology acquired in FY 2013 and increases in other administrative expenses. The request includes $29 million in increases to cover the cost of the Administration's proposed 1 percent pay raise for military personnel in FY 2014, as well as expanded military benefits enabling Coast Guard servicemembers to maintain parity with benefits received by DoD servicemembers. It also includes $5.8 million to cover the cost of the Administration's proposed 1 percent pay raise for civilian personnel. Finally, it includes $29 million to acquire and install new software and hardware to improve the Service's financial management and accounting operations.

These increases are offset by $218.7 million in cuts derived through the decommissioning of certain assets and closure of two air stations, the elimination of certain military benefits, and reductions in personnel, travel, support, and other administrative costs.

The budget proposes the following reductions in the OE account:

- *Cuts to Personnel:* The FY 2014 request proposes to cut the size of the Coast Guard's workforce by 931 positions. This includes a reduction of 850 servicemembers and 81 civilians. These are net reductions representing a decline in positions from decommissioning certain assets, the closure of facilities, cuts to personnel assigned to training, intelligence, headquarters, and the Coast Guard Academy, as well as reductions in the number of personnel responsible for inspecting foreign-flagged vessels entering U.S. waters and the security of foreign ports. Reductions will take place through attrition.

- *Cuts to Military Benefits:* The FY 2014 request proposes to eliminate tuition assistance for Coast Guard officers and limit benefits available to enlisted personnel.

- *Air Stations:* The FY 2014 request proposes to close two Coast Guard air stations in Charleston, South Carolina and Newport, Oregon and remove from service the four HH-65D helicopters stationed at those locations. The Service estimates these changes will save $5 million in FY 2014. The Coast Guard expects the closure of these facilities will increase response times in the local areas. The Service recently spent millions to upgrade the HH-65 fleet with new engines and avionics.

- *High Endurance Cutters:* The FY 2014 request proposes to decommission two High Endurance Cutters (WHEC). First commissioned in 1967, the 378-foot WHEC fleet is failing at an increased rate resulting in lost operational days and increased maintenance costs. The Coast Guard estimates decommissioning two WHECs will save $14.1 million in FY 2014. The WHEC fleet is being replaced by the National Security Cutter (NSC). Three NSCs have been delivered to date and the Service expects to take delivery of a fourth NSC in FY 2014.

- *HU-25 Falcons:* The FY 2014 request proposes to retire the Coast Guard's eight remaining HU-25 Falcon aircraft. The Service is replacing the outdated Falcons with new HC-144 Maritime Patrol Aircraft (MPA). The Service estimates retiring these assets will save $9.3 million in FY 2014.

- *HC-130 Aircraft:* The FY 2014 request proposes to retire two Coast Guard HC-130H aircraft. The Service is replacing the nearly 30 year-old HC-130H aircraft with new HC-130J aircraft. The Service estimates retiring these assets will save $7.7 million in FY 2014.

Environmental Compliance and Restoration: The President requests $13.2 million for the Environmental Compliance and Restoration (EC&R) account in FY 2014, $0.05 million (or 0.4

percent) more than the FY 2013 enacted level. The EC&R account provides for the clean-up and restoration of contaminated Coast Guard facilities, as well as for the remediation of Coast Guard assets to ensure they are safe to operate or can be decommissioned in compliance with environmental laws.

The Coast Guard plans to use the $13.2 million requested for EC&R to pay for the environmental remediation and restoration of Coast Guard facilities in several states. In FY 2013, the Service had a backlog of over 400 EC&R projects with an estimated combined cost of over $185 million.

Reserve Training: The President requests $109.5 million for the Reserve Training account in FY 2014, $22.8 million (or 17.2 percent) less than the FY 2013 enacted level. The Reserve Training account funds the costs of training members of the Coast Guard Reserve and the administration of the Reserve Program.

The FY 2014 request proposes to move 1,050 reservists from the Selected Reserve to the Inactive Ready Reserve. This reduces the number of regularly trained Coast Guard Reservists from 8,100 to 7,050. The reduction in the number of Selected Reservists enables the Service to cut the number of personnel responsible for training Reservists by 118 positions, providing savings of $26.5 million in FY 2014.

Reservists maintain readiness through regular training and exercises. Reservists can be mobilized by the Secretary of Homeland Security to support the response to a national emergency or disaster, and the Secretary of Defense to support national security operations worldwide. In recent years, Coast Guard Reservists were mobilized to support Haiti earthquake relief operations, the response to the BP DEEPWATER HORIZON oil spill, and to conduct port security activities in Iraq in support of Operation Enduring Freedom.

Acquisitions, Construction, and Improvements: The President requests $909 million for the Acquisitions, Construction, and Improvements (AC&I) account in FY 2014, $634.2 million (or -41 percent) less than the FY 2013 enacted level. The AC&I account funds the acquisition, construction, and physical improvements of Coast Guard owned and operated vessels, aircraft, facilities, aids to navigation, information management systems, and related equipment.

The budget request includes approximately $830.9 million for the acquisition of aircraft, vessels, and command, control, communications, computer, intelligence, surveillance and reconnaissance (C4ISR) systems. This represents a reduction of $506.4 million (or 38 percent) below the FY 2013 enacted level. The budget request includes:

- $616 million to complete construction of the seventh NSC. No funding is included for Long Lead Time Materials for NSC #8, which will delay the production line and increase costs;
- $75 million to acquire two Fast Response Cutters (FRC). The FRC is replacing the Coast Guard's nearly 30 year-old 110-foot Patrol Boats. The current contract requires the Coast Guard to acquire at least four FRCs each year. Acquiring two will delay the production of FRCs and increase costs;

- $25 million to continue the development of the Offshore Patrol Cutter (OPC). The OPC is supposed to replace the Service's aging 210-foot and 270-foot Medium Endurance Cutters;
- $16 million for modernization and sustainment of the HC-130H Long Range Surveillance Aircraft fleet;
- $12 million for the modernization and sustainment of the HH-65 Dolphin helicopter fleet;
- $59.9 million for C4ISR acquisition, program management, systems engineering and integration, and the Nationwide Automatic Identification System; and
- $2 million to survey and design a new polar icebreaker.

The Service proposes to eliminate funding for the following acquisition programs in FY 2014:

- *HC-144A Maritime Patrol Aircraft:* The Coast Guard's program of record for this procurement calls for the acquisition of 36 MPA to replace the obsolete HU-25 Falcon aircraft and some HC-130H aircraft. To date, funding has been secured to acquire 18 MPA and 17 Mission System Pallets, which provide the MPA with the necessary avionics to support Coast Guard missions. The Coast Guard has not presented a plan to mitigate the lost patrol hours that come as a result of not fulfilling this acquisition.

- *Response Boat – Medium:* The Coast Guard's program of record for this procurement calls for the acquisition of 180 Response Boat – Mediums (RB-M) to replace the aged, slow, and obsolete 41 foot utility boat. To date, funding has been secured to acquire 170 RB-Ms. Despite proposing to terminate the acquisition early, the Service has not amended the program of record to explain how the reduced buy will meet mission requirements. Terminating the acquisition early could impair small boat readiness, which could impact search and rescue mission effectiveness.

- *HH-60 Helicopter Conversion:* The Coast Guard had planned to make critically needed upgrades to the helicopter's radar sensor system to improve the asset's ability to conduct search and rescue. The Service now proposes to delay these upgrades.

The budget requests $120.2 million in other capital costs, 87.9 million (or 42 percent) less than the FY 2013 enacted level. This includes $115 million in personnel costs to execute AC&I programs and $5 million to construct shore facilities and aids to navigation. In FY 2013, the Coast Guard had a backlog of over 35 prioritized shore facility improvement projects with an estimated combined cost of over $540 million.

Finally, no funding is included in the budget request to rehabilitate housing for Coast Guard servicemembers and their dependents. The account received $10 million in FY 2013 funding. Much of the Service-owned housing is decades old and in poor condition. The Coast Guard recently completed a survey of the condition of its servicemember housing to help the Service better direct investments.

Alteration of Bridges: The President does not request funding for the Alteration of Bridges program in FY 2014. The program did not receive funding in FY 2013. Created by the Truman-

Hobbs Act of 1940 (33 U.S.C. 511 et. seq.), the Alteration of Bridges program authorizes the Coast Guard to share with a bridge's owner the cost of altering or removing railroad and publicly owned highway bridges that are determined by the Service to obstruct marine navigation.

Research, Development, Test, and Evaluation: The President requests $19.8 million for the Coast Guard's Research, Development, Test, and Evaluation (RDT&E) account, an increase of $0.2 million (or 1 percent) over the FY 2013 enacted level. The RDT&E account supports improved mission performance for the Service's 11 statutory missions through applied research and development of new technology and methods.

The Coast Guard intends to use the $19.8 million requested for RDT&E in FY 2014 to improve its modeling and simulation capabilities and develop new technologies for the detection and recovery of oil and hazardous substances from the sea floor and in the Arctic environment; to develop ballast water treatment methodologies; to provide improved, sensors and information security technologies for assets and shore units; and to develop new systems to improve intelligence collection and dissemination. Funding will also be used to test Small Unmanned Aerial Systems for use on the NSCs.

Coast Guard FY 2014 Authorized Funding Level

On December 20, 2012, the President signed into law H.R. 2838, The Coast Guard and Maritime Transportation Act of 2012 (P.L. 112-213). H.R. 2838 authorized funding for the discretionary accounts of the Coast Guard for FY 2013 and FY 2014. Below is a comparison of the FY 2014 authorized level and the President's FY 2014 budget request.

Program	FY 2014 Enacted Authorization (P.L. 112-213)	FY 2014 President's Budget Request	*Difference Bet. FY2014 Request and FY2014 Enacted Authorization*	*% Difference Bet. FY2014 Request and FY2014 Enacted Authorization*
Operating Expenses	$6,981,036,000	$6,755,383,000	*-$225,653,000*	*-3.2%*
Environmental Compliance & Restoration	$16,701,000	$13,187,000	*-$3,514,000*	*-21.0%*
Reserve Training	$140,016,000	$109,543,000	*-$30,473,000*	*-21.8%*
Acquisition, Construction & Improvements	$1,546,448,000	$909,116,000	*-$637,332,000*	*-41.2%*
Alteration of Bridges	$16,000,000	$0	*-$16,000,000*	*-100.0%*
Research, Development, Test & Evaluation	$19,890,000	$19,856,000	*-$34,000*	*-0.2%*
Total	**$8,720,091,000**	**$7,807,085,000**	***-$913,006,000***	***-10.5%***

Federal Maritime Commission

The Federal Maritime Commission (FMC) was established in 1961 as an independent regulatory agency charged with the administration of the regulatory provisions of shipping laws. The FMC protects shippers and carriers from restrictive or unfair practices of foreign governments and foreign-flagged carriers. The FMC also enforces the laws related to cruise

vessel financial responsibility to ensure cruise vessel operators have sufficient resources to pay judgments to passengers for personal injury or death or for nonperformance of a voyage.

The FMC is composed of five Commissioners appointed for five-year terms by the President with the advice and consent of the Senate. The Commission is led by a Chairman designated by the President. On April 1, 2013, the President designated Commissioner Mario Codero as Chairman.

FY 2014 FMC Budget Request: The President requests $25 million in FY 2014 for the activities of the FMC, $2.1 million (or 9.5 percent) above the FY 2013 enacted level.

Account	FY2013 Enacted*	FY2014 President's Budget Request	*Difference Bet. FY2014 Request and FY2013 Enacted*	*% Difference Bet. FY2013 Request and FY2012 Enacted*
Formal Proceedings	$7,429,513	$8,122,916	*$693,403*	*9.3%*
Equal Employment Opportunity	$190,286	$196,791	*$6,505*	*3.4%*
Inspector General	$663,693	$770,661	*$106,968*	*16.1%*
Operational and Administrative	$14,555,933	$15,909,632	*$1,353,699*	*9.3%*
Total	**$22,839,425**	**$25,000,000**	***$2,160,575***	***9.5%***

**Does not include reductions from sequester*

Maritime Administration

The Maritime Administration (MARAD) was established in 1950. It administers financial programs to build, promote, and operate the U.S. flag fleet; manages the disposal of Federal government-owned vessels; regulates the transfer of U.S. documented vessels to foreign registries; maintains a reserve fleet of Federal government-owned vessels essential for national defense; operates the U.S. Merchant Marine Academy; and administers a grant-in-aid program for state operated maritime academies.

MARAD is led by an Administrator appointed by the President with the advice and consent of the Senate. David T. Matsuda was sworn in as Administrator in June 2010.

FY 2014 MARAD Budget Request: The President requests $364.8 million in FY 2014 for the activities of MARAD, $13.2 million (or 3.8 percent) over the FY 2013 enacted level.

Account	FY2013 Enacted*	FY2014 President's Budget Request	*Difference Bet. FY2014 Request and FY2013 Enacted*	*% Difference Bet. FY2014 Request and FY2013 Enacted*
Operations and Training	$157,214,000	$152,168,000	-$5,046,000	-3.2%
Assistance to Small Shipyards	$10,042,000	$0	-$10,042,000	-100.0%
Ship Disposal Program	$5,534,000	$2,000,000	-$3,534,000	-63.9%
Maritime Security Program	$175,065,000	$208,000,000	$32,935,000	18.8%
Title XI - Administrative Expenses	$3,763,000	$2,655,000	-$1,108,000	-29.4%
Title XI - Loan Guarantees	$0	$0	$0	0.0%
Total	**$351,618,000**	**$364,823,000**	**$13,205,000**	**3.8%**

**Does not include reductions from sequester*

Operations and Training: The President requests $157.2 million for the Operations and Training (O&T) account, $5 million (or 3.2 percent) below the FY 2013 enacted level. O&T funds the salaries and expenses for each of MARAD's programs, the operation, maintenance, and capital improvements to the U.S. Merchant Marine Academy, and financial assistance to the six state maritime academies.

The budget request for O&T includes $81 million for the U.S. Merchant Marine Academy, including $67.3 million for Academy Operations, and $14 million for capital improvements, repairs, and maintenance; $17 million for the six state maritime academies; and $54 million for MARAD Operations and Programs. The budget request does not include funding for the Marine Highways Grant Program.

Assistance to Small Shipyards: The budget does not request funds for the Assistance to Small Shipyards Grant Program. The program provides capital grants to small privately owned shipyards to expand shipbuilding capacity, efficiency, and competitiveness. The program received $10 million in FY 2013.

Ship Disposal: The budget requests $2 million for the Ship Disposal Program, $3.5 million (or 63.9 percent) less than the FY 2013 enacted level. The requested funding will cover expenses related to the disposal of up to 15 ships in the National Defense Reserve Fleet in FY 2014.

Maritime Security Program: The budget requests $208 million for the Maritime Security Program (MSP) in FY 2014, $32.9 million (or 18.8 percent) over the FY 2013 enacted level. Of the $208 million request, $183 million, coupled with $3 million in unobligated balances from previous years, will fund the program at the FY 2014 authorized level of $186 million. Under this program, direct payments are provided to 60 U.S.-flagged vessel operators engaged in foreign trade. Vessel operators that participate in MSP are required to keep their vessels in active commercial service and provide intermodal sealift support to the Department of Defense in times of war or national emergency.

The remaining $25 million in the request for MSP will be used to reimburse U.S.-flagged vessel operators for the cost of employing additional U.S. mariners displaced by a restructuring of the Food for Peace Program proposed by the President in the FY 2014 budget.

Title XI Loan Guarantees: The budget does not request funds for loan guarantees for the construction or reconstruction of U.S.-flagged vessels in U.S. shipyards under the Title XI program. This program did not receive any funding in FY 2013. There is currently $38 million in Title XI loan subsidies available, which equates to approximately $420 million in available loan guarantees.

WITNESS LIST

Admiral Robert J. Papp, Jr.
Commandant
United States Coast Guard

Master Chief Michael P. Leavitt
Master Chief Petty Officer of the Coast Guard
United States Coast Guard

The Honorable Mario Cordero
Chairman
Federal Maritime Commission

The Honorable David T. Matsuda
Administrator
Maritime Administration

PRESIDENT'S FISCAL YEAR 2014 BUDGET REQUEST FOR COAST GUARD AND MARITIME TRANSPORTATION PROGRAMS

TUESDAY, APRIL 16, 2013

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC.

The subcommittee met pursuant to notice at 2:28 p.m. in the Rayburn House Office Building, Room 2167, the Honorable Duncan Hunter (Chairman of the subcommittee) presiding.

Mr. HUNTER. The subcommittee will come to order. Sorry about that. We had some votes and we will probably have some more folks trickle in as we go.

So, the subcommittee is meeting today to hear testimony on the President's fiscal year 2014 budget request from the leaders of the Coast Guard, the Federal Maritime Commission and the Maritime Administration. The President requests $7.9 billion for the discretionary accounts of the Coast Guard in fiscal year 2014 and an 8-percent cut below the current level. This is the second year in a row the President has forced the Coast Guard to have reductions to offset his questionable spending in other agencies.

The President guts the Coast Guard acquisition budget, reducing it by $634 million or 41 percent below the fiscal year 2013 enacted level. The President's request proposes to terminate or delay the acquisition of critically needed replacement assets, including Response Boat-Mediums, Fast Response Cutters, and Maritime Patrol Aircraft. The request also slashes the budget to improve shoreside installations by nearly 95 percent, and zeroes out funding to renovate derelict housing for servicemembers and their dependents.

The President's request will severely undermine efforts to recapitalize the Service's aging and failing legacy assets, increase acquisition costs for taxpayers, and seriously degrade mission effectiveness. The subcommittee has worked for over a decade to implement a meaningful acquisitions program, which will enable the Coast Guard to carry out its missions in 5, 10, and 15 years. This budget slows that effort and dooms us to a future in which a down-sized Coast Guard is unable to accomplish even its most basic missions.

For the fiscal year 2014 operating budget, the President proposes to reduce the number of Coast Guard servicemembers and reservists by nearly 2,000; eliminate tuition assistance for officers; reduce the number of foreign-flag vessels boarded for inspection; cut the

number of foreign ports security inspections; close air stations; take recently upgraded helicopters out of service; and exacerbate the gaps in readiness by cutting training for personnel and retiring assets before their replacements arrive. In this budget environment, no agency can escape budget cuts, and I think there are ways to find savings in the Coast Guard's budget in a responsible manner; but, the budget the President sent us makes cuts that could adversely impact the safety and security of our ports and waterways.

I commend Admiral Papp for his honesty in describing what these cuts will mean for the ability of the Service to successfully conduct its missions, and I appreciate the Admiral's efforts to do his best with the hand that was dealt him. The budget request for the Maritime Administration represents a 3.6-percent increase over the current level, but the increase comes as a result of the President's misguided effort to effectively eliminate the hugely successful Food for Peace Program. Since 1954 the Food for Peace Program has provided agricultural commodities grown by U.S. farmers and transported by U.S. mariners on U.S.-flag vessels to those threatened by starvation throughout the world.

The President's restructuring of Food for Peace will eliminate a vital program for our farmers, put U.S. mariners out of work, and undermine our national security by reducing the domestic sea lift capacity on which our military depends. I would add that the President's attempt to placate the concerns of U.S. mariners by throwing some additional money at the Maritime Security Program for 1 year will not work. I hope my colleagues will join me in rejecting the President's misguided proposal.

Finally, the budget request for the Federal Maritime Commission proposes a nearly 10-percent increase over current levels. Although a 10-percent increase in the FMC budget amounts to little more than $2 million, I think it sends the wrong signal in the current fiscal environment. While other agencies have implemented hiring freezes, the Commission proposes to add more employees. The Commission needs to take a much closer look at their operations and present a more realistic budget.

Our Nation is facing a very tough budget climate. This Congress must work together to bring our exploding national debt under control. I look forward to working with my colleagues to achieve this goal in a responsible manner.

With that, I yield to Ranking Member Garamendi.

Mr. GARAMENDI. Mr. Chairman, thank you very much. There is much to be said following your comments.

I have a written statement that I would like to put in the record for openers, but I think I'm just going to go off the written statement for a moment and simply say that much of the problem that this organization faces, or these three organizations face, and much of the rest of Government, is of the making of Congress. It is Congress that enacted the sequester and it is Congress that over the last several years has repeatedly diminished the Federal spending and raised much revenue. So, indeed, I agree with you. We need to address this issue in a comprehensive way.

I know the Coast Guard is taking a big hit here and the budget as presented is not one that I like at all. I don't like the 480 program. I think that's a mistake, having spent 40 years of my life

working on famine and food issues around the world. I don't think this is the right way to go about solving that problem for the reasons that you stated and many others.

With regard to the Coast Guard acquisition programs, we are going to have to work on that. The President's budget is not correct on that and we have to work on it. But, there's a larger issue that permeates everything we are doing in every budget in every hearing, and it is that we are unwilling to fund the Government that we really need.

With that, I will yield back and ask that my written statement be printed in the record.

Mr. HUNTER. Without objection.

I thank the ranking member, and with that our witnesses today are Admiral Robert Papp, Commandant of the Coast Guard; Michael Leavitt, MCPO of the Coast Guard; the Honorable Mario Cordero, Chairman of the Federal Maritime Commission; and the Honorable David Matsuda, Administrator of the Maritime Administration.

Admiral, you are recognized for your statement.

TESTIMONY OF ADMIRAL ROBERT J. PAPP, JR., COMMANDANT, UNITED STATES COAST GUARD; MASTER CHIEF MICHAEL P. LEAVITT, MASTER CHIEF PETTY OFFICER OF THE COAST GUARD, UNITED STATES COAST GUARD; HON. MARIO CORDERO, CHAIRMAN, FEDERAL MARITIME COMMISSION; AND HON. DAVID T. MATSUDA, ADMINISTRATOR, MARITIME ADMINISTRATION

Admiral PAPP. Thank you, Chairman Hunter, and to Ranking Member Garamendi, it is an honor to be here in front of you and the distinguished members of the subcommittee. And before I get into the bulk of my statement, I would just like to say the collective hearts of the entire Coast Guard family go out to the people of Boston. It was a tragedy, yesterday, but it is a tragedy for the Coast Guard as well.

Our people are home-based within Boston. It has been a great, traditional port for us; but, in spite of everything going on, we were able to respond immediately with boats and boat crews from Sector Boston, the Maritime Safety and Security Team, an armed helicopter and boarding teams to enhance the overall Maritime Transportation Security posture.

Now, our ability to respond like that is a direct result of the tremendous support that the Congress and the Administration have given us over the last 12 years, and that support enabled major responses this past year as well. During Hurricane Sandy we rescued 14 crewmembers from the H.M.S. *Bounty* in 30-foot seas and 60-knot winds, 80 miles offshore. In the Port of New York and New Jersey we serve eight channels; evaluated waterfront facilities; restored the AIDS Navigation System; and, worked across Government and industry to reopen the port.

To meet the growing demands in the Arctic, we completed Operation Arctic Shield, a 9-month inner agency effort including the deployment of a National Security Cutter, two ice-capable buoy tenders, and two helicopters, 300 miles above the Arctic Circle. Given the lack of shore infrastructure and the extreme conditions

in the Arctic, the capabilities provided by our National Security Cutter were critical to our operation.

In executing the Department of Homeland Security, layered security strategy, the Coast Guard detected and interdicted threats as far offshore as possible. Targeting Central America coastal traffic routes, our cutters and aircraft teamed with interagency aircraft detected and interdicted drug-smuggling vessels carrying 107 metric tons of cocaine with a street value of nearly $15 billion, and we disrupted transnational criminal organizations.

Closer to shore we responded to the growing threat of small go-fast vessels that smugglers are increasingly using to avoid increased security along the southwest U.S. border. Drug smuggling, human trafficking and other illicit maritime activity continues to threaten our Nation. Those engaged in this trade are growing smarter and bolder, and they are increasing the danger to our homeland.

In December I presided over the memorial service for Senior Chief Boatswain's Mate Terrell Horne III of Coast Guard Cutter *Halibut*. Rep. Hahn, I want to thank you once again for being there for that ceremony and speaking to his family. He was killed by smugglers when they rammed his Coast Guard pursuit boat near San Diego. Our commitment to the Nation and our duty to honor the memory of SC Horne strengthens our resolve to defeat these threats.

Unfortunately, much like the weather and the seas the Coast Guard faces on a daily basis, the Coast Guard cannot control the fiscal environment that we operate within. We will make the very best use of the resources you provide to safely and effectively conduct operations in areas of greatest risk to the Nation, while recapitalizing our cutters, boats and aircraft to address current and emerging threats, particularly in the offshore environment.

The President's 2014 budget helps us to do that. This past year we made great strides in recapitalizing the Coast Guard's aging fleet. In October we'll christen the fourth National Security Cutter. Number 5 is under construction and Number 6 will be under contract soon with the money in the 2013 budget.

To date, we have taken delivery of 5 Fast Response Cutters with funding for another 19, and we have had the 14th of our HC 144 aircraft delivered. We have also contracted for the ninth AC–130J and completed a midlife availability on our patrol boats, and we are nearly complete with the midlife availability on our Medium Endurance Cutters at the Coast Guard yard. Despite these successes, we have a long way to go to recapitalize the Coast Guard with ships, boats, and aircraft the Nation needs. The Capital Investment Plan should inform this discussion, and I look forward to getting it to you as soon as possible.

As the Department of Defense rebalances to the Pacific and our maritime activities increase in the Arctic, offshore demand for Coast Guard capabilities is increasing. Our older, High Endurance Cutters have served offshore for nearly 50 years; but, as I have testified before, they are at the end of their service lives.

I am very happy to report that I received the support of the Secretary and the President on my highest acquisition priority, including funding for the seventh National Security Cutter in the 2014

budget. The 2014 budget sustains the most critical frontline operations while funding our most critical acquisition projects. In the current fiscal environment, this required tough decisions informed by my highest priorities.

They were difficult decisions for me and for my Service, but they were the best decisions to ensure we provide the next generation of Coast Guardsmen the tools required to protect our Nation. As I look back over the past year, I have never been more convinced of the value your Coast Guard provides to the Nation, and I have never been prouder of my Coast Guard people.

While realistic and mindful of the current fiscal environment, I remain optimistic about the future of the Coast Guard. And it is my duty to look beyond the annual budget cycle and prepare and adapt the Service and keep moving it forward to address the greatest maritime safety and security risk to the Nation, not just now, but into the future. The men and women of the Coast Guard give all for the sacrifices they make every day, putting their country first, and we owe it to them to give them our very best efforts to provide the support they need.

I want to thank this subcommittee for longstanding support for the Coast Guard in recognizing the sacrifices of our people; and, on behalf of my Coast Guard shipmates I say thank you, and I look forward to answering your questions.

Mr. HUNTER. Thank you, Commandant.

Master Chief Leavitt, you are now recognized.

Mr. LEAVITT. Good afternoon, Mr. Chairman and distinguished members of the subcommittee. It is an honor and a privilege to appear before you today and to represent the dedicated men and women of the United States Coast Guard who stand to watch every day, always protecting and serving our Nation.

Coast Guardsmen are charged with maintaining operational excellence across a very broad and diverse spectrum of missions. They are standing the watch overseas, on the high seas and our Nation's ports and waterways, and often in remote coastal communities. They are saving lives, protecting property and natural resources, conducting law enforcement, marking navigational channels for shipping, breaking ice, performing national defense missions, responding to national disasters and humanitarian needs, performing environmental prevention and response, building partnerships, internationally and locally, and so much more.

As I begin my final year as a Master Chief Petty Officer of the Coast Guard, I continue to be amazed by the dedication and professionalism of our Coast Guard men and women and the support they receive from their families. Coast Guardsmen operate in some of the most challenging and unforgiving environmental conditions imaginable. Performing missions and conducting training in a maritime environment is inherently dangerous. A stark reminder of this reality was the tragic loss of the crew of our Coast Guard helo 6535 while they were training to operational proficiency.

Last month the Coast Guard aircraft located a drug-smuggling vessel 25 nautical miles off the Colombian coast. The aircraft vectored in a nearby Coast Guard cutter, which launched its helicopter to investigate. When the vessel tried to escape, the helicopter used warning shots which compelled them to stop. We

boarded the vessel and prevented 2,000 pounds of cocaine from ending up on our streets. This case is a perfect example of how well-trained, equipped and proficient crews continue to carry out Coast Guard missions.

Keeping illegal drugs out of our cities and towns is in our Nation's best interest. We do this by interdicting drugs close to the source at sea, where larger seizures are made with greatest effect. However, our efforts are not without a cost. As you have already heard, last December we lost one of our shipmates, Senior Chief Terrell Horne, who had made the ultimate sacrifice to the service of our Nation. His sacrifice will never be forgotten.

That said, as leaders, we have responsibility to equip, train and care for our workforce and their families. We face challenges. The majority of our major cutters are over 40 years old, some even reaching 50. There is a cost to maintaining old-fleeted cutters, and that is not just in dollars. The new assets that are requested in the 2014 budget, including the seventh National Security Cutter, are safer, much more capable and allow our crews to execute Coast Guard missions as efficiently as possible. The Sentinel Class Fast Response Cutters funded in previous budgets and requested in our 2014 budget are now in service, and performing extremely well.

I thank you for your continued support in helping the Coast Guard recapitalize our aging cutters, despite the challenging fiscal environment. Last year to my testimony I discussed some of the challenges our Coast Guardsmen and their families face in regards to adequate housing and childcare. We are truly grateful for the housing enhancements made possible in the 2013 budget. These resources have helped to better support our military members and their families, and the 2014 budget will continue to do the same.

Providing adequate housing for our Coast Guardsmen and their families remains a high priority. We recently completed an assessment of all our housing across the Nation, including Alaska, Hawaii and Puerto Rico. In this constrained fiscal environment, we will leverage to find that assessment to ensure funding is directed to those housing units that provide the greatest benefit for active duty workforce and their families. Additionally, with your support we are beginning to bridge the gap with the DOD in regards to offering childcare services.

Since 2011 Coast Guard-sponsored childcare services have increased by 27 percent. Mr. Chairman, members of the committee, on behalf of the men and women of the United States Coast Guard and their families, I thank you for your continued support and I thank you for the opportunity to discuss some of the highlights and challenges Coast Guard men and women face, and I look forward to answering any questions you may have.

Mr. HUNTER. Thank you, Master Chief.

Chairman Cordero.

Mr. CORDERO. Mr. Chairman, Ranking Member, members of the subcommittee, thank you for this opportunity to present the President's fiscal year 2014 budget for the Federal Maritime Commission. With me today are my fellow colleagues, Commissioners Rebecca Dye, Michael Khouri and William Doyle.

Commissioner Lidinsky is unable to attend today due to a prior medical commitment, but does send his best regards. With the com-

mittee's permission, I would like to summarize my testimony and request that my full statement be submitted as part of the record.

The President's budget for the Federal Maritime Commission provides $25 million for fiscal year 2014. This represents an increase of $2,160,575 over the enacted post-sequestration fiscal year 2013 appropriation, and funds 126 full-time positions. Our fiscal year 2014 budget request contains $18,478,000 for salaries and benefits to support the Commission's programs. This figure includes funds for salaries and benefits for 123 positions expected to be onboard by end of fiscal year 2013.

It provides funding for three entry-level positions to backfill some critical positions. Rent, salary and benefits alone account for approximately 95 percent of our budget. The Commission's budget represents the spending levels necessary to conduct the Commission's basic operations, reduce regulatory burdens and cultivate the regulatory system that furthers competition, facilitates commerce and ensures reliable services to U.S. exporters and importers.

The recovery in the U.S. liner trades that began 2 years ago continued in 2012, but at a slower rate, with U.S. container volumes increasing to a mere 3 percent to reach 29.8 million TEUs. With this increase, total container volumes now surpass their 2007 rescission peak, and 2012 was a record year for export volumes. The Commission continues to work diligently to support the Nation's push to increase exports, the vast majority of which travel to a port and by ocean. Ports are the gateways that serve more than 80 percent of the volume of international trade.

The Commission continues to work with Federal agencies on projects aimed at better understanding and finding solutions to supply chain bottlenecks that might negatively affect U.S. exporters. One such project is the USDA's "Ocean Shipping Container Availability Report," also known as OSCAR. OSCAR provides agriculture shippers with estimates of equipment availability. A concern has been previously raised by this committee.

The Commission has also developed a search tool, now available on our Web site, that shows consumers where to find licensed and bonded freight forwarders or nonvessel-operating common carriers. The Commission analyzes the impacts of industry innovations aimed at productivity, sustainability and efficient use of resources, such as the use and control of equipment used to move international ocean-going containers.

The Commission actively monitors the industry to watch for canceled bookings, cargo rolled to the next sailing, and rapid increases in rates and surcharges that are identified by Commissioner Rebecca Dye who led Fact-Finding Investigation Number 26 back in the year 2010. As a result of that fact-finding, the Commission's Office of Consumer Affairs and Dispute Resolution Services' Rapid Response Team still served the industry to quickly and cost-effectively resolve shipping disputes.

To reduce regulatory burdens, the Commission has expended tariff exemptions and eliminated unnecessary recordkeeping requirements. We are also reviewing regulations governing and licensing and oversight of ocean transportation intermediaries, the review of filed agreements and service contract filings. The Commission will continue to engage with the shipping public and the regulatory in-

dustry to explore through its retrospective review of regulations, how it streamlines and improves rules and regulations.

Earlier this year, the Commission increased the maximum coverage requirement of large cruise lines for nonperformance of wages from $15 million to $30 million per cruise line. At the same time, the Commission said it would provide on a case by case basis relief for smaller cruise ship operators by allowing them to reduce their coverage requirements and recognizing that there may be alternative options for financial protection available to their customers.

In accordance with the mandate of Section 19 of the Merchant Marine Act of 1920, the Foreign Shipping Practices Act of 1988 and the Controller Carrier Act of 1978, the Commission studies the maritime practices for our trading partners. Not yet completed when the Commission last appeared before the subcommittee, the Commission released in July of 2012 the "Study of U.S. Inland Containerized Cargo Moving Through Canadian and Mexican Seaports."

Environmental sustainability concerns continue to play an important role in the agreements and shipping practices the Commission regulates. The Commission's internal Maritime Environmental Committee, originally established in the year 2009 by my predecessor Chairman Lidinsky, studies environmental initiatives in the industry and highlights innovations in this area.

The Commission's Bureau of Enforcement, its area representatives is located in key maritime corridors, and its investigative staff continue to take action to thwart shipping practices that are unfair and deceptive. Targeted violations have included illegal or unfulfilled agreements among ocean common carriers, unfair and fraudulent practices affecting household goods shippers, and misdescription of cargo. These violations affect not only shipping costs, but can also post serious safety and security risks. In fiscal year 2012 the Commission collected $838,000 in civil penalties per Shipping Act violations.

The Commission-appropriated level of $24,100,000 for fiscal year 2012 was subsequently reduced by $1,260,575 through sequestration and rescission of an additional .2 percent. These reductions have resulted in a fiscal year 2013 funding level of $22,839,425, an amount roughly equal to the Commission's fiscal year 2009 appropriation. As a very small regulatory agency with an extremely lean budget, options to reduce costs, substantially, without furloughing staff are limited.

As previously noted, salaries, benefits and rent account approximately for 95 percent of the Commission's budget. As a result, we estimate that FMC employees have approximately 10 to 14 furlough days. Unfortunately, the measures we have been recently required to take will affect the Commission's ability to oversee the shipping industry, resolve problems through direct negotiations, monitor activities of regulated entities, consult with foreign trading partners to ensure harmony in international regulatory affairs, and expand compliance oversight.

Mr. Chairman and members of the committee, I thank you for your support and ongoing support of the Federal Maritime Commission through the many years. It is an honor to appear before

the subcommittee, and I am happy to answer any questions you may have. Thank you very much.

Mr. HUNTER. Thank you, Chairman.

Administrator Matsuda, you are recognized for your statement.

Mr. MATSUDA. Good afternoon, Chairman Hunter, Ranking Member Garamendi and members of the subcommittee. Thank you for the opportunity to discuss the President's fiscal year 2014 budget priorities and initiatives for the Maritime Administration.

I know, as the Commandant mentioned, all of us are thinking of yesterday's events in Boston, and I would like to begin by expressing on behalf of the men and women of the Maritime Administration my most heartfelt condolences to those impacted by this tragedy.

Our agency's programs help to ensure that the ocean transportation services our Nation requires at a moment's notice will be available to us when needed. The effectiveness of these programs and the ability of the U.S. Merchant Marine to respond quickly in a time of crisis were clearly demonstrated during the response to Superstorm Sandy last year.

At the request of the Federal Emergency Management Administration, we work with the Defense Department to deploy the National Defense Reserve Fleet training ships *Empire State* and *Kennedy*, along with Ready Reserve Force Vessel *Wright*, to the New York region. Those three ships and their crews housed and fed nearly a thousand emergency responders and relief workers a night, providing warm beds, hot meals, and places to recharge communications devices. This action saved the Federal Government millions of dollars in hotel and per diem cost while not taking up local accommodations needed for displaced families. It is a great example of successful collaboration among Federal agencies and highlights the effectiveness of both our readiness programs and the U.S. Merchant Marine.

The President's budget request reflects our continued commitment to the future of the industry, including educational excellence at the U.S. Merchant Marine Academy. The Maritime Administration has made significant progress over the past year in shaping the course and direction of the academy, including the appointment of new leadership and a new strategic plan. This budget request will allow the academy to build upon this progress by providing $81 million in funding. Of this amount, $14 million is dedicated to capital improvements to continue our efforts to create an enriching, educational environment.

In addition, the budget request continues Federal support for State maritime academies. This includes funding for maintenance and repair costs for training ships like the two used in Superstorm Sandy response. The President's budget request also recognizes the important role of a militarily useful fleet and crews by proposing funding for the Maritime Security Program. This program provides the Federal Government assured access to a fleet of 60 militarily useful vessels, intermodal networks throughout the world, and shipboard jobs for 2,700 U.S. mariners.

Late last year a major milestone was reached when the President signed into law legislation requested by the Administration, effectively extending the program from 2015 to the year 2025. This law

helps provide long-term stability to a militarily useful U.S.-flag fleet, and I thank the subcommittee for supporting passage of that legislation.

In addition, the budget requests $25 million for a new initiative aimed at mitigating the impact on sealift capacity and mariner jobs resulting from proposed food aid program reform. Should Congress approve this funding, the Maritime Administration will work with stakeholders to best leverage these resources to preserve U.S.-flag ships and mariner jobs.

The budget also supports our priority to develop America's ports and marine highways. Included in this year's request is $2 million in new funding for port infrastructure development. Initially, we will target improvement of port planning activities and propose to develop a pilot grant program to help ports determine more effective investment strategies.

Finally, the President's budget request addresses pressing environmental issues facing the maritime industry. It provides $2 million to continue critical research to identify solutions for better management of invasive species and ballast water, energy use and air emissions. It also provides funding to continue the steady and significant progress we have made in removing and disposing of obsolete ships from the National Defense Reserve Fleet. We are proud to report that the number of nonretention ships is at a historic low, and we are nearly 2 years ahead of schedule in our cleanup of the Suisun Bay Reserve Fleet in California.

Mr. Chairman, I look forward to working with the subcommittee on advancing maritime transportation in the United States and I am happy to respond to any questions you and the members of the subcommittee might have. Thank you.

Mr. HUNTER. Thank you, Administrator.

I will now recognize Members for questions, beginning with myself. Admiral Papp, we are going to start on what I see as the three biggest issues here in regards to funding.

Number one, the law requires that your Coast Guard provide us a 5-year Capital Improvement Plan in conjunction with the President's budget. We have not received that. Capital Investment Plan—excuse me. Is it investment or improvement? I have both written down. I could ask you or the staff up here, because somebody is.

Improvement plan—Capital Improvement Plan that was made in law in 2012—why haven't we received it?

Admiral PAPP. Sir, I am just as unhappy that you don't have it in your hands, because the Capital Improvement Plan helps to inform the discussion on what we are purchasing this year and how that fits into the overall picture going into the out years. So I would prefer to have that here. It is currently being reviewed by the Administration; and, based on a hearing we had this morning, we contacted the Department of Homeland Security and they said it would be delivered to the Congress on the 1st of May.

Mr. HUNTER. How could a 42-percent cut over your acquisitions account be made while not having a Capital Improvement Plan or to plan out why those cuts would be made, and what you can do with those cuts?

Admiral PAPP. Well, sir, that's——

Mr. HUNTER. Clearly, no one else has done, and how do you get the 42 percent?

Admiral PAPP. Right. Being mindful of the situation we find ourselves in in this fiscal environment, we had to make some very tough decisions based upon the money that was available and make decisions based upon our highest priorities. The highest priority for me is getting our offshore fleet completed. The National Security Cutter is a large part of that.

Once that decision is made and supported in the budget, then the top line figure determines how much of everything else we can buy. This pushes everything to the right. It increases the price, because we are not able to order an economic quantity numbers, and delays the implementation of our fleet plan that we started out on a number of years ago.

The other thing it does is it increases the soft, significantly, of maintaining the current assets, the old ships that are out there, those that are 25, 30, and up to 50 years old. The maintenance costs on them never go down. They continue to increase and take a larger bite out of our operating funds. Our operating funds, if you look at them superficially, remain fairly stable, but the costs within there, whether it's pay raises or increased maintenance on antiquated, obsolete equipment, continues to erode the buying power of those operating funds.

Mr. HUNTER. So there is no maintenance offset in the President's budget to make up for the cutting of your acquisition account?

Admiral PAPP. No, sir. Within our operating funds we need to make sacrifices in other areas in order to be able to pay for the increased maintenance costs.

Mr. HUNTER. So let me ask you this, then. Why do you think that the Administration basically canceled the Coast Guard's acquisition program with this budget?

Admiral PAPP. Well, the entire program is not canceled. We are continuing; but, as I said, National Security Cutter is a big one.

Mr. HUNTER. I am being a little bit facetious.

Admiral PAPP. Right.

Mr. HUNTER. It is a 42-percent cut. That's a pretty big cut.

Admiral PAPP. I have no insight onto why that number was established. I gave my requirements. It's a negotiation process, and at the end of the day I am giving a top line that I have to live within, and hopefully my priorities are reflected within that. National Security Cutter is a priority, because we need to get those eight ships constructed.

Fast Response Cutter is another high priority, because our patrol boats are failing; but, given the room in the budget that was left over after fitting in the National Security Cutter and other priorities, we were limited to two Fast Response Cutters in that budget. Another one is our aircraft program. These are tough decisions. We completed ordering 18 of our AC–144 aircraft, our medium-range, fixed-wing aircraft. We are taking a pause on that.

Mr. HUNTER. Those Air Force C–27s are looking pretty good right now.

Admiral PAPP. Absolutely, yes, sir, and we are in negotiations to see what we can do, because that would save us a lot of upfront costs and I think provide us with a very capable aircraft into the

future. But with the way the language was written in the Defense Authorization Bill, there's a split of those aircraft between the Forest Service and the Coast Guard.

We are working with the Forest Service right now to see how we determine this, because, obviously, you have to have a certain number of aircraft to make it economically feasible to operate with your logistics program and training programs.

Mr. HUNTER. Last question. So this is just looking forward with this budget. Let's say that everything stays where it is. What are you going to have to cut back on in the coming years in order to move the money from operations to maintenance to take care of the older ships that you would have decommissioned upon getting newer ships? What is going to happen in the next year? In what way is your capability and your ability to reach out and touch throughout the oceans? How is it going to be limited?

Admiral PAPP. Well, sir, you mentioned in your opening statement the fact that there are personnel losses. We could probably quibble over the numbers, but just as importantly as maintaining and getting the new equipment is sustaining our workforce. Our uniform personnel, just shy of 42,000, are at the level the Coast Guard was in 1990.

During the 1990s, we got reduced down to 36,000 people in uniform and it was almost impossible for us to carry out our missions and do proper support for our training capabilities and everything else. It is nearly as high a priority for me as the new equipment to maintain that workforce, and we are doing everything we can to keep as many people as we can, because we depend upon our military and civilian workforce to work as a team to get the job done.

On the personnel side, I would have to use a term that was used by somebody else, that we are probably at the tipping point. I think we have whittled away enough on our personnel that now we're going to start eating into training programs. We are reducing the numbers of officers or cadets, potential officers coming into the Coast Guard Academy. We have reduced our input at Cape May to 1500 people this year.

As far as I know, that is the lowest we have ever brought into our training center at Cape May since World War II. And, commensurately, we have to reduce training staffs along the way as well. These have long-term impacts for us that would be difficult to recover from. Incrementally, we can make due, but as you accumulate them over the years as we have seen over the last couple of budget cycles with personnel, it will have a longstanding impact for us.

Mr. HUNTER. Thank you, Admiral. And, before I recognize the ranking member, I would like to throw one thing out there.

We would like to say that Congress did this, and we blamed this on sequester. And we would like to say that this fiscal environment that we find ourselves in, but from 2001 to 2006, the Coast Guard had some problems with its acquisitions program. It is questionable how much money just kind of went down the hole. You can say it is roughly $300 million just went away.

And I think this committee and your leadership and others are responsible for getting that out of the trenches, again, that acquisition system back onboard. So it is a lot of people's problem we find

ourselves right now, but it is not solely that of Congress. I just want to say that, and with that I recognize Ranking Member Mr. Garamendi.

Mr. GARAMENDI. Thank you, Chairman Hunter.

Admiral Papp, Chairman Hunter went through a series of questions about the acquisition programs. I am sure that he and I and the members of this committee will do whatever we can to try to restore as much money as possible to the Coast Guard overall account. It would be helpful to us—well, before I go there, I think it is unlikely that we are going to see restoration of the full authorization.

For example, in acquisition construction improvement, you are authorized at $1½ billion; you are down to $909 million right now. Assuming we have any success of restoring money for the Coast Guard from the President's budget increase, it would be helpful for us to know your priorities. If we were able to get $1 back, where would you spend it?

If we were able to get $100 million back, where would you spend it? So, if you could, share with us that information, probably not today, but in the near future so that our efforts can be targeted.

Admiral PAPP. Well, I would be happy to address at least a large portion of that, sir. First of all, last year when we sent up the Capital Improvement Plan, there was no National Security Cutter Number 7 in it for the 2014 budget; none for National Security Cutter Number 8 in a subsequent budget. So I am grateful for the fact that we now have the money for National Security Cutter Number 7 in the budget.

That was helped, quite frankly, last year by both the House and the Senate providing long lead money for Number 7. Getting long lead money in the construction of the National Security Cutter saves us money in the long run; gives the shipyard predictability, so they can plan out economically; and helps us in our negotiating position when we work towards the contract on the next cutter, after that, of course, the Fast Response Cutter.

The shipyard is set up to construct six or receive orders for six Fast Response Cutters a year. We only had money for two last year. We are grateful that Congress put money for four more, so that we are potentially able to order six in fiscal year 2013. But, as it stands now, I only have enough money left within our acquisition counts to offer up two.

The next dollars I would spend would be on the Fast Response Cutter, because ordering two per year, first of all, is below the minimum quantity. We'd have to renegotiate the contract, which ultimately ends up in a higher cost, building them at a slower rate and stretches out that program, probably, over the course of about 15 years at a much higher cost as our current patrol boat fleet is failing us rapidly and we are not getting the number of hours we need out of them. So, continuing construction on the National Security Cutter and the Fast Response Cutters are my next highest priorities.

Mr. GARAMENDI. Well, if you could assign dollar numbers to each of those programs so that, certainly, for me, and I suspect the chair also, would then have specific numbers to go to the Appropriations Committee and try to alter the President's budget.

So, that would be useful. And then just your ranking; start with your highest ranked number of dollars, and then all the way down to the lowest so that your full authorization is complete.

Admiral PAPP. Yes, sir. We will be happy to provide that for the record.

[The information follows:]

> The Coast Guard and Maritime Transportation Act of 2012 (P.L. 112–213) requires the submission of a Report containing the Coast Guard's Capital Investment Plan and a list of each unfunded priority for the Coast Guard. This product has been drafted and is with the Administration for review.

Mr. GARAMENDI. And I'm sure we will go to bat for that and see if we can make some progress and restore some of the cuts that are in the President's budget. Personnel on the other side of it also, if you would take a look at that, so that we have some sense of what might be possible, so that we know what we can work on.

I do have a couple of other questions. I am concerned about, Mr. Matsuda—excuse me. This would be for Mr. Cordero. I'll get my act together here in a moment. The Title XI loan program is not funded. So what is your mission? How do you carry out your mission of providing support for the maritime industry? Title XI is not covered, so what are we doing here?

Mr. MATSUDA. I would be happy to answer that, sir.

Currently, the Maritime Administration possesses $38 million in carryover funding from previous years for the Title XI program. So the Administration did request funding to continue the program, continue to monitor the portfolio $2 billion worth of shipbuilding projects that we are overseeing. We will continue to process applications as they come in.

Mr. GARAMENDI. So you have money from previous appropriations that have not yet been encumbered.

Mr. MATSUDA. We do. We have enough to fund $420 million worth of shipbuilding projects. I will point out that there are other shipbuilding incentive programs that contain up to close to $3 billion worth of tax-protected funds that could be used by the private sector to build ships in the U.S.

Mr. GARAMENDI. Thank you. The food program, 480 program, the chairman mentioned, this is his concern. I share that concern. I also come at this from a different perspective, and that is the availability of food in those parts of the world where there is hunger. And the proposal by the Administration is essentially one of purchasing food regionally rather than using American commodities and on American ships to be delivered to those areas.

I don't think it works. I've been at this for 40 years, and I don't think it works. I am trying to figure out where the regional food purchasing is available. Presumably, there is a shortage of food in that area, so what is the region. Do you have any idea when they say "region" what is a region?

Mr. MATSUDA. Well, I'm probably not in the best position to get into the specifics of the proposal. I can tell you that there will be an impact to the maritime industry, and we do include funding in

the budget proposal to help address any potential loss of ships, the U.S. flag or mariners to the mariner pool.

Mr. GARAMENDI. Yeah. But the proposal puts that entire industry on a downhill slope to the point where it won't exist, because the program doesn't exist upon which it is based.

Mr. MATSUDA. Well, the program in 2014 would. The proposal would cut it to 55 percent of the current funding level, so there would be some U.S.-sourced food as well as flexibility for other ways to implement those programs.

Mr. GARAMENDI. And then beyond? And the succeeding years?

Mr. MATSUDA. Well, the current proposal addresses fiscal year 2014.

Mr. GARAMENDI. Well, it is kind of like a short-term unemployment insurance program with no job in the future.

Mr. MATSUDA. Well, I know that my colleagues in the Administration are certainly anxious to talk more about the specifics, especially with those that administer the food aid programs, to convey the details about the local purchasing part of the program.

Mr. GARAMENDI. So, for me, there are two parts to this, two problems that have been presented by the Administration. First, the availability of food within a region where there is hunger and the impact that this might have in that area, or the unavailability of that food; and, secondly, the impact within the United States, both in agriculture as well as in shipping. These are questions that I have not yet received answers to from the Administration, and I await those answers.

Mr. Chairman, there are about a thousand other questions, but I will yield back at this point.

Mr. HUNTER. Thank the gentleman.

Mr. LoBiondo is recognized.

Mr. LOBIONDO. Thank you, Mr. Chairman.

I want to join in with the chorus and express my strong opposition to the proposed cuts in the President's budget for the Coast Guard. And, as you mentioned, Mr. Chairman, a 43-percent cut in Coast Guard acquisition account, it is just wrong. It is just absolutely wrong. I mean we haven't learned our lessons in the past, and can blame this on sequestration, if you want. But this is the second year in a row the President is separated from the reality of what the Coast Guard is expected to do.

The budget also includes heavy cuts in training. Admiral Papp, you talked about this for a minute. The only Coast Guard recruit training center in the Nation happens to be in my district, and I am pretty proud of it. The work that's being done there, it's scaled back to 1500 a year. The intangible is what it is going to do to morale. The intangible is what it is going to do to our officer corps. The intangible is what it is going to do to the ranks of the Coast Guard.

The immediate is what these cuts are going to mean to satisfy the needs of the Coast Guard, but it is just wrong. And, as noted out by the chairman and ranking member, the Administration's decision to restructure the Food for Peace Program, I think is, again, absolutely wrong. These are American jobs that will be lost. This is American capacity that will be lost; and, again, it is a separation from the reality of a program that really works.

I have a couple questions, Administrator Matsuda. The fiscal year 2009 NDAA Bill contained language authorizing MarAd to draft long-sought regulations that would provide the agency with enforcement authority over cargo preference laws, including fines and debarment. The bill was signed into law in 2008, yet 4½ years later, despite repeated promptings, urgings, cajolings, these regulations still have not been promulgated.

With a pool of available preference cargoes in rapid decline for a number of various reasons, cargo preference laws are more important than ever and will help ensure the U.S.-flagged industry as being utilized as required by law. What is the status of this and what's been the holdup, and what can we expect?

Mr. MATSUDA. Well, we continue to work within the Administration to try and get that rulemaking into place. In the meantime, we try to address the problem of working with the specific agencies that have either historically or had reported problems in getting compliance with the cargo preference laws. But, in any event, we are fully pursuing both the rulemaking and any action we can take to try and gain full compliance. In many cases, we found it is simply a matter of education, that the staff of other agencies just either were unfamiliar with the law or the folks making the sourcing decisions.

Mr. LOBIONDO. Is the rulemaking at OMB or MarAd?

Mr. MATSUDA. Currently, we are developing it.

Mr. LOBIONDO. Well, you know, I have got to say, Mr. Chairman, I don't know. You know. Years and years, and we are at a critical juncture now. I mean, at a certain point, if you are on this side of the table—you are anybody in the real world—you say, the bureaucracy is wagging the dog here. I mean any prospect 2 months, 6 months, 6 years?

Mr. MATSUDA. I couldn't say. I can tell you it is a top priority for the Maritime Administration.

Mr. LOBIONDO. Oh. With all due respect, Mr. Chairman, I think that is an unacceptable answer.

For the Commandant, my question is the Air Force recently made available 21, brand new, C–27 J cargo transport planes as excess defense articles. Could these aircraft fill any near or long-term capacity shortfalls in the Coast Guard's ability for airlift? And, if so, have you informed the Secretary of Defense of the Coast Guard's interest in receiving these aircraft?

Admiral PAPP. Yes, sir. They will definitely fill a need. They will be a great replacement for additional AC–144s that we would have to buy brand new; and, frankly, they are such a capable aircraft that we can probably replace some of our C–130s, the older C–130H models, with C–27s.

I have not spoken directly to the Secretary of Defense, but I have spoken to the Chief of Staff of the Air Force and the Secretary of the Air Force. They are well aware of our desire for those aircraft and support that; but the current legislation requires a split of those aircraft between us and the Forest Service. 14 is the minimum number that would make economic sense, because we have to outfit multiple air stations. We need at least 14 to do multiple air stations and have some for our product line in maintenance at Elizabeth City.

We would love to get all 21 of those aircraft, because that would be not only a superb aircraft, but would allow us to do more air stations in outfitting them. So we will continue to work with them.

Mr. LOBIONDO. Thank you.

And that's it, Mr. Chairman, except I hope that we can talk further with you and any interested members of the subcommittee of how almost 5 years later we can't get these rules promulgated. I think that is just inexcusable.

I yield back.

Mr. HUNTER. I thank the former chairman of the subcommittee. Ms. Hahn is recognized for 5 minutes.

Ms. HAHN. Thank you, Mr. Chairman, Ranking Member Garamendi for convening this very important hearing today focused on the President's budget.

I want to thank all the distinguished guests for appearing before us today, Administrator Matsuda, and again my thanks to you for graciously coming out to Los Angeles/Long Beach, having a meeting in my office with the stakeholders at the port so that they could share with you some of their concerns about the future of that port complex. And, of course, I always want to say hello to my friend, Hon. Mario Cordero, and congratulate you on your appointment as chairman of the Federal Maritime Commission.

And, Admiral Papp, thanks again for—you know—always remembering our Senior Chief Petty Officer Horne. Every time we get together we should remember him. And if there was any silver lining to his tragic death, it was maybe Americans began to really see what the Coast Guard actually does day in and day out and the danger that they experience. You have for so long done your jobs with strength and dignity, but sometimes quietly, just doing what you're supposed to do. But I think his death brought it to light, really, the dangers, particularly since 9/11, what we are facing out there.

So I represent the Port of Los Angeles and next door in Long Beach we represent probably the largest port complex. Well, we do in the country, and really in the world. And so one of my priorities is, of course, to keep that complex running safely and efficiently, and without disruption. So I do not know if I am misinformed, but I was told that we actually have no plan moving forward from either the TSA or the Coast Guard to prepare for the nearly 60,000 port workers who will need to renew their TWIC badges this year.

I met last week with the director of security for the Port of Long Beach, and he stated that he is concerned that this event, the renewal of these badges, has the potential to completely shut down the entire Port complex. Longshoremen would not be able to load goods onto the ships; truckers would not be able to access the port to ship their goods, and the port responsible for moving over 40 percent of our Nation's goods could be shut down.

And I know there is a grace period for expiring TWIC cards, which I think is about 37 days, which is not nearly long enough to accommodate all of the workers at the port the size of the L.A. and Long Beach, and I know that TSA is responsible for implementing the program. But the Coast Guard has told me that they're responsible for enforcing the program. So my question to you is what does the Coast Guard expect to do when possibly

60,000 port workers try to access the port with expired TWIC cards this year?

Admiral PAPP. Ma'am, you have caught me cold on that one. Frankly, I am not aware of that problem, and TWIC is of significant interest to me as might be expected.

Wherever I travel and I run into a transportation worker, I ask them, and I ask them about the process and how easy or difficult it is to get it. I was in the Rhode Island Airport just last Saturday night coming back here, and I was listening to a couple of merchant mariners talking about how easy it was for them to get their TWIC card the last time. So, all the feedback I've had in terms of getting the cards has been positive. I am not aware of this particular situation. I will find out about it immediately; and, if you don't mind, will provide you the information.

Ms. HAHN. Good. Great. And, I don't know, David or Mario, if you are aware of this potential problem of all the cards or many of the cards expiring at the same time and the ability for us to actually process that. And, again, what do we do when they show up and they've got expired cards? What are we going to do?

And, Admiral Papp, I appreciate you kind of not being aware about this. I wasn't either until it was brought to my attention last week. But I thought since I had you here and we were talking about the budget, it might be a good opportunity to tell you that I think it is a problem, and I think we better figure out what we are going to do.

Admiral PAPP. Yes, ma'am. One thing though is if they have a TWIC and if we are aware of this problem, a solution can be found, because part of the beauty of TWIC is having one, identifiable card across the entire industry that we can use instead of multiple ones. So it makes it much easier if there is a problem to come up with a unified position that we can take to either accept those cards, and know that even though the date might be expired that we continue to use it for some certain period of time until it is resolved. But, once again, I don't have the detail. So we'll have to get back to you.

[The information follows:]

(1) TSA is responsible for processing TWIC applications, vetting the applicants, issuing the cards, and associated administrative functions.

The Coast Guard and TSA encourage TWIC holders to begin their TWIC renewal or application for an Extended Expiration Date (EED) TWIC from up to 4 months prior to the expiration of their current TWIC to ensure timely processing.

(2) Coast Guard regulations grant an individual up to 7 days of unescorted access without a TWIC while they await delivery of a replacement credential. To minimize business disruptions, the Coast Guard also developed a policy which allows owner/operators of MTSA regulated vessels, facilities, and OCS facilities to extend this provision an additional 30 days (37 days total), for workers who have applied for a TWIC renewal prior to its expiration,

> and through no fault of their own, are not able to take possession of their TWIC due to a significant delay in the application, production, issuance, and/or activation process.
>
> The Coast Guard will continue to consider and evaluate the impact and effectiveness of this policy to meet challenges while ensuring a secure and reliable TWIC program. To date the Coast Guard is not aware of any facility that has had to shut down operations due to workers being unable to obtain replacement TWICs.

Ms. HAHN. Great. Well, when you come up with a plan, let me know.

Admiral PAPP. Yes, ma'am.

Ms. HAHN. Thank you. Thank you, Mr. Chairman.

Mr. HUNTER. Thank the gentlelady, and just some information I didn't know this either. TSA has—you can get a 3-year extension while you are waiting for the readers for the badges right now. They are trying to do that. If there is no reader and you don't have the badge for the reader, you can get an extension.

So, now, we all know that, at least we can go from there. With that, Mr. Southerland is recognized for 5 minutes.

Mr. SOUTHERLAND. Thank you, Mr. Chairman.

I would like to thank each of you for being here today. As I listen to the discussion regarding the budget, I try to keep everything in context. And I know it is clear you are performing a constitutional requirement of Government to provide for the security. You do that. You do that well and I am bothered, as other Members have expressed today.

I am bothered by the disproportionate cuts that you seem to take regarding the overall budget, but also in acquisition, the 42. As a business owner, 42 percent is I think unreasonable. I know in the last year we have heard a lot of people say that a 1.3-percent cut to food stamps is cruel, and when food stamps have increased 50 percent in the last 4 years. The 2-percent sequestration, we have heard that characterized; but, a 42-percent cut, I don't know anyone who thinks that that is—well, no one here today thinks that is proper.

I couldn't help, Admiral, you had mentioned over the last few moments, you mentioned forestry several times. I happened to sit in a forestry hearing last week, because I serve on the Natural Resources Committee. You can understand. When I hear that 42 percent cut in acquisition, you can imagine what is going through my mind when I recall that hearing last week when the Forestry Service came to us and asked for in the President's budget a 58-percent increase in land acquisition.

So when we are talking about really understanding the budget in its entirety, when we see that part of the President's budget is asking for this massive increase to buy more land, they already own 12 million acres in the United States; and, yet, you have a constitutional responsibility to provide for the security of this country. You can imagine my bewilderment at the consistency here.

How do you come to that conclusion? I don't understand that. And so I am bothered that we are looking at such—really, draconian is the word that seems to be used up here oftentimes. But

when you are talking about a 42-percent cut in acquisition for a constitutionally mandated program, and then we are looking at a 58-percent increase in land that we can't even manage now, and we are asking for more. And to whom much is given, much is expected. I am just curious.

I mean, in any of your careers have you known a 42-percent cut in a department? Mr. Matsuda?

Mr. MATSUDA. You know. I have been in Washington about a decade or more. I have seen quite a bit. You know.

Mr. SOUTHERLAND. I know that is an unfair question and I hate that I even have to ask it. I hate that I am even put in the position to have to ask you that, but that just seems to me to be an outlier. It just seems to be—you know. And, look. I am a fiscal hawk. OK? But I do believe as a business owner in gradual phasing in and phasing out, and this just seems to be off the chart. And I can't help but focus on it.

Again, I don't want to put any of you in a bad situation, but, so why don't we just leave this as a comment and not a question. I think you all, probably all four, would like that.

Let me ask you a quick question, Mr. Matsuda, on the small shipyards. In your experience, since you've been here, has this program over the years had job producing effects to our domestic shipyards? And if someone asked you that question before, I apologize. I may not have heard it.

Mr. MATSUDA. This is a good program. We have administered the $9.5 million that was provided by Congress for this year. It is currently out there. We are receiving applications for this round, but the past several rounds, including the Recovery Act amount of $98 million, we continue to administer all of these grants around the country. They are to help modernize our shipyards with new equipment, with training programs for the workers; and what I have seen is that they tend to have longer term impacts where there are really investments in the long-term competitiveness of our small shipyards.

Mr. SOUTHERLAND. OK. So that is obviously good for jobs and makes us far more competitive as we compete in this global market.

Mr. MATSUDA. Yes.

Mr. SOUTHERLAND. Great. Thank you.

My time has expired, Mr. Chairman. I yield back.

Mr. HUNTER. Thank the gentleman.

Mr. Larsen is recognized.

Mr. LARSEN. Thank you, Mr. Chairman.

Mr. Matsuda, the answer to the last question is yes, especially in places like my district. But with regard to the Jones Act, the committee enacted a part of the Coast Guard Authorization Bill, a provision designed to encourage the use of U.S. flight vessels prior to issuance of administrative waivers of the Jones Act.

First, have any Jones Act waivers been requested or approved since the enactment of the new law, and are any being contemplated by the Administration?

Mr. MATSUDA. Sir, as you know, the Customs and Border Protection is the agency that administers the waivers of the Jones Act at this time. I am not aware of anybody seeking any waivers. I do

know that a waiver was sought after Superstorm Sandy hit in order to allow additional fuel shipments to be brought in to the Northeast, and we worked with the U.S.-flag industry to try to find available vessels, first and foremost, which is always our priority. And, secondly, when a waiver was requested and issued, we worked with the Customs and Border Protection to include a reporting requirement so that we could see exactly which foreign-flag ships were carrying what, when and where, and that made a big difference in being able to administer those waivers and enforce them, and fully assess the need for any future ones.

Mr. LARSEN. Mr. Cordero, can you explain a little better what FMC is doing independently of other Federal agencies to increase exports in the U.S.?

Mr. CORDERO. Thank you for your question, Congressman. As I indicated in my opening statement, that is a priority. We are working with other agencies to work on that question. As an example, with USDA, I mentioned the OSCAR program with regard to our in-house agency issues.

With regard to that, we are trying to make the whole export process easier when it comes to the bureaucracy, as an example, the paperwork related to negotiated rate agreements that we just passed; and, also address specifically the question of container availability. As you know, the FMC, a few years back, addressed that issue. And as I mentioned Commissioner Rebecca Dye's fact-finding study in effect was relevant to the availability issue, which of course is a big question when it relates to our exports and to make sure that we have an efficient export transportation process.

Mr. LARSEN. All right. Thanks.

Admiral Papp, last year the Coast Guard requested $8 million for survey design activities for a new icebreaking fleet. This year they request $2 million. Can you give me a little insight into why there is less money being requested this year? And would you characterize that as a step back from the commitment to developing icebreakers?

Admiral PAPP. No, sir. It signals increased commitment. The fact of the matter is we tried to exercise some good stewardship as we were going through the protracted, continued resolution; and, we were not able to execute on a new project. Of course, we are halfway into the year by the time we got an approved budget. So, looking at carrying over some of that $8 million in the 2013 budget into 2014, and combined with the $2 million allows us to continue our work.

I don't think it will result in much of a setback, but we are formally committed to getting this new icebreaker built; and, as I said, I would have hoped that the CIP would have been up here so that we could look at projections. But as we go into the out years, there will be sequential funding to take us through, probably, a 10-year period until we have that new icebreaker produced.

Mr. LARSEN. Right. We will look at the CIP when it gets up here then on that question.

With regards to the business case analysis that we had asked for in the Authorization Bill regarding reactivating the *Polar Sea*, where are you and is the Coast Guard engaged with shipbuilders to determine what the cost for reactivation would be?

Admiral PAPP. I have not received a report on that recently, but I am anxious to get that report. If you will, sir, I can provide response for the record. We are continuing along, working on that study, and anxious to get that completed. And I believe we have to work with industry, because they give us the estimates. A bigger shipyard, in particular, has just worked on *Polar Star* and got her put back into shape. They have got good experience with it, and I will give you a better projection when I have a chance to check up on it.

Mr. LARSEN. Well, if you would take that, for the record, I would appreciate it. I am eager for the report. In about 2 months I will be anxious for it.

Admiral PAPP. Yes, sir.

[The information follows:]

> The Coast Guard and Maritime Transportation Act of 2012 (P.L. 112–213) requires the submission of a Report containing the CGC *Polar Sea* Business Case Analysis no later than September 9, 2013. The Coast Guard is on schedule to meet this congressionally set deadline.

Mr. LARSEN. And then, finally, the OPC, continued development of the OPC is in the budget. I see $25 million for the Offshore Patrol Cutter?

Admiral PAPP. Yes, sir. And that should not be interpreted as diminishing in commitment either. We just, once again, looking at how do we get the most out of our acquisition money coming into this year. We looked at unspent accounts that we can carry over and continue the process going.

I am very pleased. I don't know for sure how many responses we got, because I am not supposed to as we are in the acquisition process. But I am told it is somewhere between 8 and 12, which is a robust response for our request for proposal. We will have those down-selected to the final three best candidates by the end of this year; and, then, once we have the detailed designs on all three of those, we will make our down-selection in fiscal year 2015 and then be off to the races, hopefully, with counted on funding to get that ship construction.

Mr. LARSEN. Just to clarify, that will be end of calendar year or end of fiscal year?

Admiral PAPP. Fiscal year.

Mr. LARSEN. Fiscal year.

Admiral PAPP. Yes, sir.

Mr. LARSEN. Thank you, Mr. Chairman.

Mr. HUNTER. The gentleman, a former chairman of the full committee is now recognized, Mr. Young.

Mr. YOUNG. Thank you, Mr. Chairman.

First, I would like to remind everybody it is the President's budget, but we write the budget, and I want everybody to remember that. And this cut is dramatic and I just want to know that I don't support it.

Mr. Cordero, according to published reports, morale at the FMC has fallen dramatically. This is your second week as the chairman. You may not know it, but what change will you make at the Com-

mission headquarters to address the concerns of employees at the Commission to make them feel supported by your office?

Mr. CORDERO. Thank you, Congressman. I appreciate your question.

First and foremost, that is a high priority for us. And to answer your question in terms of specific actions taken, just last week we had an all-hands meeting at the agency. And I communicated to the personnel that this question is a priority for the Commission.

Going forward, we do have a plan of action to address that issue. I will say, some employees feel that they are not empowered, they are not valued. Here, I am referring to the employees' survey, but I can assure you and I can assure this committee this is a priority for the Commission, and we are addressing the issue.

Mr. YOUNG. Good answer, and I appreciate it. And keep us informed of progress.

Mr. CORDERO. Thank you, Congressman, and I appreciate the question.

Mr. YOUNG. Admiral, I understand this morning you told the Appropriations Committee that you would reconsider the requirement for the Offshore Patrol Cutter and reopen the design competition. If that is correct, how long will this delay construction of much of the needed cutters? I mean what will happen?

Admiral PAPP. Sir, that wasn't quite an accurate report. I said that we remain committed to the Offshore Patrol Cutter, and I was asked if the ability to operate in sea state 5 was hard and fast. And I said, "The highest requirement for the Offshore Patrol Cutter is affordability." And, as we evaluate the candidate vessels, we may need to go back and look at some of the requirements. I am hopeful that we don't have to.

I think we hammered out these requirements, in fact reduced some of them when I came to this Commandant, because I want to make sure this ship is affordable. And I have reported to this subcommittee and other subcommittees that we are intent on making this an affordable ship for the Coast Guard.

If we had opened it up to revise the seakeeping capability, there probably would be a delay, but I have no intent to open that up at this point. We have to evaluate all the candidates that we have, and I am hopeful that we will find three candidates that look affordable, because we are going to need to operate this ship in Alaska, and it is going to need to be able to launch and recover boats and aircraft while operating in the Bering Sea.

Mr. YOUNG. Speaking of affordability, when we built the three icebreakers, I found out—and you can correct me if not—a lot of times when something would break on the vessel because of the requirement of buying the cheapest product, sometimes, you have to buy inferior product to repair something in the engine room or something like that. That is correct?

Admiral PAPP. I have no knowledge on that.

Mr. YOUNG. Could you find out this, because I understood that one of the reasons those ships have been such a pain in the neck—and they were good ships when they were built, but things wore out. When you put onto purchase, a procurement program, you are required, I think by law, to buy the cheapest product that is offered

to fill the spot. That's in case you've got a bastardized ship. So you check that out for me and get back to me.

Admiral PAPP. Yes, sir. We will provide that to you for the record.

[The information follows:]

> The Polar Class icebreakers are unique, highly complex vessels that operate in the most arduous maritime environment in the world. They are designed to continuously transit through ice up to 6 feet thick and to break through up to 21 feet of ice by backing and ramming. The Polar Class icebreakers are inherently maintenance-intensive due to their design and mission profile; not due to the purchase of inferior parts and services.
>
> All parts and services for Polar Class icebreakers have been purchased in accordance with the requirements of the Federal Acquisition Regulations. These regulations do not limit contract awards solely to the lowest bidder, but allow for a best value determination.
>
> Improvements to reliability, both large and small, have been pursued throughout the 30-year design service lives of these vessels, culminating in the recent completion of the reactivation of USCGC *Polar Star* (WAGB 10). This 3-year project included numerous major system upgrades that specifically targeted low reliability/high-cost-to-repair systems for renewal.
>
> The Coast Guard's challenge is to effectively maintain these aged vessels beyond their design service lives when the original vendors for many shipboard systems have long been out of business. In some cases, the existing technical documentation may not allow a new vendor to reverse engineer obsolete components. When reverse engineering is possible, there are long lead times and high production costs associated with these custom fabrication projects.

Mr. YOUNG. Forest Service, I happen to agree with the gentleman, Mr. Southerland. I will do everything in my power to make sure you get those airplanes.

Mr. Chairman, I want you to remember this is the right way to go. The Forest Service is a lousy agency right now. They are not doing anything but playing with themselves. They don't do anything, and they want 12½ million acres of what? And I'm saying this is wrong. You need these. So we can get them to you.

And I think we ought to pressure the appropriate committees and Appropriations Committee to make sure that the Coast Guard gets these aircraft instead of the Forest Service. They are letting their timber burn. They have burned 9,600,000 acres of trees last year, and if you add that up, it's over 900 million barrels of oil, because there is 100 barrels of volatility on each acre. And they say they are managing.

They are not managing; and, trying to put out fires, where if they would let us log and cut it, it would be all right and get it done. But I just wanted you to know I feel pretty strongly about

it. Are you up to speed as far as the Coast Guard reimbursement because of the rise in spill? Are you pretty much working with the BP or whoever is involved here?

Admiral PAPP. For the *Deepwater Horizon*?

Mr. YOUNG. Yes.

Admiral PAPP. Yes, sir. We have been involved with the Justice Department all along and are participating in that.

Mr. YOUNG. And are you receiving money?

Admiral PAPP. Yes, sir. Money. There has been reimbursement for our services along the way, and also the Oil Spill Liability Trust Fund.

Mr. YOUNG. But, in your case, you use it for the Coast Guard, I hope.

Admiral PAPP. There has been no direct reimbursement to us. I believe everything that is reimbursed goes into the general treasury.

Mr. YOUNG. Well, that is our fault, Mr. Chairman. I mean you spend it. It takes it out of your budget. It takes away from your other duties. You ought to be able to get reimbursed. So we will talk about that later. Thank you. I yield back.

Mr. HUNTER. I thank the gentleman. Mr. Cummings is recognized.

Mr. CUMMINGS. I agree with Chairman Young. We need to figure out a way, Admiral, to deal with that, what you just talked about, this whole idea, *Deepwater Horizon* and reimbursement money. I take it that is what you are talking about.

Admiral PAPP. Yes, sir.

Mr. CUMMINGS. The question you just answered?

Admiral PAPP. Yes, sir.

Mr. CUMMINGS. OK. First, let me say I oppose the cuts proposed to the Coast Guard's budget and the President's request. The request would cut the Coast Guard's acquisitions budget by more than $600 million, cut the operating budget by more than $56 million, and reduce the end strength by hundreds of servicemembers.

The terrible events in Boston, yesterday, demonstrate that our homeland remains at risk, and yet we are confronted with a budget that would result in real deductions in the Coast Guard's capabilities. This budget demonstrates as vividly as possible how senseless sequestration is and how its effects in the form of loss, even capabilities, and delayed acquisitions will ripple for years to come.

We cannot continue to stretch the Coast Guard and assume that it will still be able to complete all of the missions we have assigned to it, and I deeply appreciate the candor and leadership of Admiral Papp that you have shown in identifying the Service's challenges. You know I have tremendous amount of respect for you. We have worked closely together to bring the Coast Guard to where it's come to after having some real problems. And I don't want to see us lose our progress.

Now, it is up to the Congress to listen to what we are being told. If we continue to cut the Coast Guard's budget, we need to identify those missions it will no longer be expected to perform, including those areas it will no longer be expected to guard, those boats will no longer be expected to inspect, and those patrols it will no longer be able to conduct. That's real.

Ladies and gentlemen, when you have cuts there are consequences. I am also deeply concerned by measures proposed in the Administration's budget that would have devastating consequences for our Merchant Marine. In 1975 we had 857 ocean-going ships under the United States flag, according to a 2009 study produced by IHS global insight for the U.S. Maritime Administration. Today, there are approximately 100 ocean-going vessels in the U.S. flag, and they carry barely 2 percent of our commercial cargoes.

Ladies and gentlemen, we are not just slipping. We have slipped. It is ridiculous the downward spiral that we have in that area. Sadly, we haven't even developed policies that will reverse this decline. Recent policy developments threaten only to drive more vessels away from our flag. As we are all aware, Section 100124 are MAP–21 legislation. A provision slipped into the Highway Bill in the dead of night, reduce the amount of U.S. food aid required to be carried on U.S.-flag ships from 75 percent to just 50 percent. Something is absolutely wrong with that picture, Mr. Matsuda.

In the last Congress I introduced legislation to reverse Section 100124. I intend to introduce that legislation again with Congressman Scott Rigell. And I thank my colleagues on the subcommittee for their support.

Now, the President's budget would significantly change the food program, the Food for Peace Program, while we are still examining specifics of the proposal, to shift funds away from Public Law 480 and to allow some measure of available funding to purchase food in recipient nations or even to provide cash transfers, the budget also provides $25 million per year for "additional targeted operating subsidies for militarily used vessels," and states that "Worker adjustment would be available for the remaining eligible mariners."

Now, Mr. Matsuda, I must tell you I am concerned about your performance, and there are a lot of people that are concerned about your performance. And I don't usually make these kinds of statements, but if they don't tell you, I am telling you. And, so, I want to know why does the Administration believe it would be sufficient to subsidize seafarers to allow them to maintain the unlimited deep ocean credentials, if there is no cargo or ship for them to sail on?

And then I want you to tell us what you are doing with regard to what our last reauthorization said, that just would be fostering, promoting and developing the merchant and maritime ministry in the United States. I want to know what you are doing. I want to know what you are doing to make that happen, because, I am telling you, I am getting very, very frustrated.

Mr. Chairman, if he could just answer my question, I will yield back.

Mr. HUNTER. You have all the time in the World, Mr. Cummings.

Mr. MATSUDA. Thank you, Congressman.

Well, first, let me say that the U.S. Merchant Marine has throughout history and currently been able and willing to carry whatever, whenever, a cargo's needed. This proposal by the Administration is not about—the intent was not to cut cargo opportunities. I think that is a second order effect. Their primary goal is to reform the way that the food aid programs are administered, and we understand there will be an impact to the U.S. Merchant Marine.

There is funding, and I would say this is the first time new funding for a new incentive program has been proposed in a very long time for the U.S. Merchant Marine. We recognize that we have to do whatever we can to try to retain those vessels and those crews as mariners are extremely valuable, both to the commercial industry and to the U.S. when we need them to crew up, reserve Government-owned vessels.

Mr. CUMMINGS. One last question, Mr. Chairman, just one question.

And I will get to some substance, but you need to answer this one. You talked about, a few minutes ago, after Sandy. You said there were waiver requests, and I think you said you all monitored the ships to see who was available and all that kind of thing. What success did you have making sure that oil was carried on U.S. ships? Tell me about the success, because that is your job.

Mr. MATSUDA. Absolutely, sir. I can tell you that since I have been here, we have completely——

Mr. CUMMINGS. You were not talking about that, the one that you talked about.

Mr. MATSUDA. That's right.

Mr. CUMMINGS. OK.

Mr. MATSUDA. I am talking about the way that the Jones Act has been administered by this administration. In previous administrations, when a President signs a waiver of the Jones Act, it has been either so broad or with no transparency that we heard reports that after Hurricane Katrina there were vessels on the west coast, foreign flag, carrying cargoes between U.S. ports.

What we have attempted to do is bring more transparency to the process to make sure if a waiver is administered, it is done in a way so that the public can see what is going on, who is carrying what. But, our primary goal, and especially in the aftermath of Superstorm Sandy, was to find all available vessels to bring fuel into the Northeast to prevent——

Mr. CUMMINGS. How many? Just tell me. I am begging you. How many vessels carried the oil, U.S.-flag vessels? And how many waivers were given?

Mr. MATSUDA. Every available U.S. flag——

Mr. CUMMINGS. No. You are not answering my question. You should know that. You know that that is a priority for many of us in Congress. Please answer my question. How many vessels?

Mr. MATSUDA. I am answering it, sir.

Mr. CUMMINGS. Yes. Was it one? Two? Three? And how many waivers? One? Two? Three? Give me some numbers, and then I am finished, Mr. Chairman.

Mr. MATSUDA. It was every available U.S.-flag vessel and then 11 additional foreign-flag vessels brought fuel into the Northeast in the aftermath of Hurricane Sandy.

Mr. HUNTER. I thank the gentleman for his questions.

I have got a couple of questions to close with here, Administrator Matsuda. I am sure that there was analyses done when you were arguing against changing the Food for Peace Program. Right? So when you did your analysis on that, and MarAd did its analysis on that, how many international U.S.-flag ships did you figure we would lose by losing the Food for Peace Program?

Mr. MATSUDA. Well, the challenge in developing policy proposals, sometimes, you don't always have the information you need in front of you. But we know that there are 50 vessels that carry some food aid currently in the last year for which we have data. Twenty of those are a part of the Maritime Security Program, and an additional 30 carried some food in to some extent.

We believe that is the pool of U.S.-flag vessels that could be at risk. Now, keep in mind that 55 percent of the funds would still be proposed in fiscal year 2014 for U.S.-based food aid. So these are funds that would still continue to see U.S.-sourced food aid on U.S.-flag ships subject to the cargo preference rule.

Mr. HUNTER. But there is $25 million set aside and there is $186 million in the NMSP for 60 ships, roughly. Right? And there is $20 million for the remaining 30 that are Food for Peace ships that are not in the MSP, those 20. Right? So that leaves about 30 that would be affected purely by Food for Peace. I think you have about $25 million associated with them in the budget. Right?

Mr. MATSUDA. Well, the $25 million proposal is something that we feel we do need dialogue with the industry to ensure that we offer incentives that will continue to attract and retain, as much as possible, as much militarily useful vessels and U.S. mariners as possible.

Mr. HUNTER. How many ships is that, roughly, based on your analysis? How many ships out of that 30 will $25 million keep you?

Mr. MATSUDA. It really depends on the type of incentive. I would say for comparison purposes, the Maritime Security Program, a portion is currently $3.1 million per vessel. So that would be about eight vessels; however, that does rely upon available cargoes to ensure that these vessels can stay commercially viable.

Mr. HUNTER. So, I think you realize from the committee and the feedback that we are going to try to save the Food for Peace Program for basic industrial capability and capacity for our shipbuilders, our operators, our mariners and industry in general.

So, let us move on. Last thing, Title XI. I think Ranking Member Garamendi asked about it, and you said that there is plenty of money there, right now. How many Title XI loans has the Administration given out, let's say, last year?

Mr. MATSUDA. In the past year?

Mr. HUNTER. Yeah.

Mr. MATSUDA. I am not sure I have that in front of me. I do know that in all over a half billion dollars' worth of projects have been approved in the previous 4 years.

Mr. HUNTER. So, 4 years, $500 million. So it is a magnitude of 10, roughly. Right? You get 10 times the amount in loan guarantees? What is the number you use as your multiplier?

Mr. MATSUDA. Well, it is a pretty complex formula; somewhere between 5 and 20, I think. Is that fair?

Mr. HUNTER. OK. 5 and 20, so there is $38 million there now. Right? This is your calculation that I am reading, so there is $38 million in Title XI loan subsidies. That equals $420 million in available loan guarantees. So I just did a factor of 10. Is that OK to do?

Mr. MATSUDA. Yeah. That's fair.

Mr. HUNTER. OK. So let's say it is 10. Right? So if you wanted about a billion dollars, which is what we think it would be if you had a billion dollars' worth of loan guarantees to really kick-start the industry, that would mean having about $70 million added to that $38 million that's in there now. That would give you about a billion dollars in loan guarantees. Is that right?

Mr. MATSUDA. I believe so.

Mr. HUNTER. So based on your analysis, what do you think it has to be to really kick-start the commercial industry?

Mr. MATSUDA. Well, the Title XI program, it simply helps cover the cost of capital. There still has to be a market for these new ships to be built in. We have heard from some members of parts of the industry that they are interested in availing themselves of the program, and we have seen some Jones Act vessels start to commence design and construction.

So we do anticipate some interest in the program, but again it's a capital program, and we can only incentivize so much. But we try to make sure we can use every available dollar to build as many vessels in U.S. yards as we can. That's the real purpose.

Mr. HUNTER. You know. To get efficiencies and scale, and in building you have to do more than one. And if you have a $400 million ship or a $200 million ship, and you only have a billion dollars available, that means that for a $200 million ship, you can build five. Right. You can get a loan for five.

Mr. MATSUDA. True. There are smaller vessels that are built in U.S. yards where they can build that many in scale, but we have seen as far as orders come in for the larger vessels, they come in in ones and twos.

Mr. HUNTER. With that, let me thank the panel for your time, for your service to your Nation. And the committee is adjourned. The hearing is adjourned.

[Whereupon, at 3:57 p.m., the subcommittee was adjourned.]

Rep. John Garamendi
Opening Statement
House Subcommittee on Coast Guard and Maritime Transportation Hearing

"President's Fiscal Year 2014 Budget Request for Coast Guard and Maritime Transportation Programs"

April 16, 2013

Mr. Chairman, this afternoon's hearing is important so I will be brief in my remarks to allow us to move onto our panel of witnesses.

In reflecting on the Fiscal Year 2014 budget requests for the United States Coast Guard, the Maritime Administration, and the Federal Maritime Commission, a passage from Rear Admiral Alfred Thayer Mahan in 1890 came to mind concerning the general question of the influence of government upon the sea career of its people. Thayer wrote:

"The government by its policy can favor the natural growth of a people's industries and its tendencies to seek adventure and gain by way of the sea; or it can try to develop such industries and such sea-going bent, when they do not naturally exist; or, on the other hand, the government may, by mistaken action check and fetter the progress which the people left to themselves would make."

The global reach and dominance of the U.S. economy have historically been linked to trade with other nations. And Congress has long recognized that such trade has depended on vibrant maritime commerce.

What was true at the close of the 19th Century remains true today. Approximately 95 percent of America's foreign trade moves by ship. Moreover, by 2030 it is estimated that the value of U.S. foreign trade will be equivalent to 60 percent of the Nation's GDP.

Our economy is built on a maritime foundation. We should be investing wisely and strategically as past Congresses have done to ensure that this foundation does not crumble. Unfortunately, the budget requests for our maritime agencies are collectively a sharp departure from Mahan's belief that national greatness is inextricably associated with the sea.

Far less than a forward thinking vision for our maritime economy, these budget requests represent, as Mahan would say, a "mistaken action" that would shrink or eliminate necessary investments, weaken the maritime foundation of our economy, and result in fewer high-skilled, good-paying maritime jobs.

At a time when too many Americans are looking for work, we should plot a new course; one that strengthens our Coast Guard, sustains our maritime industries, and acknowledges that our national economy remains linked to the sea. I believe Admiral Mahan would strongly agree. Thank you.

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TESTIMONY OF
ADMIRAL ROBERT J. PAPP, JR.
COMMANDANT, U.S. COAST GUARD

ON THE
COAST GUARD FISCAL YEAR 2014 BUDGET REQUEST

BEFORE THE
HOUSE COAST GUARD & MARITIME TRANSPORTATION SUBCOMMITTEE

APRIL 16, 2013

INTRODUCTION

Good morning Mr. Chairman and distinguished members of the Committee. Thank you for the continuing support you have shown to the men and women of the United States Coast Guard, including the funding provided in the *Consolidated and Further Continuing Appropriations Act, 2013* to recapitalize the aging fleet and sustain front-line operations.

This year marks our 223rd year of protecting those on the sea, protecting the Nation from threats delivered by the sea, and protecting the sea itself. The Coast Guard is the Nation's maritime first responder. We are vested with unique authorities, equipped with capable cutters, boats, aircraft and infrastructure, and are composed of the best people the Nation has to offer. We are *Semper Paratus* – "Always Ready" to meet the Nation's evolving maritime safety, security and stewardship needs. We are locally based, nationally deployed and globally connected.

I am here today to discuss the Coast Guard's FY 2014 Budget Request. Before discussing the details of the request, I would like to take this opportunity to highlight some of the Coast Guard's recent operational successes, and our value and role in the Department of Homeland Security (DHS) and in service to the Nation.

Over the past year, Coast Guard men and women (Active Duty, Reserve, Civilian and Auxiliarists), with strong support from our families, continued to deliver premier service to the public. When Hurricane Sandy threatened the eastern seaboard, the Coast Guard acted with the speed, agility and courage that America expects during natural disasters. In advance of the storm's landfall, we worked with the interagency, industry and state and local partners to ensure our ports and maritime transportation system were prepared. As the storm raged, our aircrews and cutters responded to the foundering HMS BOUNTY, rescuing 14 crewmembers from the 30-foot seas and 60-knot winds. In the Port Authority of New York and New Jersey, Coast Guard personnel restored the aids to navigation system within days; worked with U.S. Customs and Border Protection, the Army Corps of Engineers, local government and industry to reopen the port to commerce; helped de-water flooded tunnels leading to Manhattan, and contained 378,000 gallons of diesel fuel that had spilled into the Arthur Kill waterway when the storm surge caused the failure of shoreside fuel storage tanks.

To prepare to meet the emerging challenges in the Arctic, we successfully completed *Operation Arctic Shield*, a nine-month interagency effort to assess our capabilities, including the deployment of a National Security Cutter and two of our ocean going, light ice capable buoy tenders, as well as the temporary assignment of two H-60 helicopters 300 miles north of the Arctic Circle.

Last year, the Coast Guard responded to 19,790 search-and-rescue cases and saved more than 3,500 lives; seized over 107 metric tons of cocaine and 56 metric tons of marijuana destined for the United States; seized 70 vessels, and detained 352 suspected smugglers; conducted more than 11,600 annual inspections of U.S. flagged vessels; conducted 4,600 marine casualty investigations; conducted more than 9,000 Port State Control and Security examinations on foreign-flagged vessels; and responded to 3,300 pollution incidents.

This past year we made great strides in recapitalizing the Coast Guard's aging fleet. In October we will christen the fourth National Security Cutter, Coast Guard Cutter HAMILTON. In addition to providing us off-shore presence in the Arctic during heightened summer activity, these remarkable ships have excelled in interdicting drug and migrant smuggling in the eastern Pacific and have enabled the Coast Guard to provide command and control, helicopter, and boat capabilities from the farthest reaches of the Pacific to the Bering Sea. I am also very pleased with our new Fast Response Cutters (FRC's). To date, we have taken delivery of five of these new highly capable patrol boats. We have also taken delivery of 14 new HC-144 medium range surveillance aircraft, contracted for the ninth HC-130J and have nearly completed the H-60 conversion project. At the Coast Guard Yard, we completed work on the Patrol Boat Mission Effectiveness Project, extending the service lives of our 110-foot patrol boats, and continued work on the sustainment projects for our fleet of Medium Endurance Cutters. We also recently completed an overhaul of the Cutter POLAR STAR, returning the Nation's only heavy icebreaker to active service. None of these critical recapitalization milestones would have been reached without the strong support of the Administration and the Committees.

As a military service, we provide unique, specialized capabilities as part of the Joint Force. But the Coast Guard is much more. We are the maritime arm of the DHS. We seek to prevent dangerous or illicit maritime activities, and if undesirable or unlawful events do occur, (whether deliberate or accidental), to rapidly respond in order to protect the Nation, minimize the impact, and recover.

Every day the Coast Guard acts to prevent and respond to an array of threats that, if left unchecked, could disrupt regional and global security, the economies of partner nations, access to resources and international trade. All of these are vital elements to our national prosperity. And it is this prosperity that spurs investment and global development, provides jobs, and provides the resources to pay for both our national security and our national defense. It is Coast Guard men and women, working every day in the maritime domain, who enhance our security, reinforce the rule of law, support stability at home and abroad, and increase our prosperity.

The Coast Guard protects:

- *Those on* the sea: *leading responses to maritime disasters and threats, ensuring a safe and secure Maritime Transportation System, preventing incidents, and rescuing those in distress.*
- *The Nation* from threats delivered by sea: *enforcing laws and treaties, securing our ocean resources, and ensuring the integrity of our maritime domain from illegal activity.*
- *The sea* itself: *regulating hazardous cargo transportation, holding responsible parties accountable for environmental damage and cleanup, and protecting living marine and natural resources.*

FY 2014 REQUEST:

The Coast Guard's FY 2014 Budget continues the critical balance between investment in current operations and recapitalization. The FY 2014 Budget strategically allocates resources to best mitigate current and long-term operational risks, while investing in new cutters, boats, aircraft, systems and infrastructure necessary to ensure the viability of the Coast Guard in the future.

The Coast Guard's FY 2014 strategic and budget priorities are to:

1. Build Essential Coast Guard Capability for the Nation;
2. Strengthen Resource and Operational Stewardship; and
3. Sustain the Most Critical Front-Line Operations

Highlights from our request are included in Appendix I.

Build Essential Coast Guard Capability for the Nation

Recapitalization is essential for the long term viability of the Coast Guard. The condition and serviceability of the Coast Guard's in-service surface fleet, the aging of fixed and rotary wing air assets, and the projected timelines to replace these assets require continued investment in surface and air recapitalization programs to maintain the capability to operate. To strengthen DHS' layered security approach offshore, the FY 2014 budget provides for the acquisition of a seventh National Security Cutter and two more Fast Response Cutters, and continues pre-acquisition activities for the Offshore Patrol Cutter and Polar Icebreaker. The budget also continues sustainment and conversion work on fixed wing and rotary wing aircraft, procurement of cutter boats, and investment in Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) systems.

Strengthen Resource and Operational Stewardship

In FY 2014, Coast Guard will decommission two High Endurance Cutters (WHECs) that are being replaced by more capable National Security Cutters. The Coast Guard will also consolidate regional assets where overlapping capabilities exist by closing Air Facilities in Newport, OR and Charleston, SC. The 2014 budget ensures that our resources are aligned to our Nation's highest

priorities in a manner that balances key investments for the future with sustaining essential investment in today's missions and capabilities that provide the highest return on investment.

Sustain the Most Critical Front-Line Operations

The FY 2014 budget sustains the most critical front-line operations, including maintaining search and rescue coverage, protecting critical infrastructure and key resources, supporting safe navigation, safeguarding natural resources, protecting the environment, detecting and interdicting drugs and individuals attempting to enter the United States illegally, and supporting the Nation's foreign policy objectives.

CONCLUSION

The United States is a maritime nation. Foreign trade relies upon the safety and security of our Nation's ports and waterways. Coast Guard missions, authorities and capabilities are crucial to providing for that safety and security and preserving our national interests. We ensure the safe and secure flow of commerce, patrol our vast exclusive economic zone, fight maritime drug smuggling and human trafficking, provide the nation's maritime first response force to both natural and manmade disasters, and protect our shores against transnational criminals, extremists, and others who seek to do us harm. We remain focused on protecting the United States as the strong maritime arm of the DHS. The Coast Guard's FY 2014 budget request allocates resources to the highest priority initiatives to counter the most emergent threats, mitigate risks, and keep the maritime domain safe and secure. I request your full support for the funding requested for the Coast Guard in the President's FY 2014 Budget. Again, thank you for the opportunity to testify before you today. I am pleased to answer your questions.

Appendix I - FISCAL YEAR 2014 BUDGET REQUEST

Build Essential Coast Guard Capability for the Nation

- **Surface Assets ..... $743.0M (0 FTE)**
  The budget provides $743.0 million for surface assets, including the following surface asset recapitalization and sustainment initiatives:
  - **National Security Cutter (NSC)** – Provides funding for the seventh NSC; NSCs will replace the aging fleet of High Endurance Cutters, first commissioned in 1967. The acquisition of NSC-7 is vital for performing DHS missions in the far off-shore regions, including the harsh operating environment of the Pacific Ocean, Bering Sea, and Arctic as well as providing for robust homeland security contingency response.
  - **Fast Response Cutter (FRC)** – Provides production funding to procure two FRCs. These assets replace the aging fleet of 110-foot patrol boats, and provide the coastal capability to conduct Search and Rescue operations, enforce border security, interdict drugs, uphold immigration laws, prevent terrorism, and enhance resiliency to disasters.
  - **Offshore Patrol Cutter (OPC)** – Supports continued initial acquisition work and design of the OPC. The OPC will replace the Medium Endurance Cutter class to conduct missions on the high seas and coastal approaches.
  - **Polar Ice Breaker (WAGB)** – Continues funding for pre-acquisition activities for a new Coast Guard polar icebreaker. This cutter will provide continued heavy icebreaking capability to the nation for missions in the Arctic and Antarctic following the projected end of service life of the POLAR STAR on or about 2022.
  - **Cutter Boats** – Provides continued funding for production of multi-mission cutter small boats that will be fielded on the Coast Guard's major cutter fleet beginning with the NSC.
  - **In-Service Vessel Sustainment** – Continues to fund sustainment projects on 140-foot ice breaking tugs (WTGB), 225-foot seagoing buoy tenders, and the training Barque EAGLE (WIX).
  - **Survey and Design** – Builds upon previous years to continue multi-year engineering and design work for multiple cutter classes in support of future sustainment and acquisition projects.

- **Air Assets ..... $28.0M (0 FTE)**
  The budget provides $28.0 million for the following air asset recapitalization or enhancement initiatives:
  - **HH-65** – Continues modernization and sustainment of the Coast Guard's fleet of HH-65 helicopters, converting them to MH-65 Short Range Recovery (SRR) helicopters. The modernization effort includes reliability & sustainability improvements, where obsolete components are replaced with modernized sub-systems, including an integrated cockpit and sensor suite.

  - **C-130H/J** – Funds sustainment of avionics systems on existing C-130H aircraft. The Avionics 1 Upgrade (A1U) installations on C-130H aircraft enhances the capability of the C-130H fleet by replacing aging/obsolete equipment, and updating avionics to comply with Communications Navigation Surveillance/Air Traffic Management (CNS/ATM) requirements.

- **Other (Asset Recapitalization)..... $59.9M (0 FTE)**
  The budget provides $59.9 million for asset recapitalization, including the following equipment and services:
  - **Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR)** – Provides design, development, upgrades and assistance on C4ISR hardware and software of new and in service assets.
  - **CG-Logistics Information Management System** – Continues development and deployment to Coast Guard operational assets and support facilities.
  - **Nationwide Automatic Identification System (NAIS)** – Completes deployment of the permanent transceive system to recapitalize the existing interim NAIS capability in 58 ports and 11 coastal areas.

- **Shore Units and Aids to Navigation (ATON)..... $5.0M (0 FTE)**
  The budget provides $5.0 million to recapitalize shore infrastructure for safe, functional, and modern facilities that support Coast Guard assets and personnel:

  - **Specific Project –** Completes Phase One of Base Miami Beach waterfront facilities.
  - **ATON Infrastructure –** Maintains transportation safety on Federal waterways through construction and improvements to short-range aids and infrastructure to improve the safety of maritime transportation.

- **Personnel and Management..... $115.8M (818FTE)**
  The budget provides $115.8 million to provide pay and benefits for the Coast Guard's acquisition workforce.

Strengthen Resource and Operational Stewardship

FY 2014 Major Decreases:

- **Asset Decommissionings**
  In FY 2014 the Coast Guard will make targeted operational reductions to prioritize front-line operational capacity and invest in critical recapitalization initiatives.

  - **High Endurance Cutter (WHEC) Decommissionings.....-$14.2M (-184 FTE)**
    The FY 2014 budget decommissions the fifth and sixth High Endurance Cutters (WHECs). National Security Cutters, including the seventh NSC which is fully funded in this budget request, replace the aging HEC fleet.

  - **Cutter Shoreside Support Personnel Reduction .....-$0.8 M (-10 FTE)**
    Reduces WHEC Maintenance Augmentation Team (MAT) and Surface Forces Logistics Center (SFLC) billets associated with the decommissioning of two WHECs.

- **HU-25 Aircraft Retirements ..... -$9.4M (-36 FTE)**
  Retires the eight remaining HU-25 aircraft assigned to Coast Guard Air Station Corpus Christi, TX; Aviation Logistics Center, Elizabeth City, NC; and, Aviation Training Center, Mobile, AL. This will allow for the transition to HC-144A aircraft.

- **HC-130 Aircraft Retirements .....-$7.7M (-29 FTE)**
  This initiative eliminates funding and personnel associated with two HC-130H aircraft. The newly acquired HC-130J aircraft will provide increased operational reliability.

- **Close Air Facilities .....-$5.1M (-28 FTE)**
  The Coast Guard will close AIRFACs at Charleston, SC and Newport, OR. The Search and Rescue response times within the AIRFAC areas of responsibility will remain within national standards.

- **Programmatic Reductions**
  The budget proposes targeted reductions in several base program areas. These base adjustments recognize changes in requirements need for selected activities and prioritizes sustainable investment in recapitalization programs.

  - **CG Headquarters Staffing .....-$6.7M (-53 FTE)**
    Reflects the anticipated reduction in Coast Guard Headquarters personnel as a result of the existing hiring freeze and normal workforce attrition.

  - **Targeted Intelligence Program .....-$1.5M (-14 FTE)**
    Scales intelligence activities across the Service by consolidating analysts at centers, Areas, and Districts; consolidating IT support positions at headquarters; and, eliminating the 24/7 call-in maritime watch at the El Paso Intelligence Center (EPIC) that provides services that will remain available through a different watch floor.

  - **Port State Control Examinations .....-$1.7M (-20 FTE)**
    Reduces Port State Control personnel by limiting examination activities aboard some foreign flagged vessels assessed as lower risk.

  - **Coast Guard Training .....-$43.2M (-153FTE)**
    Leverages web-based distance learning and reduces schoolhouse throughput. Specialty and technical training schools will group into centers of expertise to leverage available resources. Educational benefits will be focused on enlisted personnel who are pursuing an initial undergraduate degree. Reduces accessions and support staffs as well as operational and maintenance funds at the Coast Guard Academy, Leadership Development Center, and Officer Candidate School commensurate with anticipated reduction in out-year accession projections based on reduced workforce levels.

- **Other Targeted Program Reductions .....-$1.2M (-26 FTE)**
  The Coast Guard will make targeted reductions to Auxiliary Program Management, the International Port Security Program, and District Drug and Alcohol Program Inspectors (DAPI). Routine DAPI functions will shift to Coast Guard Marine Inspectors and Investigators.

Sustain the Most Critical Front Line Operations

- **Pay & Allowances ..... $43.9M (0 FTE)**
  The budget provides $43.9 million to fund the civilian pay raise and maintain parity of with DoD for military pay, allowances, and health care. As a branch of the Armed Forces of the United States, the Coast Guard is subject to the provisions of the National Defense Authorization Act, which include pay and personnel benefits for the military workforce.

- **Operating and Maintenance Funds for New Assets ..... $64.7M (213 FTE)**
  The budget provides a total of $64.7 million to fund operations and maintenance of shore facilities and cutters, boats, aircraft, and associated C4ISR subsystems delivered through acquisition efforts. Funding is requested for the following assets and systems:

  - **Shore Facilities** – Funding for the operation and maintenance of shore facility projects scheduled for completion prior to FY 2014.
  - **Response Boat-Medium** – Funding for operation, maintenance and support of 30 RB-Ms as well as personnel for maintenance support requirements and instructors to support fleet training requirements.
  - **Rescue 21 (R21)** – Funding for the support of the R21 System as well as maintenance of Coast Guard leased and owned towers, Western Rivers communications sites, and encrypted communications for over-the-air-re-key (OTAR).
  - **FRC** – Operating and maintenance funding for FRCs #10-12 and funding for personnel to operate and maintain hulls #11-12, homeported in Key West, FL as well as the first two San Juan, PR hulls.
  - **NSC** -- Operating and maintenance funding for NSC #4 to be homeported in Charleston, SC. The initiative also provides personnel to operate NSCs # 4-5.
  - **HC-144A MPA** – Operating and maintenance and personnel funding to operate and support aircraft #16-17 that will be assigned to Air Station Corpus Christi, TX. Also funds maintenance of the first 17 Mission System Pallets (MSPs)—the sensor package for each operational HC-144A.
  - **Manned Covert Surveillance Aircraft (MCSA)** – Operating, maintenance and personnel funding to operate and support the first aircraft which is planned to operate out of Miami, FL and provide an additional 1,000 hours of maritime surveillance capacity.
  - **Air Station Corpus Christi Transition** – Provides funding for the transition from operating HU-25 aircraft to operation of HC-144A aircraft.

- **Financial Systems Modernization ..... $29.5M (0 FTE)**
  Provides funding to support the Financial Management Service Improvement Initiative (FMSII) for Coast Guard and Transportation Security Administration (TSA). This initiative will plan, prepare, configure, test, and migrate the Coast Guard's and TSA's financial management system (FMS) including the financial, contract, and asset accountability management systems to a shared service provider (SSP).

Question#:	1
Topic:	accounts
Hearing:	President's Fiscal Year 2014 Budget Request for Coast Guard and Maritime Transportation Programs
Primary:	The Honorable John Garamendi
Committee:	TRANSPORTATION (HOUSE)
Witness:	Admiral Robert Papp – USCG Commandant
Organization:	U.S. Department of Homeland Security

Question: Admiral Papp, the FY 2014 budget would cut over $630 million from the Coast Guard's Acquisition, Construction and Improvements Account. This cut will inflict pain across many Coast Guard programs. For example, while the request would provide funding for the acquisition of the seventh National Security Cutter, it would not provide funding for long-lead time materials to initiate the process for the construction of NSC number 8.

How will the absence of long-lead time funding delay the acquisition schedule for NSC 8? How much further to the right will the timeline be extended?

Response: As outlined in the Capital Investment Plan to Congress, funding for long lead time and production of the National Security Cutter 8 is planned for FY 2015, which would then be delivered in FY 2020.

Question#:	2
Topic:	FRC
Hearing:	President's Fiscal Year 2014 Budget Request for Coast Guard and Maritime Transportation Programs
Primary:	The Honorable John Garamendi
Committee:	TRANSPORTATION (HOUSE)

Question: Admiral, you testified at the hearing that the Fast Response Cutter (FRC) is a high priority, yet the FY 2014 budget only provides funds to purchase an additional two FRCs. You also stated at the hearing that under the current FRC procurement contract, if the Coast Guard fails to purchase the minimum quantity of FRCs that this will result in a delay and open the contract for renegotiation with the contractor.

At this juncture, how likely is it that the Coast Guard will be required to renegotiate the FRC contract?

How confident are you that the Coast Guard will not see the unit cost for the FRC increase?

What delays might result in the production schedule for the FRC?

Response: The FY 2013 appropriation provided for 6 FRCs, and the FY 2014 President's Budget provides for two more, which would average four per year between the two years.

Question#:	3
Topic:	MPAs
Hearing:	President's Fiscal Year 2014 Budget Request for Coast Guard and Maritime Transportation Programs
Primary:	The Honorable John Garamendi
Committee:	TRANSPORTATION (HOUSE)

Question: Admiral, the approved program of record for the Maritime Patrol Aircraft, or MPAs, calls for the acquisition of 36 air frames and the requisite number of Mission System Pallets. To date, the Coast Guard has acquired 18 MPAs. No funding is provided in the Fiscal Year 2014 budget to continue this vital procurement.

Why? What is the Coast Guard's rationale for halting this procurement in mid-stream?

Response: The acquisition of MPAs is paused in FY 2014 pending the outcome of a potential transfer of C-27J aircraft from the USAF. The 18 HC-144A aircraft that have been acquired will meet the Coast Guard's most pressing requirement to retire the legacy HU-25 Falcon fleet in 2014.

Question: What will be the impact on mission readiness, maritime domain awareness, and search and rescue capabilities?

How does the Coast Guard intend to compensate for the loss of this capability in the immediate future and over the long term?

Response: The FY2014 budget allocates available resources to address the Coast Guard's highest priority needs. The acquisition of MPAs is paused in FY 2014 pending the outcome of a potential transfer of C-27J aircraft from the USAF. The 18 HC-144A aircraft that have been acquired will meet the Coast Guard's most pressing requirement to retire the legacy HU-25 Falcon fleet in 2014.

Question#:	4
Topic:	SAR coverage and response
Hearing:	President's Fiscal Year 2014 Budget Request for Coast Guard and Maritime Transportation Programs
Primary:	The Honorable John Garamendi
Committee:	TRANSPORTATION (HOUSE)

Question: Admiral, when the cuts imposed by sequestration went into effect the Coast Guard maintained that it would sustain front line operations, especially its search and rescue activities. Now, in the FY 2014 budget, the Coast Guard is proposing the closure of two air stations, one in Newport, Oregon and the other in Charleston, South Carolina.

What will be the impact to Coast Guard search and rescue operations in the areas that will no longer be served by these air stations?

What does the Coast Guard project for average response times when these stations close?

Response: Newport, Oregon's rescue operations will continue to be serviced by Air Station North Bend, Oregon. Charleston, South Carolina's rescue operations will continue to be serviced by Air Station Savannah, Georgia. This proposal reduces redundancy while maintaining National Search and Rescue (SAR) response standards. All response times will continue to meet the Coast Guard SAR requirements to provide assets on-scene within a designated area of response within two hours of notification. Furthermore, modernized radio detection and direction finding, Rescue 21, coupled with improvements to the Coast Guard small boats and aircraft provide better response capability than when these facilities were first established. The Coast Guard is able to meet response requirements with surface units and one ready aircraft operating from the parent facility.

Question#:	5
Topic:	maritime domain awareness
Hearing:	President's Fiscal Year 2014 Budget Request for Coast Guard and Maritime Transportation Programs
Primary:	The Honorable John Garamendi
Committee:	TRANSPORTATION (HOUSE)

Question: Admiral, the FY 2014 budget would cut funding for the Coast Guard's International Port Security Program. The Fiscal Year 2014 budget would also reduce the number of Port State Control inspectors who inspect foreign flagged vessels entering U.S. ports by the Coast Guard.

In 2012, the Coast Guard conducted more than the 9,000 Port State Control and Security examinations. It was also explained to Committee Staff that the rate of inspections for lower-risk vessels will be reduced as a result in the cuts to funding. Exactly how many fewer examinations and inspections can we expect should the proposed cut go into effect?

What will the Coast Guard do to compensate for fewer examinations as it tries to maintain the same level of maritime domain awareness?

Response: Of the more than 9,000 Port State Control examinations conducted in 2012, approximately 6,000 were conducted on freight vessels, with the remaining performed on tank vessels and passenger vessels. With domestic law requiring annual examination of tank vessels and passenger vessels, the Coast Guard will not reduce the frequency of these examinations.

The change from an annual to biennial examination schedule for freight vessels would decrease the number of examinations roughly by one half in any calendar year. However, there are a number of other considerations or risk factors that could require more frequent examination. Concerns such as a substandard Flag Administration, or Recognized Organization or a poor port state control (PSC) history are examples of criteria that could factor into more frequent examinations for certain vessels.

Freight ships with excellent PSC records in the U.S. currently qualify for recognition under the Qualship 21 initiative. The U.S. Coast Guard can further decrease the frequency of examination for these vessels from biennial to triennial if warranted. It should be noted that this is in alignment with other worldwide inspection regimes and rewards those vessels meeting the highest standards of compliance. The Coast Guard closely monitors these vessels and if any show signs of degrading compliance with requirements, the Coast Guard will remove them from the program and return them to a biennial examination schedule. Taking all of the above considerations into account, we

Question#:	5
Topic:	maritime domain awareness
Hearing:	President's Fiscal Year 2014 Budget Request for Coast Guard and Maritime Transportation Programs
Primary:	The Honorable John Garamendi
Committee:	TRANSPORTATION (HOUSE)

would estimate a decrease of approximately 2,500 freight vessel examinations per calendar year.

Noting that PSC examinations determine the compliance of vessels with domestic and international requirements, lower examination frequencies will reduce the Coast Guard's first-hand visibility of the compliance performance of these vessels. With that in mind, the Coast Guard will continue to utilize examination data from other global PSC authorities to review vessels prior to their entry and quickly identify those with lower levels of performance. This will be done through the use of the Equasis website (http://www.equasis.org) which displays, among other things, global vessel examination data. This data is easily accessible to U.S. Coast Guard personnel throughout the Service and the Coast Guard expects an increased emphasis on review of global examination data.

With regard to the impact these reductions may have on Maritime Domain Awareness (MDA), it should be noted that Port State Control examinations do not play a significant role in the MDA of foreign vessels. MDA is obtained through the use of various electronic means at the port or national level, such as Notices of Arrival, Vessel Traffic Services, Automatic Identification Systems, and Long-Range Identification and Tracking. Vessel sightings, intelligence data and security boardings performed by USCG law enforcement personnel also play into MDA. These functions are not impacted by reductions to the Port State Control program.

A Memorandum of Understanding (MOU) with the European Commission (EC) on the mutual recognition of the Coast Guard's Port Facility security inspection processes was signed in September 2012. The MOU allows the Coast Guard to accept inspections performed by inspectors from EU signatories to the MOU which results in a reduced workload, and allows for a reduction of personnel without significantly impacting the IPS program. With the signing of this MOU, the Coast Guard will be able to reassign some of the billets at Activities Europe that have been assessing lower risk EC member states, to higher risk areas such as Africa, where many of the developing countries are struggling to have effective anti-terrorism measures in their ports.

Question#:	6
Topic:	funds
Hearing:	President's Fiscal Year 2014 Budget Request for Coast Guard and Maritime Transportation Programs
Primary:	The Honorable John Garamendi
Committee:	TRANSPORTATION (HOUSE)

Question: Admiral, the FY 2014 budget states that funds are provided to enable the Coast Guard to purchase the last order of Response Boat- Medium which will bring the total number of boats purchased to 170. This total would be short of the 180 boats called for in the approved program of record. In section 220 of Public Law 112-213, Congress required the Coast Guard to maintain the schedule and requirements fulfill the program of record. The only way the Coast Guard can be absolved of this requirement is to submit to the Congress such documentation as required to be prepared under the Coast Guard's acquisition manual to justify reducing the approved program of record.

Does the Coast Guard intend to submit this documentation as a supplement to the Fiscal Year 2014 budget request? When can the committee expect to see this justification?

Response: The Coast Guard is currently updating the Response Boat- Medium (RB-M) Acquisition Program Baseline and will provide Congressional notification upon completion.

Question#:	7
Topic:	personnel/training 1
Hearing:	President's Fiscal Year 2014 Budget Request for Coast Guard and Maritime Transportation Programs
Primary:	The Honorable John Garamendi
Committee:	TRANSPORTATION (HOUSE)

Question: Admiral, if I understand your budget request correctly, the Coast Guard is proposing a cut of a combined 1,647 positions. You testified that the Coast Guard is probably at a "tipping point" and that the number of potential officers entering Cape May is the lowest since WWII. It is my understanding that these cuts will be felt especially hard in the Coast Guard's training and acquisition activities.

When Admiral Neffenger testified in March concerning the likely impacts of sequestration, he emphasized that the Coast Guard would maintain training activities to support front line operations. Will these proposed cuts to Coast Guard training personnel affect the Coast Guard's mission readiness?

Response: The Coast Guard will continue to fund its most critical operational training programs.

Question#:	8
Topic:	personnel/training 2
Hearing:	President's Fiscal Year 2014 Budget Request for Coast Guard and Maritime Transportation Programs
Primary:	The Honorable John Garamendi
Committee:	TRANSPORTATION (HOUSE)

Question: The Fiscal Year 2014 budget request would cut training for the Coast Guard Reserve by $22.8 million, or roughly 17 percent over the Fiscal Year 2013 enacted level. This raises the concern that we are going to "hollow out" the Reserve at a time when the regular duty Coast Guard is under ever-increasing strain.

How will these cuts impact the readiness of Reservists should they be activated to respond to another natural or human-made disaster, like the Deepwater Horizon oil spill?

Response: The proposed reduction is based on the Reserve activations required to respond to major contingencies over the past decade and will not prevent the Coast Guard from responding to future similar contingencies.

Question#:	9
Topic:	personnel/training 3
Hearing:	President's Fiscal Year 2014 Budget Request for Coast Guard and Maritime Transportation Programs
Primary:	The Honorable John Garamendi
Committee:	TRANSPORTATION (HOUSE)

Question: The Congress provided to the Coast Guard approximately $260 million in supplemental funds to rebuild facilities and infrastructure damaged by Super Storm Sandy. I understand that the Coast Guard is required to obligate all of these funds by September 30, 2014 which is a huge administrative challenge under present personnel levels.

How can the Coast Guard justify cutting its acquisition, construction and improvement personnel at this time?

Response: There are no Acquisition, Construction and Improvements (AC&I) personnel reductions planned for the Coast Guard's Civil Engineering officer or civilian corps. The Civil Engineering department handles all acquisition associated with Hurricane Sandy supplemental funds. Additionally, the Coast Guard will hire temporary personnel and activate some reservists to provide assistance in obligating supplemental projects before the September 2014 expiration date.

The proposed AC&I personnel reductions in FY 2014 reflect a reduced need based on current acquisition project requirements.

Question#:	10
Topic:	Shoreside infrastructure
Hearing:	President's Fiscal Year 2014 Budget Request for Coast Guard and Maritime Transportation Programs
Primary:	The Honorable John Garamendi
Committee:	TRANSPORTATION (HOUSE)

Question: Admiral, the FY 2014 budget request would severely cut funding to address the deferred maintenance and construction backlog for Shoreside infrastructure and Aids to Navigation; requesting only $5 million. Worse, the Fiscal Year 2014 budget contains zero funding to address the well- documented backlog of needs for Coast Guard housing, especially for enlisted Coast Guardsmen and women.

Admiral, how are these under investments in these important infrastructure programs going to impact mission readiness and maritime safety?

Response: The FY 2014 Budget supports the Coast Guard's highest priorities. The Coast Guard has prioritized and aligned resources to support the most critical shore infrastructure. The Coast Guard will continue to conduct an annual review of Shore AC&I projects and address the highest priority projects as part of its five-year Capital Investment Plan (CIP).

Question: What will be the effect on morale of the rank and file service members who have to endure substandard living quarters?

Response: The Coast Guard expects no negative effects on the morale of its members. All occupied homes are in suitable condition.

Question#:	11
Topic:	Truman-Hobbs bridge removal
Hearing:	President's Fiscal Year 2014 Budget Request for Coast Guard and Maritime Transportation Programs
Primary:	The Honorable John Garamendi
Committee:	TRANSPORTATION (HOUSE)

Question: Admiral, the administration has again declined to request any funds under Truman-Hobbs which authorizes the Coast Guard to use Federal funds to alter bridges found to be unreasonable obstructions to navigation. Program funding has languished since 2009 when the Congress provided $142 million under the American Recovery and Reinvestment Act.

In the absence of funding over the past few years, what has been the effect on the backlog of bridges that are obstructions to navigation and need to be removed? Does the Coast Guard keep track of this backlog?

Response: The Coast Guard maintains a list of bridges which have been served an Order to Alter after the Coast Guard determined they were unreasonable obstructions to navigation. No funds have been appropriated for Truman-Hobbs projects since 2011. In the absence of funding, these bridges continue to pose some risk to commercial navigation and safety.

There are currently nine bridges that have been served an Order to Alter and are waiting funding. Design work for two of these bridges has been completed using funds received prior to 2011.

Question: Regarding bridges, is the Coast Guard on track to make a determination in September regarding the proposed Columbia River Crossing bridge project in Oregon and Washington?

Response: The Coast Guard is making every effort to meet the Federal Infrastructure Dashboard permit decision target date of September 30, 2013. The time taken to achieve an application submission with all the necessary components to be considered complete was significant, decreasing the Coast Guard's time to evaluate the application, as well as adjudicate comments received during the public comment period which ends on June 20, 2013.

The number and complexity of comments received during the public comment period may require the Coast Guard to implement an adjustment to the timeline.

Question#:	12
Topic:	Section 220
Hearing:	President's Fiscal Year 2014 Budget Request for Coast Guard and Maritime Transportation Programs
Primary:	The Honorable Rick Larsen
Committee:	TRANSPORTATION (HOUSE)

Question: Admiral Papp, as you know, Section 220 of the Coast Guard and Maritime Transportation Act of 2012 requires the Coast Guard to complete the program of record for 180 Response Boat-Mediums, unless a justification for a smaller procurement is submitted to this subcommittee.

Has the Coast Guard submitted any such justification?

Does the Coast Guard intend to submit this documentation as a supplement to the Fiscal Year 2014 budget request? If not, when can the committee expect to see this justification?

Response: The Coast Guard is currently updating the Response Boat-Medium (RB-M) Acquisition Program Baseline and will provide Congressional notification upon completion.

STATEMENT OF
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BEFORE THE
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON COAST GUARD AND
MARITIME TRANSPORTATION
UNITED STATES HOUSE OF REPRESENTATIVES

April 16, 2013

Mr. Chairman, Ranking Member Garamendi and members of the Subcommittee, thank you for this opportunity to present the President's Fiscal Year 2014 budget for the Federal Maritime Commission. Having been recently designated as Chairman of the Federal Maritime Commission by the President, it is an honor to appear before you today.

The President's Budget for the Federal Maritime Commission ("Commission" or "FMC") provides $25,000,000 for Fiscal Year 2014. This represents an increase of $900,000 over the enacted Fiscal Year 2012 appropriation, and an increase of $2,160,575 above the Commission's post-sequestration funding level.

Our FY 2014 budget request contains $18,478,000 for salaries and benefits to support the Commission's programs. This figure includes funds for salaries and benefits for 126 full-time equivalent employees, including the 123 positions expected to be onboard at the end of FY 2013 and three entry-level positions to backfill some critical vacancies. It also includes funding for the anticipated January 2014 pay increase.

Official travel has been reduced to $170,000. This funding level is an increase of $40,000 above the Commission's post-sequestration 2013 funding level and represents a 17% reduction below the Commission's 2012 travel expenses. The ability of our staff to travel to meet with the global industry we regulate and our foreign counterparts remains an essential part of our effort to provide better service to the ocean transportation industry and to accomplish our oversight duties more effectively.

Administrative expenses to be funded in FY 2014 to support our usual and customary business expenses, such as rent, security, telephones, postage, commercial and government contracts, and supplies, have increased to $806,475 from post-sequestration FY 2013 funding level. This includes an increase of $24,000 for printing, including mandatory printing of Commission issuances in the Federal Register. It also includes an increase of $102,000 associated with a new General Services Administration (GSA) lease for office space effective in

November 2012. It also includes very modest increases of $38,000 to acquire much-needed IT hardware and software, $40,000 to train current staff, and $88,000 for supplies and materials, most of which is to acquire materials that could not be purchased in FY 2013. The remaining $514,575 increase is required for government and commercial contracts, including the cost of facilities and data security, shared government services and technology investments to improve efficiencies and maintain mission-critical computer applications. The Commission is working on improving technology to disseminate public information efficiently at lower costs by providing increased web-based and social media-based accessibility. The hope is that this approach will enhance Commission services and facilitate public interaction while adding greater efficiencies to internal business processes.

In summary, the Commission's budget represents minimal spending levels necessary to effectively conduct the Commission's basic day-to-day operations and to meet the responsibilities Congress has entrusted to the agency. The Commission will continue to use its limited resources wisely.

State of the U.S. Liner Trades

Since 1916, the Commission and its predecessor agencies have effectively administered Congress' directives for oversight of the liner shipping industry. The Commission was established as an independent agency just over fifty years ago. Throughout those years, we have worked with the industry and its customers to develop a regulatory system that ensures competition, facilitates commerce, and ensures reliable service for U.S. exporters and importers while minimizing government intervention and regulatory costs. I would like to give a brief overview of the state of major U.S. foreign oceanborne trades and highlight significant current events.

The recovery in the U.S. liner trades that began two years ago continued in 2012, but at a slower rate, with U.S. container volumes increasing by a mere three percent to reach 29.8 million twenty-foot equivalent units (TEUs). With this increase, total container volumes have now surpassed their 2007 pre-recession peak. The total volume of U.S. liner exports increased by four percent, slightly less than the six percent expansion in 2011. Nonetheless, the 12.3 million TEUs shipped from the U.S. in 2012 was a record level of export volume. The total volume of liner imports to the U.S. increased by three percent following an increase of four percent in 2011.

For the international container shipping industry, the slow recovery appears to have begun impacting carriers' vessel deployment decisions. The amount of containership capacity lying idle at the beginning of this calendar year was 809,000 TEUs, or five percent of the total worldwide fleet capacity of 16.3 million TEUs. This is an increase compared to the same time last year when 595,000 TEUs were idle, or four percent of the total worldwide fleet capacity of 15.4 million TEUs. In terms of orders for new vessels, at the beginning of this calendar year, 3.4 million TEUs of containership capacity were on the orderbooks, equivalent to 21 percent of the existing fleet capacity of 16.3 million TEUs. At the same time last year, 4.3 million TEUs were on order, equivalent to 28 percent of the then-existing fleet capacity of 15.4 million TEUs.

Concentration in the liner industry dipped slightly last year. In 2012, the top ten carriers accounted for 63 percent of the world's containership capacity, while in 2011, they accounted for approximately 66 percent.

While still experiencing mainly positive growth, U.S. ports saw mixed results in 2012. Total container volumes at the Nation's largest ports at New York-New Jersey, Los Angeles/Long Beach, Oakland, Savannah, and Seattle, increased less than two percent each. In comparison, container volumes at each of the secondary ports at Tacoma, Hampton Roads, Philadelphia, and Charleston, grew nearly 10 percent.

Transpacific Trades

In 2012, the Transpacific continued to be the largest of the U.S. liner trades, and China remained our leading overseas trading partner. In calendar year 2012, the volume in this trade exceeded 19 million TEUs. Trade with nations in Asia continued to account for almost sixty-two percent of U.S. containerized imports and exports. Furthermore, in March 2012, the U.S. entered into a free trade agreement with South Korea, our third largest liner trading partner in the region after China and Japan.

Last year, total Transpacific container trade grew by less than one percent. Container import growth remained anemic, increasing by less than one percent for the second year in a row. Container exports slowed in 2012, increasing by just over one percent compared to a seven percent increase in 2011. As usual, imports from Asia dominated the Transpacific trade; for every container exported to Asia from the United States, just over two were imported.

Due to weak demand, capacity deployed in the Transpacific contracted by approximately two percent in 2012. For the most part, U.S. importers and exporters experienced no difficulty obtaining space on ships. In the larger inbound leg of the trade, average revenue per container grew by approximately 12 percent during the year. Despite this increase in unit revenue, many Transpacific carriers struggled to return to profitability after an unprofitable 2011.

The eight members of the outbound rate discussion agreement, the Westbound Transpacific Stabilization Agreement (WTSA), had a combined market share of around 50 percent. In September 2012, American President Lines (APL) and Nippon Yusen Kaisha (NYK) resigned from WTSA. The fifteen members of the inbound rate discussion agreement, the Transpacific Stabilization Agreement (TSA), had a combined market share of about 90 percent. There were no changes in the TSA's membership in 2012, although the agreement has filed a major amendment that would result in the combination of its scope with that of the westbound WTSA. That amendment is pending FMC review.

U.S. – North Europe Trades

In 2012, the fall in value of the euro against the U.S. dollar hurt the purchasing power of European consumers for U.S. exports but boosted the demand for European imports among U.S. consumers. Consequently, U.S. container exports to north Europe decreased by about three percent compared to 2011, while container imports from north Europe to the U.S. grew by five

percent. For calendar year 2012, the total volume in this trade was just over 3 million TEUs. The trade between the U.S. and Europe accounts for nearly eleven percent of total U.S. liner imports and exports.

Carriers operating in the trade added more services and capacity to the market. Specifically, members of the New World Alliance Agreement initiated the America Europe Express service operating five vessels in a weekly loop rotation between the U.S. Atlantic coast, Panama, and north Europe. Also, members of the Grand Alliance Agreement II upgraded the size of the four vessels deployed in its weekly Atlantic Express loop service between the U.S. Atlantic coast and north Europe. The Grand Alliance operates the Atlantic Express service in cooperation with Zim Integrated Shipping Services, Ltd. (Zim) and Hamburg Süd under the Grand Alliance/Zim/HSDG Atlantic Space Charter Agreement. Also, the Grand Alliance suspended its weekly Atlantic Express Shuttle service between the ports of New York/New Jersey, and Antwerp and Hamburg.

The introduction of new services and capacity in the trade reportedly suppressed freight rates. Attempts by carriers to implement general rate increases (GRIs) in the trade throughout 2012 were modest and erratic.

U.S.-Mediterranean Trades

The liner trade between the U.S. and south Europe was similarly affected by the economic problems in the eurozone and the weak value of the euro. Compared to 2011, U.S. containerized exports to the Mediterranean decreased by about eight percent, and container imports from the Mediterranean to the U.S. grew by around nine percent. For calendar year 2012, the volume in this trade was approximately 1.2 million TEUs or 4.2 percent of the total U.S. liner trade.

Service changes made by carriers added capacity to the market. Specifically, Hapag-Lloyd upgraded the frequency and capacity of its Med Pacific Express service in partnership with Hamburg Süd under the HLAG/HSDG USWC-Mediterranean Vessel Sharing Agreement. The upgraded service operates with 10 vessels in a weekly rotation between ports in the Mediterranean, Panama, and the U.S. Pacific coast. In turn, Hamburg Süd discontinued the Transatlantic leg of its weekly pendulum service that it had operated with Compania Chilena De Navegacion Interoceanica, S.A.

Among other changes, Maersk Line and CMA CGM deployed larger vessels in their weekly West Med loop service between the U.S. Atlantic coast and south Europe under the CMA CGM/Maersk Line Space Charter, Sailing and Cooperative Working Agreement. With the added space, Maersk Line exchanged a portion of its allocated space in this trade for space on a north Europe service of the New World Alliance under the Maersk Line/New World Alliance Mediterranean Slot Exchange Agreement. Further, members of the Cosco/K-Line/Yangming/Hanjin (CKYH) vessel sharing agreement entered the trade by connecting two service loops to form a weekly pendulum service between the U.S. Pacific coast, southeast Asia, and the Mediterranean.

U.S. – Oceania Trades

The Oceania trade includes the nations and territories of Australia, New Zealand, and the Pacific Islands. In 2012, the growth in U.S. containerized exports in the trade was modest, at around two percent compared to 2011, while imports grew by about seven percent. The largest commodity groups were containerized imports of meat and wine, accounting for 33 percent of the total import volume in TEUs. In calendar year 2012, the total volume in this trade was approximately 450,000 TEUs and represents 1.5 percent of U.S. liner exports and imports.

Carriers providing direct service between the U.S. and Oceania are linked through a network of agreements. The two main rate discussion agreements are the United States/Australia Discussion Agreement (USADA) in the outbound direction, and the Australia and New Zealand-United States Discussion Agreement (ANZUSDA) in the inbound direction. Further, a number of global carriers serve the trade through transshipment arrangements. Most of the carriers that serve the trade directly operate their services collectively through vessel sharing and slot charter agreements. In addition, five carriers serving the Pacific Islands participate in the Pacific Island Discussion Agreement. Given the extent of cooperation among carriers through their agreements, the Commission closely monitors the carriers' activities in this trade.

During 2012, a number of agreement membership and service changes occurred. In June, Mediterranean Shipping Company (MSC) joined the two rate discussion agreements. Maersk Line withdrew from the inbound rate discussion agreement in March but later rejoined the agreement in December. By the end of 2012, these membership changes resulted in a market share of around 75 percent for USADA and 92 percent for ANZUSDA.

U.S. – Latin America Trades

Economic ties between the United States and Latin America have strengthened considerably. U.S. containerized exports to Latin America (South America, Central America and the Caribbean combined) expanded 55 percent from 1.4 million TEUs in 2002 to 2.1 million TEU in 2012, while U.S. containerized imports grew 27 percent from 1.4 million TEU to 1.7 million TEU. The total volume in the trade in calendar year 2012 was over 3.8 million TEUs and is 13.3 percent of total U.S. liner trade.

The United States now has five free trade agreements in the region, the most recent being the U.S.-Colombia Free Trade Agreement which went into full force May 2012. Over 80 percent of U.S. exports and consumer and industrial products to Colombia became duty free immediately, with remaining tariffs to be phased out over 10 years. Containerized U.S. exports to Colombia for the second half of 2012 were over 11 percent higher by value than the corresponding period last year. The other trade agreements in the region are the Chile-United States Free Trade Agreement, the Dominican Republic-Central America FTA, the Peru-U.S. Trade Promotion Agreement, and the Panama-U.S. Trade Promotion Agreement.

In terms of liner shipping, South America dominates, with a volume of over 1.8 million TEUs of combined imports and exports in calendar year 2012. It has two distinct liner trade sectors, comprising the west and east coasts separately. Carriers operating between the U.S. and the east

coast of South America do not participate in a broad-based rate discussion agreement. In the west coast trade, however, most major carriers are members of the West Coast of South America Discussion Agreement (WCSADA), a rate discussion agreement. In 2012, American President Lines (APL), the world's seventh largest containership company, left WCSADA, leaving the agreement's combined market share at 55 percent in the U.S. outbound direction and 52 percent in the U.S. inbound direction.

Commission Activities

The Commission continues to cultivate a regulatory system that ensures competition, facilitates commerce, and encourages reliable service to U.S. exporters and importers while minimizing government intervention and costs. The Commission's focus is on supporting U.S. exports and the Nation's economic growth. In our role as a regulator of marine terminal operators, ocean common carriers, and ocean transportation intermediaries, the Commission's mission is to foster a fair, efficient, and reliable international ocean transportation system while protecting the public from unfair and deceptive practices.

I believe that the two most important ways the Commission can promote the economic recovery are: (1) working to ensure the competitiveness of our Nation's ports and maritime transportation system to make sure that it efficiently supports growing exports; and (2) providing maritime businesses regulatory relief so they and their customers can hire more American workers. The Commission remains alert to foreign activities that have the potential to harm the U.S. maritime industry, and we will remain vigilant on behalf of the American importer, exporter, and consumer. I will also continue to look for opportunities, consistent with the Commission's regulatory authority, to work with all sectors and users of the international maritime industry to encourage efficient and sustainable growth.

The Commission's strategic plan provides a roadmap to achieve its statutory mission and sets forth two broad goals: (1) to maintain an efficient and competitive international ocean transportation system; and (2) to protect the public from unlawful, unfair and deceptive ocean transportation practices, and to resolve shipping disputes. These goals can only be achieved through high-performance leadership and efficient stewardship of resources. Each of my fellow Commissioners understands the importance of the agency's objectives, and we will continue working in an efficient, cooperative, and bipartisan manner to accomplish them.

During the past year, the Commission has taken several important actions to accomplish these goals:

1. Supporting U.S. Exports and Economic Growth

The vast majority of the nation's exports travel through a port and by ocean. Ports are the gateways that serve more than 80% of the volume of international trade. I have observed first-hand the vital need for 21st century port infrastructure and the nexus of that infrastructure to a national freight policy in the eight years I served on the Port of Long Beach Harbor Commission, prior to my appointment at the FMC. The competitiveness of our Nation's ports rests upon an

efficient transportation system, which includes entities the Commission regulates: ocean transportation intermediaries, ocean common carriers, and marine terminal operators. Congestion at ports causes delays and increases in transportation costs that negatively impact our economy.

In July, 2012, President Obama signed the $105 billion transportation bill MAP-21 to address our Nation's transportation infrastructure needs. MAP-21 included the recognition of the importance of the efficient, economic and sustainable movement of freight in an efficient intermodal system to the overall economic welfare of the Nation. The recognition in this legislation reaffirms the goals that are set forth in the Shipping Act and that have been entrusted to the Commission.

Also in July, 2012, the first United States Department of Agricultural (USDA) Ocean Shipping Container Availability Report (OSCAR) was released. OSCAR provides shippers, particularly those in the agriculture sector, with the participating carriers' estimates of equipment availability for the current week, and projected weekly container availability for the subsequent two weeks. Commission staff provided technical assistance and expertise to USDA to develop and implement this new reporting service, which serves as a model of government and the private sector uniting to implement President Obama's goals to increase exports. The Commission continues to work with USDA as well as the International Trade Administration of the Department of Commerce on projects aimed at better understanding and finding solutions to supply chain bottlenecks that might negatively affect U.S. exporters.

In 2013, we continue our efforts to assist U.S. exporters. Following requests from several agricultural exporters, the Commission is exploring the concept of using data it has to develop a container shipping rate index for a few targeted export commodities such as grains, cotton, hay, and frozen meat. Such indices could give exporters useful information to plan and hedge their transportation costs, which would allow them to make future export sales with less risk of shipping rate increases leaving them unprofitable. We look forward to hearing the views of industry and this Committee as we consider this innovative idea. For small businesses that want to start exporting, as well as for individuals shipping personal goods, we have developed a search tool on our website that will help them find a nearby licensed and bonded freight forwarder or non-vessel-operating common carrier (NVOCC).

The Commission has monitored the industry's increasing focus on the Nation's ports' and marine terminal operators' efficient stewardship of resources and their focus on productivity. There have been several industry innovations aimed at productivity, sustainability and efficient use of resources. The Commission's mission is to ensure these innovations do not operate to unreasonably decrease competition in a way that is likely to cause unreasonable disruptions to the supply chain. One example of such an industry shift is the use and control of chassis that are used to move international ocean-going containers. Recent amendments to equipment use and sharing agreements have been filed by vessel operators with the Commission with the stated goal of improving the quality and efficiency in the intermodal chassis operations. These pools use various models, and the Commission will continue to analyze their impacts and monitor the effects of these agreements on the supply chain.

There have been other recent examples in the increasing use of technology to drive industry innovations in the operations of the Nation's international ocean ports. Through an agreement among terminal operators in Los Angeles and Long Beach filed with the FMC, PierPASS was originally created in 2005 to address multi-terminal issues such as congestion, security, and air quality. Under this program, all international container terminals in the Nation's largest port complex established new gate hours with the incentive to use off-peak shifts and to cover the added cost through a traffic mitigation fee collected from peak cargo movement. The Commission will continue to monitor this program to ensure its effects meet Shipping Act requirements.

When U.S. exporters and importers experienced supply chain disruptions in 2010 from cancelled bookings, cargo rolled to the next sailing, and rapid increases in rates and surcharges, the Commission launched a fact-finding investigation into vessel capacity and container shortages, led by Commissioner Rebecca F. Dye. Following the fact-finding team's recommendations, the Commission formed Rapid Response Teams to help U.S. exporters and importers cut through red tape and find prompt solutions to disputes with carriers. And the Commission increased oversight of the rate discussion agreements in the nation's largest trade lane. Through the end of 2012, we continued to closely monitor the Transpacific rate discussion agreements.

The Commission provides services to assist parties to informally resolve disputes. The FMC's Office of Consumer Affairs and Dispute Resolution Services (CADRS) received 538 cargo-related complaints in FY 2012 that resulted in case openings for dispute resolution services. So far, feedback is that CADRS' Rapid Response Teams have been highly effective. I encourage parties to bring us their issues for informal resolution to avoid the cost and delays of litigation, so that cargo can keep moving

2. Reducing Regulatory Burdens

The Commission has made regulatory relief and modernization pursuant to the President's Executive Order 13563 a top priority. During the past year, we have taken several steps to reduce regulatory burdens and bring costs savings and flexibility to the shipping industry and customers they serve.

Last fall, the Commission issued changes to its procedural rules for the first time in many years to reduce the burden on parties to administrative proceedings and improve their just, speedy and inexpensive resolution. During the summer of 2012, the Commission further revised its tariff exemptions to eliminate record keeping requirements for negotiated rate arrangements offered by U.S.-based NVOCCs who chose to use those instruments. And earlier this year, the Commission solicited comments on a proposed rule that would expand that exemption to foreign-based unlicensed NVOCCs.

During the same period, the Commission announced that it would begin reviews of its regulations concerning the licensing and oversight of ocean transportation intermediaries, the process for review of filed agreements, and its rules regarding service contract filings. The

Commission will continue to engage the shipping public and the regulated industry to explore, through its retrospective review of regulations, how it can streamline and improve its rules.

3. Foreign Shipping Practices

The Commission continues to watch for restrictive or unfair foreign shipping practices under Section 19 of the Merchant Marine Act, 1920; the Foreign Shipping Practices Act of 1988 (FSPA); and the Controlled Carrier Act of 1978. Section 19 empowers the Commission to make rules and regulations to address conditions unfavorable to shipping in our foreign trades; FSPA allows the Commission to address adverse conditions affecting U.S. carriers in our foreign trades that do not exist for foreign carriers in the United States. Under the Controlled Carrier Act, the Commission can review the rates of foreign government-controlled carriers to ensure that they are not below a level that is just and reasonable.

The Commission carefully monitors the activities of state-owned ocean common carriers to ensure that U.S. trades remain substantially free of unfair practices. The Commission has also studied the maritime practices of our trading partners generally. In July 2012, the Commission released a Study of U.S. Inland Containerized Cargo Moving through Canada and Mexican Ports. That study analyzed the factors that might explain the diversion of some U.S.-origin or -destined cargo through Canadian or Mexican seaports.

Limited resources and a reduced budget for travel will require the Commission to leverage the relationships it has with its foreign counterparts in increasingly creative ways to accomplish its legislative mandate to harmonize regulation in international ocean shipping.

4. Protecting American Consumers

The Commission's mission includes ensuring service and providing protection for members of the public — including those who are not sophisticated shippers, but who may travel on cruise ships or deal with international shipping only infrequently, for example when they ship personal belongings or household goods abroad.

Earlier this year, the Commission enhanced the financial protection for cruise passengers who sail from U.S. ports, while reducing financial responsibility requirements on smaller cruise lines. The Commission increased the maximum coverage requirement for larger cruise lines from $15 million to $30 million per cruise line, and now requires that this cap be adjusted every two years, based on the Consumer Price Index for All Urban Consumers. It also provided relief for smaller cruise ship operators by reducing their coverage requirements to account for alternative forms of financial protections available to their customers.

5. Sustainability and Efficiency

Environmental and sustainability concerns continue to play an important role in the agreements and shipping practices the Commission regulates. As ports and ocean common carriers modernize their business practices, equipment, and facilities to increase efficiency and grow in a sustainable manner, the Commission will work diligently to be a helpful partner.

Today, "slow steaming" is a widespread industry practice that is coming to affect future engine designs and carriers' service network configurations. The Commission continues to monitor slow steaming trends for effects on the Nation's supply chain, after the Commission voted in 2010 to allow the Transpacific Stabilization Agreement (TSA) to discuss slow steaming deployments and environmental initiatives. Similarly, the Commission has monitored changes made by the major rate discussion agreements in the Transpacific trades to their fuel surcharges. Bunker surcharges were adjusted initially to account for reduced ship operating cost as a result of slow steaming, but subsequently were adjusted again to account for the higher cost of low sulfur fuel, which will reduce air pollution.

The Commission's internal Maritime Environmental Committee continues to study environmental initiatives in the industry and to highlight the innovations and work being done in this area. In addition, the Committee monitors international climate change commitments for impacts on the maritime industry.

6. Enforcement: Stopping Fraud, Market Distortions, and Threats to Safety and Security

The Commission's Bureau of Enforcement, Area Representatives, and investigative staff continue to prevent and end shipping practices that are unfair or deceptive. Targeted violations have included illegal or unfiled agreements among ocean common carriers; unfair or fraudulent practices affecting household goods shippers; and misdescription of cargo, which not only affects shipment costs, but can also pose a serious safety and security risk by preventing vessel operators and port officials from knowing what goods are being transported on vessels into the United States. In FY 2012, the Commission collected $838,000 in civil penalties for Shipping Act violations.

7. National Security

The Commission's oversight of ocean common carriers, ocean transportation intermediaries, and marine terminal operators is an important element in the effort to protect our Nation's seaports. Unique among federal agencies, the FMC regulates virtually all entities involved in liner shipping, receiving, handling, and transporting cargo and passengers in foreign commerce. The FMC's unique mission affords it the opportunity to assist front-line security efforts by providing information regarding the backgrounds of parties using our Nation's supply chain, including those with direct access to our seaports.

The Commission continues to exchange enforcement information with the Department of Homeland Security (DHS). Within the DHS, the Commission works together with Customs and Border Protection (CBP) under an existing Memorandum of Understanding. Cooperation with other agencies has expanded into joint field operations to investigate entities suspected of violating both agencies' statutes or regulations. Such cooperation often involves local police, U.S. Citizenship and Immigration Services officers, Immigration and Customs Enforcement officers, and the Federal Bureau of Investigation.

8. Modernization and Technology

The Commission is pursuing the implementation of several information technology programs and initiatives to comply with governing IT statutes and regulations, as well as to improve the efficiency, convenience, and effectiveness with which the agency serves the public, particularly in the licensing process. In particular, we believe enhanced information systems are essential to efficient identification and licensing of regulated entities and to information sharing with our counterparts at CBP and other federal agencies. These IT systems would also enable our Area Representatives, Bureau of Enforcement, and CADRS staff to have timely and comprehensive access to data needed to tackle the practices of ocean transportation intermediaries and vessel operators that abuse or defraud the shipping public.

Investment in new and innovative technology could substantially improve efficiency, enabling the Commission to focus on support of systems critical to FMC's core mission. In FY 2013, FMC replaced its legacy email and collaboration environment with a cloud-based email and collaboration service. This provides FMC staff with enhanced email functionality in a cloud-based environment, as well as access to the most current, commercially-available service offering. Because this infrastructure is hosted in the cloud, the FMC has lowered its hardware and software costs, system operation and maintenance labor hour costs, and upgrade and lifecycle costs, while meeting long needed disaster recovery requirements.

In response to recent government-wide transformation initiatives, should funding be available, the FMC will continue the integration of Enterprise Content Management (ECM) technologies. An ECM platform will be used to capture, manage, store, preserve, and deliver documents in a new business processes model. The scope and speed of these technology investments will depend on availability of funds. These investments will lead to greater productivity, efficiency, and transparency.

9. Human Capital Management

At the FMC, we understand that leadership is a critical asset. At the present time, three-fourths of FMC's executives are eligible for optional retirement. Our Human Capital Plan guides our actions in planning for succession. As funds become available, we provide training and development in leadership competencies within a technical context to prepare the next generation of leaders.

We will continue to use a systematic succession management process that allows us to project our needs, prepare individuals to assume greater levels of responsibility, and evaluate the

results. In this way, we expect to continue to maintain a talented and knowledgeable leadership corps that can meet the challenges of the future.

10. Sequestration

The President's Fiscal Year 2013 Budget Request included $26 million for the Federal Maritime Commission to fund 132 FTEs. This request would have enabled the Commission to meet its Annual Performance Goals and included critical funding for information technology investments to increase efficiency and streamline our processes for licensing and filing, while at the same time reducing burdens on the industry.

Straight-line funding for the FMC in FY 2013 would have resulting in appropriations totaling $24,100,000. However, the Commission's appropriation level was subsequently reduced by $1,260,575 through sequestration of funds to comply with the Balanced Budget and Emergency Deficit Control Act and through a reduction of 0.2% to implement provisions in the full-year continuing resolution. These reductions resulted in an FY 2013 funding level of $22,839,425, an amount which is roughly equal to the Commission's FY 2009 appropriation.

This FY 2013 funding level will force the Commission to furlough employees for a yet undetermined number of days. Although the specific number of days remains in flux and is dependent on whether additional, unanticipated costs or savings are realized, primarily through attrition, we currently estimate approximately 10-14 furlough days for all eligible FMC employees. As a very small regulatory agency with an extremely lean budget, options to reduce costs substantially without furloughing staff are limited; salaries, benefits and rent account for approximately 95% of the Commission's budget. Nevertheless, a number of actions were taken to reduce costs and minimize the number of furlough days. Among them were:

- Reduced travel expenses by more than 30% below the President's Fiscal Year 2013 Budget level.

  Reduced training expenses by 75% below the President's Fiscal Year 2013 Budget level, negatively impacting the agency's Human Capital Plan, attempts to address skill gaps and succession planning.

- Suspended library subscriptions of ongoing legal publications that support legal research.

- Imposed hiring restrictions on filling vacancies. Only the most critical vacancies are being filled, such as the existing Inspector General vacancy.

- Allowed a document scanning contract to expire without renewing our option. The contract provided electronic scanning services for records of formal proceedings, investigative matters and other records. When funds become available, we hope to enter into a

new contract to restore those services so that documents can continue to be viewed quickly by the public.

- Delayed, deferred or terminated commercial services contracts for shipping data that enables the agency to analyze trade conditions and monitor shipment data.

- Canceled or deferred overdue and needed IT hardware/software replacements and reduced funding for ongoing IT contracts, including a contract to maintain existing FMC automated systems, and a contract to upgrade and replace outdated systems in order to improve productivity.

Approximately seventy-five percent of the Commission's annual expenses are directly related to payroll and benefits, and another twenty percent relate to travel and fixed costs, such as rent, security and other mandatory government services such as telephone, fiscal services, and Federal Register printing. Much of the other five percent of funding is for commercial services contracts, office supplies, and to maintain legal library publications. This leaves very few avenues to absorb further reductions.

As a result, the Commission has reduced travel and training expenses, canceled or suspended IT replacements, subscriptions necessary to support legal research, and hiring needs. Unfortunately this limits our ability to oversee the shipping industry, resolve problems through direct negotiations, monitor activities of regulated entities, consult with foreign trading partners to ensure comity in international regulatory affairs, and expand compliance oversight.

CONCLUSION

Mr. Chairman and members of the Subcommittee, I hope that these comments give you a clear indication of the state of the industry serving the Nation's foreign oceanborne trade and the important mission of the Federal Maritime Commission. I thank the Subcommittee for its support of the Commission through the years and respectfully request favorable funding consideration for Fiscal Year 2014 and beyond, so that the agency may continue to perform these vital statutory functions, and so that the public and shipping industry may continue to be served reliably, efficiently and effectively.

Questions for the Record from Hon. John Garamendi (D-CA) to
Hon. Mario Cordero, Chairman, Federal Maritime Commission

Justification for Funding Increase

Chairman Cordero, the Fiscal Year 2014 budget request for the Commission proposes a $900,000 increase over the Fiscal Year 2012 appropriation and an increase of $2.2 million above the Commission's post-sequestration funding level.

- *In essence, this budget request would simply allow the Commission to continue to tread water, correct?*

The Commission's 2014 budget proposal of $25 million represents the minimum necessary for the Commission to fulfill its role in overseeing U.S. maritime commerce. We are a small regulatory agency and because 95% of our budget is directly related to payroll, travel, rent, and other fixed costs, there are few avenues to impose further reductions.

The Commission regulates US oceanborne commerce valued at $930 billion annually, accounting for 29.3 million Twenty-foot Equivalent Units (TEUs) of import and export cargo. The Commission's budget request of $25 million allows the Commission to carry out its important, statutorily-mandated programs aimed at maintaining an efficient and competitive international ocean transportation system; protecting the public from unlawful, unfair, and deceptive ocean transportation practices; and resolving shipping disputes. These key FMC initiatives also allow the Commission to resolve issues that have an impact on importers and exporters, a Commission primary objective to increase U.S. exports. An efficient ocean transportation system also depends on our mandate to evaluate terminal agreements for any statutory violations and the licensing of Ocean Transportation Intermediaries (OTI) to protect the shipping public.

Agency-wide furloughs have already disrupted workflow for a small agency with major responsibilities. This request would be sufficient to prevent future furloughs as staff would be able to fully provide oversight of the ocean transportation industry the Commission regulates here and abroad. If funding continues at the current FY 2013 level of $22,839,425, it will significantly impede the Commission's ability to carry out our statutory duties and dispute resolution functions, which have grown increasingly important to the success of both US importers and exporters. Our experience this past fiscal year with agency-wide furloughs demonstrated that loss of employee time on FMC programs had an enormous impact on progress the Commission has made in carrying out congressionally mandated programs. The Commission has severely restricted hiring, delayed or canceled purchases and contracts, and made severe cuts to the agency's outreach and educational programs needed to resolve issues affecting the shipping industry. This low funding level has also caused the Commission to make unsustainable cuts to its already minimal information technology systems, which are necessary to provide efficiencies for and reduced burdens on the industry it regulates.

The requested funds for FY 2014 have a direct impact on the underpinnings of the economic recovery of our nation's international ocean commerce transportation system. The Commission has examined operating costs down the minutest of details. We have proposed reductions to offset the increase in our 2014 budget and will continue to use our limited resources wisely. The increase represents one of the lowest funding increase requests by the FMC in over a decade. It will not restore the Commission to previous capabilities but will allow the Commission to keep our heads above water and meet the responsibilities Congress has entrusted to the agency. I respectfully urge Congress to approve our full FY 2014 $25 million budget request.

- *If Congress provides the additional $900,000, what priorities would the Commission address with this increase? Would these funds mostly be used to address un-met administrative needs and increased fixed costs?*

Questions for the Record from Hon. John Garamendi (D-CA) to
Hon. Mario Cordero, Chairman, Federal Maritime Commission

A main priority under the increase would be to update our IT infrastructure. The importance of modernizing the Commission's IT system cannot be over-emphasized. The Commission's equipment is severely outdated and an investment is needed to protect the Commission and its partners from cyber attacks and to comply with governing IT statutes and regulations. The Commission is also working on improving technology to disseminate public information efficiently at lower costs by providing increased web-based and social media-based accessibility. We hope that our approach will enhance Commission services and facilitate public interaction while adding greater efficiencies to internal business processes. This would not only streamline internal work flow processes, saving money and resource hours in the long term, but significantly reduce the burden on the industry we regulate through efficient interfacing with our electronic filing systems. The Commission is in the early stages of developing an integrated enterprise content management system, which will enhance efficiency of our processes. This will take a number of years to complete given the number of systems slated for integration. Over ten agency-wide systems can be integrated, saving the public and FMC staff from duplicate data entry and providing the ability to cross-reference data.

We are precluded from doing this important modernization without significant additional resources for IT systems and personnel. Contracts fulfilling these objectives have been severely cut. The Commission's IT operating systems, workstations, and network hardware are outdated, creating potential security and data integrity risks. Insufficient funding has also prevented FMC from being able to fully implement disaster recovery programs. These IT initiatives are extremely important to fulfilling FMC's mission and will be a priority should the Commission receive these additional funds.

The Commission has also placed an importance on improving its IT program and is focused on improving effectiveness in how the agency serves the public, particularly in the licensing department. Enhanced information systems are essential to efficient identification and licensing of regulated entities and to information sharing with our counterparts at CBP and the federal agencies. An updated IT system will also enable our Area Representatives, Bureau of Enforcement, and the Commission's Office of Consumer Affairs and Dispute Resolution Services (CADRS) to have comprehensive access to data needed to protect the shipping public from abusive and fraudulent practices made by ocean transportation intermediaries and vessel operators. These investments will lead to greater productivity, efficiency, and transparency.

The FMC would also be able to meet increased rent and security costs and travel necessary for executing the Commission's core mission, specifically with regard to protecting the shipping public from unlawful and unfair practices as well as resolving shipping disputes.

Cruise Industry Regulation/Consumer Protection

Chairman Cordero, on February 13, 2013, the Commission approved measures that would strengthen protections for cruise line customer deposits and prepayments, while reducing financial responsibility requirements imposed on smaller cruise lines. I believe this was a helpful action to ensure that cruise lines are held accountable when a voyage is cancelled or disrupted.

- *Are there additional steps that could be taken by the Commission or by the Congress in legislation to provide greater consumer protection for cruise ship passengers in those instances when voyages are cancelled or not completed?*

In recent months, there have been well-publicized disruptions in cruise ship services. On February 1, 2013, the Carnival Triumph was crippled by an engine fire in the Gulf of Mexico causing it to lose propulsion and stranding 3,141 passengers and 1,086 crew for five days enduring power outages, broken toilets and food shortages. On March 13, 2013, a diesel generator of the Carnival Dream malfunctioned at dock in St. Maarten causing cessation of the

voyage. Then the Royal Caribbean Grandeur of the Seas experienced a fire, and the ship was taken out of service on May 24, 2013, until July 12, 2013, cancelling its next six sailings. In each instance, passengers were in need of clear consumer protections and answers.

Through its *ombuds* role, the FMC's CADRS addressed passenger concerns related to these incidents. The Commission continues to help resolve passenger problems, speaking with passengers and cruise lines regarding refunds and cancelled sailings. However, the Commission's specific jurisdiction over cruise lines does not extend to traditional consumer and customer service protection rights but could be provided through legislation.

I commend the Cruise Lines International Association for voluntarily adopting a 10-point passenger bill of rights for its members. The impact this initiative will have on strengthening consumer protections for passengers is still an "open book".

Alternative Dispute Resolution Services

Chairman Cordero, it is my understanding that the Commission has initiated an alternative dispute resolution service as a less costly and time consuming alternative to litigation in court.

- *What is the demand for this service? In general, have shippers and carriers and the consumers who use those services expressed growing interest?*

Conflict among parties is a constant in the oceanborne transport system, so I am particularly proud of the inroads we have made in the Commission's alternative dispute resolution (ADR) services. Benefits of utilizing ADR include the efficient use of resources, privacy and confidentiality, and creative commercial solutions that provide holistic resolutions to problems that may not otherwise be available through litigation.

CADRS experienced an 18.5% increase in requests for *ombuds* services between fiscal years 2011 and 2012. In addition, 18 mediation matters were convened in the last three quarters of fiscal year 2012. A significant trend in services is that industry participants include CADRS as an ADR provider in the dispute resolution clauses for their service contracts. Parties benefit from the use of CADRS services by resolving commercial and regulatory disputes and repairing or improving party relationships. This is particularly important to support the Commission's mission to enhance exports where the steady flow of commerce hinges upon intricate long-term relationships between participants in the logistics chain.

Given recent difficulties experienced in the cruise industry, CADRS is working with cruise lines and passengers to resolve disputes that arise. The Commission is also exploring mechanisms to provide greater support to disputing cruise lines and passengers and ways to assist all parties.

- *Does the Commission expect to expand these services as part of its overall strategy to improve maritime trade moving into and out of the United States?*

The Commission's use of *ombuds, Rapid Response Teams*, mediation, facilitation, and arbitration to assist parties in resolving ocean shipping disputes as well as matters involving cruise passenger complaints, furthers its mission to foster a fair, efficient, and reliable ocean transportation system and to protect the public from unfair and deceptive practices. The Commission intends to expand the use of ADR through continued engagement with industry participants to meet the growing demands for *ombuds* assistance coupled with the existence of service contracts that identify CADRS as an ADR provider. Unfortunately, the Commission's ability to expand the resources devoted to these services may be limited by budgetary

considerations which will necessarily curtail travel, education, and outreach efforts to promote and provide these important services to the consumer and the industry.

STATEMENT OF DAVID T. MATSUDA
MARITIME ADMINISTRATOR
MARITIME ADMINISTRATION

BEFORE THE
HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION

The Maritime Administration's
Fiscal Year 2014 Budget Request

April 16, 2013

Good afternoon Chairman Hunter, Ranking Member Garamendi, and Members of the Subcommittee. Thank you for the opportunity to discuss the President's Fiscal Year (FY) 2014 budget priorities and initiatives for the Maritime Administration (MARAD). I am pleased to appear before you to highlight how the President's budget request will support maritime transportation and its contributions to the U.S. economy, national security and resiliency, and environmental sustainability.

MARAD's mission is to foster a merchant marine that meets both the economic and security needs of the Nation. The scope of our mission includes port and intermodal infrastructure, capable vessels and shipbuilding facilities, national policies which encourage a sustained investment in U.S. shipping, and of course, maritime education, training, and other support for the skilled men and women who have developed maritime careers in this vital industry.

We accomplish this primarily through a mix of Federal readiness programs, some of which sustain government-owned reserve sealift ships crewed by civilian mariners and some which provide operating stipends to commercial maritime companies. Each of these programs help to ensure that the transportation services our Nation requires at a moment's notice will be available to us when needed. Late last year, a major milestone was reached when the President signed into law legislation requested by the Administration effectively extending the Maritime Security Program (MSP) from 2015 to 2025. This law helps provide long-term stability to ensure a militarily-useful U.S. flag fleet and provides increasing stipend levels over the next 10 years. I thank the Subcommittee for supporting the passage of this legislation.

FY 2014 BUDGET REQUEST

The President's FY 2014 budget request for MARAD is $365 million, which will support the agency's coordinated program of activities and initiatives advancing Departmental and national maritime transportation objectives. The budget request highlights new initiatives for port infrastructure development and a mariner retention incentive program.

KEY PRIORITIES

The U.S Merchant Marine Academy (USMMA) continues to be an area of focus for the agency and is a top priority for the Department. Raising the profile and prestige of the USMMA in conjunction with improving the institution both administratively and academically is a management imperative. MARAD has made important progress in shaping the course and direction of the USMMA, including the appointment of new leadership, Superintendent Rear Admiral James Helis and Deputy Superintendent Rear Admiral Susan Dunlap, and issuance of a new Strategic Plan to guide Academy strategic management and program development. The President's FY 2014 budget request continues the Department's commitment to maintenance and improvement of Academy facilities that helps to create an enriching educational environment.

Another key priority for MARAD is fulfilling its role in meeting the economic and security needs of the Nation. Defense sealift relies heavily on the U.S. commercial sector and MSP funding is essential for the maintenance of a U.S. presence in ocean-borne foreign commerce. In addition to providing employment for 2,700 U.S. merchant mariners, the MSP fleet also ensures the military's ability to obtain assured access to commercial vessels and intermodal networks and mariners. The President's FY 2014 budget also includes $25 million for a new initiative aimed at mitigating the impact on sealift capacity and mariner jobs resulting from food aid program reform.

The President's budget request will also advance the agency's contribution to environmental sustainability by supporting the disposal of obsolete National Defense Reserve Fleet (NDRF) vessels, preservation and license activities for retention of the Nuclear Ship SAVANNAH, maritime environmental technology assistance, and advancements in ocean policy. The National Ocean Policy coordinates and aligns coastal and ocean-related actions of the Federal agencies to bolster our ocean economy, improve ocean health, support local communities, strengthen our security, and access the best available information to ensure we are using our ocean resources to the maximum benefit of all Americans. Because the Policy is implemented through agency action under existing authorities and missions, there is no separate line item for the National Ocean Policy in the President's Fiscal Year 2014 budget.

Other priorities for MARAD in FY 2014 include the continued oversight and stewardship of Transportation Investment Generating Economic Recovery (TIGER) grant funding for maritime projects, and improving the management of our human, information, and financial resources.

ECONOMY

Maritime transportation is a vital industry, contributing roughly $15 billion per year to the national economy, in terms of value added. U.S. waterborne commerce exceeds 2 billion metric tons per year. MARAD programs help strengthen and improve the Marine Transportation System, relieving pressure on highways by helping to increase the use of our Nation's waterways. Because waterborne transport provides a cost-effective

transportation alternative, it can help mitigate congestion in other transportation modes, and significantly reduce fuel consumption per ton-mile, with a related carbon footprint reduction.

MARAD's mariner training activities focus on preparing individuals for maritime careers while developing and maintaining a vital and viable U.S. merchant marine for commerce, emergency response, and national security. The USMMA and State Maritime Academies educate and graduate merchant marine officers ready to serve the maritime industry and Armed Forces. In addition, MARAD's work with shipping, shipbuilding, and port and vessel operations supports the maritime industry, which comprises more than 250,000 jobs.

United States Merchant Marine Academy

The President's FY 2014 Budget requests $81 million for the Academy. Of this, $67 million will support Academy Operations and $14 million will fund the Capital Improvement Program. The FY 2014 request will enable the Academy to effectively achieve its core responsibility of providing the highest caliber academic study with state of the art learning facilities for the Nation's future merchant marine officers and maritime transportation professionals. The Academy anticipates graduating 248 licensed merchant marine officers for service in the maritime industry and the Armed Forces in 2014.

The agency's strong commitment to improved Academy facilities is reflected in the FY 2014 request for $14 million for the Capital Improvement Program. The funding, together with carry-over funds, will support four priorities identified in the Academy's Five-Year Capital Improvement Plan, including architectural and engineering designs for renovation of Samuels Hall/Bowditch Hall academic buildings, Samuels Hall renovation and construction, Zero Deck construction, and initiation of repairs to the seawall to help protect against further erosion.

We have made significant progress in improving institutional management, oversight and controls at the Academy. In the last eight months, we have appointed a new Superintendent and Deputy Superintendent, issued new policies, completed a reorganization reflecting a better functional alignment, and issued a new Strategic Plan, establishing objectives for academics, leadership, facilities management, and outreach.

As a result of our emphasis on oversight and strengthening controls at the Academy, we have provided the Government Accountability Office (GAO) with documentation for corrective actions and process improvements addressing all of their recommendations for the Academy. GAO has confirmed closure of 33 recommendations in the 2009 audit report, and we have indications from GAO that additional closures are expected to be confirmed shortly. We also have provided documentation of our improvements to Academy capital improvement program management and oversight, addressing the concerns identified in GAO's 2012 audit report. Congress' assistance has been instrumental to guiding our efforts to provide the funding and leadership the Academy

needs to train and prepare the next generation of midshipmen to meet the country's rapidly-evolving defense and maritime transportation needs.

State Maritime Academies

The President's FY 2014 budget requests $17.1 million, unchanged from FY 2012, for the State Maritime Academy (SMA) program. This $17.1 million request includes $2.4 million to fund the Student Incentive Payment (SIP) program, enabling enrollment of 300 students to be able to meet identified Armed Forces reserve requirements; $3.6 million for annual direct payments to the six SMAs to provide for operational support; and, $11.1 million to fund maintenance and repair costs for Federally-owned training ships on loan to the SMAs.

The state academies regard the SIP program and support for their training ships as among the most important recruiting tools to encourage potential state maritime academy cadets to pursue careers as merchant marine officers. MARAD anticipates approximately 650 students in the license program will graduate from the academies in 2014. Annually, the six SMA training vessels provide for approximately 123,000 cadet sea days, opportunities for important hands-on technical training. Maintaining the operating condition of these NDRF training vessels is important as the ships can also be called up to respond to emergencies or relief efforts.

In November and December 2012 the Training Ship (TS) EMPIRE STATE and TS KENNEDY were deployed to provide support to FEMA for Hurricane Sandy relief efforts. Combined with the NDRF vessel WRIGHT, a Ready Reserve Force (RRF) aviation support ship, these three ships housed nearly a thousand emergency responders and relief workers daily at a highly cost-effective rate during a critical time when warm beds, hot meals, and places to recharge communications devices all came at a premium given the dearth of local hotel space.

Additionally, the National Maritime Heritage Act authorizes 25 percent of sales from recycling of obsolete NDRF ships to be provided to the SMAs. In the past fiscal year, MARAD provided approximately $2.3 million to the SMAs from the vessel scrap sales, capping a four-year period in which Federal support to the state maritime academies by MARAD was increased 83 percent.

Maritime Security Program (MSP)

The MSP is the agency's largest appropriated program. The primary purpose of the MSP is ensuring the military's access to a global intermodal system with sealift capacity and ready U.S. mariners, while also maintaining a U.S.-flag fleet capable of supporting a U.S. presence in foreign commerce. MSP vessel participants have the global, multi-modal reach that delivers cargoes supporting overseas deployments of U.S. forces. MSP ships are carrying the bulk of military supplies and equipment in support of U.S. forces in and out of Afghanistan. Presently, 90 percent of the cargo transported to and from

Afghanistan is carried by MSP carriers. As of April 1, 2013, 60 vessels were enrolled by 13 U.S. operators.

For FY 2014, a total of $208 million in new budget authority is requested for the Maritime Security Program (MSP) account. Within the total, $183 million is included for the base MSP program, $3 million less than the authorized level. The difference is projected to be funded by program recoveries of unpaid obligations (funds obligated but unpaid and recovered in 2014). Funding at this level will enable DOT to continue to maintain a U.S.-flag international trade merchant fleet crewed by U.S. citizens to serve the Nation's economic, homeland and national security needs.

The President's FY 2014 request also shifts $25 million of the efficiency savings in a new food aid program reform initiative to help preserve mariner employment on militarily useful vessels not enrolled in the MSP fleet with priority given to eligible vessels under 46 U.S.C. 53102(b) in consultation with the Department of Defense. These funds will provide a means to help sustain a qualified pool of citizen merchant mariners through vessels' stipends, mariner credentialing, and apprentice training. This will also help sustain an adequate labor pool to be readily available to support crewing government RRF sealift ships when needed. MARAD will work with stakeholders to best leverage these resources to gain viable alternatives on ways to preserve U.S.-flag ships and mariners available to support government sealift vessels.

Port Infrastructure Development

The President's FY 2014 budget request highlights a new Port Infrastructure Development Program, with a request for $2 million. The 2010 National Defense Authorization Act (P.L. 111-84) directs the Department to implement a Port Infrastructure Development Program. Consistent with the legislation, the new program will support development of guidelines and planning for port infrastructure improvements and master plans, including implementation of a pilot grant program to help ports determine optimally effective investment strategies. Of the request, $1.7 million would be devoted to a pilot program for competitive matching grants advancing sophisticated port infrastructure and investment planning methods, and providing an incentive for close coordination among state transportation authorities. The balance of the funding will be allocated to partnering with stakeholders to develop guidance and performance measures for evaluating marine transportation benefits and guidelines for the development of port investment plans.

Maritime Guaranteed Loan Program (Title XI)

Title XI offers loan guarantees for shipyard modernization projects and for building vessels in U.S. shipyards for operation under U.S.-flag registry. The loan guarantees enable applicants to secure long-term financing at favorable interest rates, sustaining facilities for shipbuilding and ship repair within the U.S., and promoting system capacity and jobs. The current Title XI subsidy balance for new grantees is $38 million. This will support approximately $421 million in shipyard projects assuming average risk category

subsidy rates. The President's FY 2014 budget requests $2.7 million for administration of the Title XI guaranteed loan portfolio to ensure agency compliance with the Federal Credit Reform Act, borrower compliance with loan terms, and to process new loan applications. The current portfolio is $1.8 billion, covering approximately 325 vessels and we are currently evaluating two applications totaling more than $400 million.

ENVIRONMENT

MARAD environmental programs are aimed at reducing pollution and the adverse environmental effects of maritime transportation and facilities on communities and livability; with a focus on obsolete vessel disposal, reducing marine air emissions, and treating ballast water.

Ship Disposal

The President is requesting a total of $2 million for the Ship Disposal Program in FY 2014. The FY 2014 request will support the continued steady progress in the removal of obsolete ships from the NDRF for disposal, with emphasis on vessels that are a high disposal priority, most of which remain in the Suisun Bay Reserve Fleet (SBRF).

There currently are 32 total non-retention ships remaining in MARAD's three fleet sites awaiting disposal, which is an historic low. With the requested funding level, and available carry-over balances, MARAD will be able to continue the disposal momentum with the expedited removal for recycling of approximately 15 obsolete ships from all three fleet sites in 2014, which will include approximately six SBRF vessels. The requested funding level is consistent with the requirements of the court-ordered settlement with California. The agency has already seen to the disposal of 39 of the 57 vessels in the consent decree, and is essentially a year ahead of expectations.

Funding in the President's request will also cover the costs related to risk mitigation for compliance with the National Invasive Species Act (NISA) and Clean Water Act (CWA), as well as lessen the environmental risk at the fleet sites and recycling facilities.

Nuclear Ship SAVANNAH

The President's FY 2014 request includes $2.8 million for the inactive Nuclear Ship SAVANNAH, providing for the continuation of support activities including nuclear license compliance, radiological protection, ship husbandry and custodial care, decommissioning planning and preparation, and historic preservation.

Though management and custodial care of the legacy asset, which is both licensed and regulated as a nuclear power facility and designated as a National Historic Landmark, remains with MARAD's Ship Disposal Program, the FY 2014 budget requests funding in the agency Operations and Training account to focus on the Nuclear Regulatory Commission's required nuclear reactor core decommissioning activities, which must be initiated by 2026 and completed by 2031.

Maritime Environment and Technology Assistance

The most pressing environmental issues facing the maritime industry are invasive species in ballast water, energy use, and air emissions. The President's FY 2014 budget requests $2 million for environmental sustainability efforts for these areas.

MARAD has been called upon by industry and government agencies to help address these environmental pollution issues, and we recognize that more must be done to transition toward a greener maritime future. The budget request will continue to advance critical research to develop a ballast water discharge standard, advance infrastructure and methodologies for certifying and verifying ballast water technologies, and improve vessel emissions data.

These represent the key policy proposals and initiatives highlighted in the President's FY 2014 budget. We will continue to keep this Committee apprised of the progress of our programs in these areas in the coming year, including our continuing USMMA management improvements.

Mr. Chairman, I wish to express my appreciation for the opportunity to present and discuss the President's FY 2014 request for MARAD, and for the Committee's continuing support for maritime programs and those that benefit from them, including the maritime industry, employees, shippers, travelers, and consumers of goods. I look forward to working with you on advancing maritime transportation in the United States, and am happy to respond to any questions you and the members of the Committee may have.

Thank you.

Subcommittee on Coast Guard and Maritime Transportation
Hearing on President's Fiscal Year 2014 Budget Request for
Coast Guard and Maritime Transportation Programs
Tuesday, April 16, 2013

Questions for the Record to the Honorable David Matsuda,
Administrator, Maritime Administration

Questions from the Honorable John Garamendi (D-CA)

Maritime Security Program

The Maritime Security Program is authorized at $186 million; however, the Fiscal Year 2014 budget requests only $183 million for the program and states that MARAD intends to use $3 million in "leftover" funds to fully fund the program. This is particularly troubling given the fact that the agency has used upwards of $15 million in "leftover" funds the past two fiscal years.

- *Why did MARAD not request the full authorized amount?*
- *How will the agency find an additional $3 million given that the program is already facing funding issues due to sequestration that will drain this account before the end of the current fiscal year?*

For FY 2014, a total of $208 million in new budget authority is requested for the Maritime Security Program (MSP) account. Within the total, $183 million is included for the base MSP program, $3 million less than the authorized level. At the time the budget was submitted, the difference was projected to be funded by program recoveries of unpaid obligations (funds obligated in 2013, but unpaid and recovered in 2014—this occurs periodically when ships do not meet service requirements, such as not operating in international trade, operating under charter to the Navy, or during extended shipyard periods, resulting in program recoveries that vary significantly year to year). Once the full-year FY 2013 Continuing Resolution was passed, MARAD used all non-expended or obligated funds (carry over balances generated by prior year recoveries) to offset the impact of program funding reductions by sequestration. MARAD paid enrolled ships that remained in compliance with commercial service requirements the fully authorized stipends each month through July, plus a partial stipend in August and no stipend in September because implementation of the provisions of the Balanced Budget and Emergency Deficit Control Act resulted in an overall shortfall of $18.7 million for the program. With virtually no 2013 recoveries to carryover, MARAD now projects that a $183 million appropriation for the MSP may not fully fund stipends for September of 2014 (stipends are paid to enrolled ship operators monthly). However, vessel operators enrolled in the program have clearly signaled to MARAD that a partial payment month will not, as was the case in FY 2013,

result in disenrollment from the MSP program. MARAD and the Department of Defense are working closely together to limit any negative impact to the program and to sealift capabilities due to budget constraints should a funding shortfall occur after January 15, 2014 of any magnitude.

Cargo Preference

Mr. Matsuda, I am disappointed with the Administration's proposal to restructure the Food for Peace Program which will hurt U.S. farmers and cost jobs for U.S. seafarers.

- *In general, does the Administration support existing cargo preference laws?*
- *If so, why does the Department of Energy still have information on its website stating that DOE does not believe that the cargo preference rules apply to its programs?*
- *For that matter, was military equipment recently sent to Guam shipped on a U.S. flagged vessel?*

The Administration supports cargo preference laws requiring the use of U.S.-flag vessels to transport government impelled cargo. The Administration believes the cargo preference laws, working in conjunction with the Maritime Security Program (MSP), provide critical incentives for vessel owners to continue operating under the U.S. flag.

The Department of Energy has agreed as a matter of policy to apply cargo preference requirements in administering its loan guarantee program and revised its website accordingly.

MARAD has no knowledge of any military cargo being transported to Guam other than on U.S.-flag vessels.

Mr. Matsuda, as part of the Administration's restructuring of the food aid program the Administration is requesting $25 million to provide a transition year to establish a multi-year program to mitigate some of the potential impact on sealift capability and to identify other innovative means to encourage retention of U.S. mariners and vessels.

- *What new innovative means does the Administration intend to propose to retain U.S. maritime jobs? Please be specific.*
- *Why does the Administration believe it will be sufficient to subsidize seafarers to allow them to maintain their unlimited deep ocean credentials if there is no cargo or ship for them to sail on?*

To mitigate any impact of the Administration's proposed restructuring of the P.L. 480 Title II food aid program on vessels and mariners, the Administration proposed in its FY 2014 budget a $25 million targeted operating subsidy. Preliminary planning for this funding envisioned a three-pronged approach whereby some of the funding would provide a stipend for militarily useful vessels not enrolled in the MSP, other sums would be used to reimburse eligible costs for mariners to retain and or renew active U.S. Coast Guard issued merchant mariner credentials, and some funds would provide apprentice training for key merchant mariner skills. The $25 million program would focus on retaining both U.S.-flag vessels and U.S. mariners. If the $25 million is appropriated, MARAD will work with stakeholders and our Federal partners regarding how best to use this funding to minimize any negative impact.

Title XI Maritime Loan Guarantee Program

Mr. Matsuda, at the hearing you stated that the Maritime Administration possesses $38 million that will provide funding for upwards of $420 million worth of shipbuilding projects.

- *For the record, what is the current backlog of applications for the Title XI loan guarantee program?*
- *How does this level of funding compare with the history of funding for this program?*
- *Why has MARAD not made any new awards to utilize the $38 million balance?*

MARAD has no backlog of applications for the Title XI loan guarantee program and currently is working with pending applications for Title XI loan guarantees totaling over $1 billion. Funding for the program has not been provided through Transportation -HUD appropriations since $5 million was enacted in 2011, but $117.9 million was provided between 2009-2011 from the National Defense Sealift Fund, of which $35 million was rescinded in FY 2012. Currently $38 million remains unobligated. The Title XI program has never had to disapprove a creditworthy application due to a lack of funding. In fact, over the last four years, Title XI has enabled more than $650 million in new investments in U.S. shipbuilding. Creditworthiness determinations of the pending applications have not been completed; therefore, awards using the $38 million balance have not been made yet.

Frustration with MARAD's Lack of Transparency

Mr. Matsuda, you testified at the hearing regarding the Jones Act that MARAD is attempting to bring greater transparency to the waiver process. I commend you for this effort; however, it is unfortunate, but I have been made aware that stakeholders view MARAD as an agency that is rarely forthcoming with information.

For example, although DOT regulations require MARAD to publish policies, consequential decisions, and its rulemaking in an electronic reading room – MARAD publishes nothing. This is contrary to prior practice. From 1996 – 2005, MARAD routinely published Maritime Security Program decisions, for example, in the Federal Register – then stopped and has published nothing about its decisions on that program since then.

- *What actions are you taking to improve MARAD's accessibility and accountability to its stakeholders and the general public?*

MARAD has taken a number of actions to ensure accessibility and accountability to stakeholders and the general public. On August 22, 2013, MARAD held a briefing for the CEOs of all Maritime Security Program (MSP) carriers. MARAD in coordination with the U.S. Transportation Command (USTRANSCOM) addressed upcoming issues facing MSP and continues to work with the maritime industry to ensure the program meets the security needs of our nation. In 2013, MARAD has administered the program in an open and transparent manner and was able to negotiate the extension of all sixty (60) current MSP agreements until 2025 despite a difficult and unknown budgetary climate.

To be clear, MARAD complies with DOT regulations regarding public notice in administering the MSP program. While MARAD made public notice of a number of transactions in administering the predecessor MSP program, those notices were expressly published "as a matter of discretion." See e.g. 68 Fed. Reg. 57507 (Oct. 3, 2003); 70 Fed. Reg. 47876 (Aug. 15, 2005); and 70 Fed. Reg. 54102 (Sept. 13, 2005). Each of the transactions described in those notices was potentially precedent-setting, and MARAD, at its discretion, published those notices to ensure programmatic transparency.

In this regard, the substantive rules of general applicability and the methods and functions applied to MARAD's administration of the current MSP are published in Title 46 of the Code of Federal Regulations Part 296. MARAD has adopted one new policy of general applicability during the current MSP operating agreement period by giving U.S. citizens priority when awarding new operating agreements. MARAD published this policy in the *Federal Register*. See 73 Fed Reg. 57406 (Oct. 2, 2008). In short, MARAD's publication of MSP-related transactions is in keeping with existing MARAD and DOT regulations.

MARAD's future regulations will also exhibit transparency. The Administrative Procedure Act, which MARAD rulemakings follow, as well as Executive Order 13563 requires transparency and public participation. MARAD is drafting a Notice of Proposed Rulemaking (NPRM) relating to the America's Marine Highways (AMH) Program. MARAD plans to incorporate a statutory

change and propose conforming changes to the existing regulations. Interested parties would be provided the opportunity to review and comment on the proposed regulation published in the *Federal Register* and at www.regulations.gov. MARAD also notified interested parties, via the Unified Fall Agenda recently published on www.reginfo.gov, that it plans to issue an Advance Notice of Proposed Rulemaking (ANPRM) inviting comments on whether the Agency's existing U.S. citizenship criteria for its Vessel Operators (ship managers and agents) benefit the Nation's maritime, commercial and national security interests and provide the most current and effective approach for supporting National Defense Reserve Fleet (NDRF) operations. Comments received will be placed in a public docket and used to determine whether to propose any future changes.

Proposed Port Infrastructure Development Program

Mr. Matsuda, your budget proposed to initiate a new Port Infrastructure Development Program to support development of guidelines and planning for port infrastructure improvements and master plans, and to determine optimal investment strategies.

- *Why is it necessary for MARAD to initiate this program? Are ports incapable of figuring out for themselves the best investment strategies?*
- *Would this program be linked to any other Federal funding stream for project implementation? What is the intended end result?*

Port infrastructure development legislation (Section 50302 of title 46 U.S.C.) enacted in 2009 directs MARAD to "establish a port infrastructure development program for the improvement of port facilities." In response to the legislation, MARAD conducted extensive stakeholder engagement to identify the key issues and solutions to develop the new program's framework. One key component identified through this engagement is the need to assist port facilities to better articulate their infrastructure needs and develop their proposals to attract investors and successfully compete with other surface transportation entities for funding. In today's economic environment where private investment and public bonding are constrained, it is increasingly important that ports can generate "investment grade" plans that attract private, local and State funding, as well as the limited Federal funds that are available for infrastructure development that directly impacts the freight network.

For FY 2014, the Administration is seeking $2 million for a competitive planning grant program to help ports more effectively address future volume, capacity, market, financial and environmental needs through the planning process. This request also includes funding for the development of port investment planning guidelines, or best practices, which will be made available for all ports to assist the development of long-term strategic plans.

The intended result of the port infrastructure program is to help improve the capacity, efficiency and sustainability of the maximum number of ports possible (through assistance in planning and identifying various funding sources), while avoiding unnecessary interference with the important competitive balance among our Nation's ports. Successful outcomes will be evidenced by measurable improvements to the economy and additional employment opportunities.

Small Shipyard Grants

Mr. Matsuda, at the hearing you testified that you continue to administer the existing Small Shipyard Grant Program and that you are currently in the process of receiving additional applications for the $9 million balance available in Fiscal Year 2013. However, the Administration has not requested any funding in its Fiscal Year 2014 budget for the Small Shipyard Assistance Grant Program.

- *If MARAD's mission is to "strengthen the U.S. maritime transportation system – including infrastructure, industry and labor – to meet the economic and security needs of the Nation," how can you justify not requesting any funding for this successful program?*
- *Why does it make more sense to propose spending $2 million to create a new Port Infrastructure Development Program when that same investment could help modernize small shipyards and stimulate job growth right now?*

In FYs 2009-2013, MARAD awarded $169 million to 160 shipyards in 29 states and Guam, including $9.46 million to 12 shipyards in 10 states in FY 2013. Thirty-nine of these shipyards have received more than one grant since the 2008 inception of the program. This portfolio of small shipyard grant projects has supported MARAD's mission to strengthen the U.S. maritime industry through shipyard modernization. We will continue to focus on maritime infrastructure investments critical to economic growth, job creation, and a strong middle class, while working within the tight caps on discretionary spending.

The Nation's gateway ports are among those investments that are critical to the U.S. economic recovery, but some of the port facilities we rely on to move essential commodities are in a declining state of repair, and the current climate of eroding revenues and tight credit can stall infrastructure projects when they are needed most. Port infrastructure development legislation (Section 50302 of title 46 U.S.C.) enacted in 2009 directs MARAD to "establish a port infrastructure development program for the improvement of port facilities." In response to the legislation, MARAD conducted extensive stakeholder engagement to identify the key issues and solutions to develop the new program's framework. Ports and shipyards are both vital to the maritime industry and U.S. economic recovery. The $2 million requested in the President's Budget for the development program will lead to better and more coordinated decisions on how to fund port and shipyard projects in the future. This strategic planning will allow ports to more

fully integrate their operations into the Nation's overall transportation network, providing opportunities for ports to better compete for funds in future rounds of Transportation Investment Generating Economic Recovery (TIGER) grants.

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