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PRESIDENT'S FISCAL YEAR 2015 BUDGET REQUEST FOR COAST GUARD AND MARITIME TRANSPORTATION PROGRAMS

(113–61)

HEARING

BEFORE THE

SUBCOMMITTEE ON
COAST GUARD AND MARITIME TRANSPORTATION

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

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[1] Michael P. Leavitt, master chief petty officer, United States Coast Guard, did not submit a prepared statement for the record.

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

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Washington, DC 20515

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March 21, 2014

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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 2015 Budget Request for Coast Guard and Maritime Transportation Programs"

PURPOSE

On Wednesday, March 26, 2013, at 9:30 a.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) 2015 budget requests for the United States Coast Guard, the Federal Maritime Commission (FMC), and the Maritime Administration (MARAD). The Subcommittee will hear from the Commandant and Master Chief Petty Officer of the Coast Guard, the Administrator of MARAD, and the Chairman of the FMC.

BACKGROUND

Coast Guard

The 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. On February 28, 2014, the President nominated Vice Admiral Paul F. Zunkunft to succeed Admiral Papp.

FY 2015 Coast Guard Budget Request

The President requests $9.79 billion in FY 2015 for the activities of the Coast Guard, $567 million (or 5.5 percent) less than the FY 2014 enacted level. Of the $9.79 billion requested, $8.13 billion is for Coast Guard discretionary accounts, $364 million (or 4.3 percent) less than the FY 2014 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 2015 budget amendment in the coming weeks that will request OCO funding for the Coast Guard through the Department of Defense (DoD).

Program	FY 2014 Enacted	FY 2015 President's Budget Request	*Diff. Bet. FY 2015 Request & FY 2014 Enacted*	*% Diff. Bet. FY 2015 Request & FY 2014 Enacted*
Operating Expenses	$6,784,807,000	$6,750,733,000	*($34,074,000)*	*-0.5%*
Environmental Compliance & Restoration	$13,164,000	$13,214,000	*$50,000*	*0.4%*
Reserve Training	$120,000,000	$109,605,000	*($10,395,000)*	*-8.7%*
Acquisition, Construction & Improvements	$1,375,635,000	$1,084,193,000	*($291,442,000)*	*-21.2%*
Alteration of Bridges	$0	$0	*$0*	*0.0%*
Research, Development, Test & Evaluation	$19,200,000	$17,947,000	*($1,253,000)*	*-6.5%*
Medicare-Eligible Retiree Health Care Fund Contribution	$185,958,000	$158,930,000	*($27,028,000)*	*-14.5%*
Subtotal, Discretionary	**$8,498,764,000**	**$8,134,622,000**	***($364,142,000)***	***-4.3%***
Retired Pay	$1,460,000,000	$1,449,451,000	*($10,549,000)*	*-0.7%*
State Boating Safety Grants	$105,873,000	$111,842,000	*$5,969,000*	*5.6%*
Oil Spill Liability Trust Fund Claims	$299,741,000	$101,000,000	*($198,741,000)*	*-66.3%*
Subtotal, Mandatory	**$1,865,694,000**	**$1,662,373,000**	***($203,321,000)***	***-10.9%***
Total	**$10,364,458,000**	**$9,796,995,000**	***($567,463,000)***	***-5.5%***

Operating Expenses: The President requests $6.75 billion for Coast Guard Operating Expenses (OE) in FY 2015, $34 million (or 0.5 percent) less than the FY 2014 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 41,000 active duty military members, 8,000 reservists, and 8,600 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 2014 and increases in other administrative expenses. The request includes a $75 million increase to cover the cost of

the Administration's proposed one percent pay raise for military personnel in FY 2015, as well as expanded military benefits enabling Coast Guard servicemembers to maintain parity with benefits received by DoD servicemembers. It also includes a $5.8 million increase to cover the cost of the Administration's proposed one percent pay raise for civilian personnel. Finally, it includes a $3.5 million increase to conduct emergency hull corrosion repairs and other crew safety related maintenance on the Service's fleet of 210-foot Medium Endurance Cutters (MEC).

These increases are offset by $251.3 million in cuts derived through decommissioning certain assets, reducing the number of military and civilian positions, cutting certain military benefits, as well as reductions in personnel, travel, support, and other administrative costs. The proposed reductions in the OE account include:

- *Cuts to Personnel:* The FY 2015 request proposes to cut the size of the Coast Guard's workforce by 815 positions (across all accounts). This includes a reduction of 745 servicemembers and 70 civilians. These are net reductions representing a decline in positions from decommissioning certain assets, reducing flight hours, and closing facilities, as well as reducing the number of personnel responsible for inspecting vessels entering U.S waters. The budget also proposes to cut one flag officer position and two SES positions.

- *Cuts to Military Pay:* The FY 2015 request proposes to reduce military special pay used to compensate Coast Guard servicemembers for at-sea and certain hazardous duty. The Coast Guard estimates these cuts to military pay will save $7.5 million in FY 2015.

- *Fixed Wing Aircraft Bravo-Zero Response:* The FY 2015 budget proposes to remove the Bravo-Zero readiness requirement for fixed wing aircraft and crews at Coast Guard air stations located in the continental United States. Bravo-Zero readiness requires crews and aircraft be capable of launch within 30 minutes of receiving orders. The Coast Guard estimates this reduction in readiness will save $2.2 million in FY 2015. The Service has not yet provided the Subcommittee with an analysis of the impact this proposal will have on response times in search and rescue cases.

- *Airborne Use of Force:* The FY 2015 request proposes to eliminate the Coast Guard's Airborne Use of Force (AUF) capability by no longer arming its fleet of HH-65 and HH-60 helicopters and deploying them as part of its ports, waterways, and coastal security mission. The Coast Guard estimates eliminating AUF capability will save $921,000 in FY 2015. The Coast Guard recently spent more than $100 million to outfit its fleet of HH-65 helicopters for AUF capability.

- *HC-144A Aircraft Flight Hour Reduction:* The FY 2015 request proposes to reduce the number of programmed flight hours for the new HC-144A Maritime Patrol Aircraft by 200 hours (or 17 percent) per aircraft, per year. The Coast Guard estimates the reduction in flight hours will save $4.9 million in FY 2015. The Service currently experiences a gap of approximately 40,000 resource hours annually between what its fleet of fixed wing aircraft provides and its resource hours goal included in its 2004 Mission Need Statement.

- *High Endurance Cutters:* The FY 2015 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 $14.9 million in FY 2015. The WHEC fleet is being replaced by the National Security Cutter (NSC). Three NSCs have been delivered to date. The Service expects to take delivery of a fourth NSC this year and a fifth in FY 2015.

- *Aids-to-Navigation:* The FY 2015 request proposes to reduce the number of aids-to-navigation it maintains, cut the number of military billets associated with the mission, and close an aids-to-navigation facility in Eufaula, Alabama. The Coast Guard estimates this action will save $6 million in FY 2015.

Environmental Compliance and Restoration: The President requests $13.2 million for the Environmental Compliance and Restoration (EC&R) account in FY 2015, $50,000 (or 0.4 percent) more than the FY 2014 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. The Service currently has a backlog of over 203 EC&R projects with an estimated combined cost of over $143 million.

Reserve Training: The President requests $109.6 million for the Reserve Training account in FY 2015, $10.4 million (or 8.7 percent) less than the FY 2014 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 2015 request proposes to move 600 reservists from the Selected Reserve to the Inactive Ready Reserve. This reduces the number of regularly trained Coast Guard Reservists to approximately 7,000. The reduction in the number of Selected Reservists enables the Service to cut the number of personnel responsible for training Reservists by 58 positions.

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 $1.08 billion for the Acquisitions, Construction, and Improvements (AC&I) account in FY 2015, $291.4 million (or 21.2 percent) less than the FY 2014 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 $928.3 million for the acquisition of aircraft, vessels, and command, control, communications, computer, intelligence, surveillance, and reconnaissance (C4ISR) systems. This represents a reduction of $310.94 million (or 25 percent) from the FY 2014 enacted level. The budget request includes:

- $638 million to complete construction of the eighth National Security Cutter (NSC) and conduct the first dry docking of NSC #1 (BERTHOLF) to repair structural defects;
- $110 million to acquire two Fast Response Cutters (FRC). The FRC is replacing the Coast Guard's nearly 30 year-old 110-foot Patrol Boats. Acquiring two will delay the production of FRCs and increase costs;
- $20 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 MECs;
- $15 million to establish an Asset Project Office and begin training on the new HC-27J aircraft slated for transfer from the Air Force to the Coast Guard. The request does not fund missionization costs for the HC-27Js. The Coast Guard has yet to provide the Subcommittee an estimate of these costs;
- $30 million for the modernization and sustainment of the HH-65 Dolphin helicopter fleet;
- $36.3 million for C4ISR acquisition, program management, and systems engineering and integration; and
- $6 million for survey and design of a new polar icebreaker.

The budget requests $155.8 million in other capital costs, $19.5 million (or 14 percent) more than the FY 2014 enacted level. This includes $115 million in personnel costs to execute AC&I programs and $40.6 million to construct shore facilities and aids-to-navigation. The Coast Guard currently has a backlog of prioritized shore facility improvement projects with an estimated combined cost of over $138 million.

Finally, no funding is included in the budget request to rehabilitate housing for Coast Guard servicemembers and their dependents. The account received $18 million in FY 2014. 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 2015. The program did not receive funding in FY 2014. 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 $17.9 million for the Coast Guard's Research, Development, Test, and Evaluation (RDT&E) account, $1.3 million (or 6.5 percent) less than the FY 2014 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 $17.9 million requested for RDT&E in FY 2015 to improve its modeling and simulation capabilities and develop new technologies for the detection and recovery of oil and hazardous substances from the sea column and in the Arctic environment; to test new unmanned systems; and to develop new systems to improve intelligence collection and dissemination.

Coast Guard FY 2015 Authorized Funding

On February 11, 2014, the Transportation and Infrastructure Committee ordered reported H.R. 4005, the Howard Coble Coast Guard and Maritime Transportation Act of 2014. H.R. 4005 authorized funding for the discretionary accounts of the Coast Guard for FY 2015 and FY 2016. Below is a comparison of the FY 2015 authorized level to the President's FY 2015 budget request.

Program	FY 2015 President's Budget Request	H.R. 4005 FY 2015 Authorized Level
Operating Expenses	$6,750,733,000	$6,981,036,000
Environmental Compliance & Restoration	$13,214,000	$16,701,000
Reserve Training	$109,605,000	$140,016,000
Acquisition, Construction, & Improvements	$1,084,193,000	$1,546,448,000
Research, Development, Test & Evaluation	$17,947,000	$19,890,000
Total	**$7,975,692,000**	**$8,704,091,000**

Federal Maritime Commission

The FMC was established in 1961 as an independent agency which regulates ocean borne transportation in the foreign commerce of the United States. 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 2015 FMC Budget Request

The President requests $25.7 million in FY 2015 for the activities of the FMC, $991,000 (or 4 percent) more than the FY 2014 enacted level.

Account	FY2014 Enacted	FY2015 President's Budget Request	*Diff. Bet. FY2015 Request & FY2014 Enacted*	*% Diff. Bet. FY2015 Request & FY2014 Enacted*
Formal Proceedings	$7,832,382	$8,151,100	*$318,718*	*4.1%*
Equal Employment Opportunity	$190,160	$191,544	*$1,384*	*0.7%*
Inspector General	$673,399	$751,337	*$77,938*	*11.6%*
Operational and Administrative	$15,973,059	$16,566,018	*$592,959*	*3.7%*
Total	**$24,669,000**	**$25,659,999**	***$990,999***	***4.0%***

H.R. 4005 authorizes the activities of the FMC at $24.7 million for each of the FYs 2015 and 2016.

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. The President nominated Paul "Chip" Jaenichen, Sr. to serve as Administrator on September 11, 2013. He is currently serving as Acting Administrator.

FY 2015 MARAD Budget Request

The President requests $658.3 million in FY 2015 for the activities of MARAD, $281 million (or 74.5 percent) more than the FY 2014 enacted level. This substantial increase in funding is the result of a legislative proposal to transfer funding for the management of the Ready Reserve Fleet from the DoD to MARAD. Without this transfer, the budget proposes $10 million (or 2.6 percent) less than the FY 2014 enacted level.

Account	FY2014 Enacted	FY2015 President's Budget Request	*% Diff. Bet. FY2015 Request & FY2014 Enacted*	*Diff. Bet. FY2015 Request & FY2014 Enacted*
Operations and Training	$148,003,000	$148,400,000	*$397,000*	*0.3%*
Assistance to Small Shipyards	$0	$0	*$0*	*0.0%*
Ship Disposal Program	$4,800,000	$4,800,000	*$0*	*0.0%*
Maritime Security Program	$186,000,000	$211,000,000	*$25,000,000*	*13.4%*
Title XI - Administrative Expenses	$3,500,000	$3,100,000	*($400,000)*	*-11.4%*
Title XI - Loan Guarantees	$35,000,000	$0	*($35,000,000)*	*-100.0%*
Ready Reserve Force	$0	$291,000,000	*$291,000,000*	-
Total	**$377,303,000**	**$658,300,000**	***$280,997,000***	***74.5%***

Operations and Training: The President requests $148.4 million for the Operations and Training (O&T) account, $397,000 (or 0.3 percent) more than the FY 2014 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 $79.8 million for the U.S. Merchant Marine Academy, including $65.3 million for Academy Operations, and $14.5 million for capital improvements, repairs, and maintenance; $17.7 million for the six state maritime academies; and $50.9 million for MARAD Operations and Programs. The budget does not request 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 did not receive funding in FY 2014. H.R. 4005 reauthorizes the program through FY 2016 at $10 million, the current authorized level.

Ship Disposal: The budget requests $4.8 million for the Ship Disposal Program, consistent with the FY 2014 enacted level. The requested funding will cover expenses related to the disposal of up to 10 ships in the National Defense Reserve Fleet in FY 2015. However, MARAD does not anticipate removing any ships from the Suisun Bay Reserve Fleet in Suisun Bay, CA in FY 2015.

Maritime Security Program: The budget requests $211 million for the Maritime Security Program (MSP) in FY 2015, $25 million (or 13 percent) more than the FY 2014 enacted level. Under this program, $186 million in direct payments are divided among 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 DoD in times of war or national emergency.

The additional $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 (P.L. 480) proposed by the President in the FY 2015 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 received $35 million in FY 2014. There is currently $73 million in Title XI loan subsidies available, which equates to approximately $735 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 Paul "Chip" N. Jaenichen, Sr.
Acting Administrator
Maritime Administration

The Honorable Mario Cordero
Chairman
Federal Maritime Commission

PRESIDENT'S FISCAL YEAR 2015 BUDGET REQUEST FOR COAST GUARD AND MARITIME TRANSPORTATION PROGRAMS

WEDNESDAY, MARCH 26, 2014

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

The subcommittee met, pursuant to notice, at 9:35 a.m. in Room 2167, Rayburn House Office Building, Hon. Duncan Hunter (Chairman of the subcommittee) presiding.

Mr. HUNTER. The subcommittee will come to order. Good morning.

The subcommittee is meeting today to hear testimony on the President's fiscal year 2015 budget request from the leaders of the Coast Guard, the Maritime Administration, and the Federal Maritime Commission.

The President has sent Congress yet another budget proposing to cut funding for the Coast Guard, this time by more than $360 million, or 4 percent below the fiscal year 2014 enacted level. The request would cut the Coast Guard's acquisition budget by $291 million, or 21 percent. The President's request proposes to delay the acquisition of critically needed replacement assets, such as the Fast Response Cutter. It will severely undermine efforts to recapitalize the Service's aging and failing legacy assets, increase acquisition costs for taxpayers, and seriously degrade mission effectiveness.

For the fiscal year 2015 operating budget, the President proposes to slash the number of Coast Guard servicemembers and reservists by over 1,300, and reduce hazardous duty pay for servicemembers. It would also exacerbate gaps in readiness by cutting programmed hours for aircraft, and jeopardize the success of the search and rescue mission by taking fixed-wing aircraft crews off alert status.

This is the third year in a row the President has forced the Coast Guard to sacrifice mission success to pay for his questionable spending in other agencies. And, once again, Congress is being forced to come up with hundreds of millions of dollars just to sustain Coast Guard frontline operations. The administration needs to understand that the Coast Guard cannot continue to do more with less. If the President is going to continue to propose these cuts year after year, he needs to tell us, Congress, and you, the Coast Guard, how he intends to re-scope the missions of the Coast Guard to reflect his reduced budgets.

This is the last time that Admiral Papp and Master Chief Leavitt will appear before us. I want to commend both of you for your leadership and tremendous service to our Nation.

Admiral, I fully understand the situation you've been put in with this budget, and I appreciate your candor in describing what these cuts will mean for the ability of the Service to successfully conduct its missions.

The budget request for the Maritime Administration represents a 75-percent increase over the current level, except not really. However, the increase comes as a result of an accounting change in the Ready Reserve Fleet funding, and from a one-time subsidy offered to the maritime industry in exchange for a permanent reduction in the number of U.S. mariner jobs carrying cargo under 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.-flagged 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 jobs, and undermine our national security by reducing the domestic sealift capacity on which our military depends.

I would add that the President's attempt to placate the concerns of U.S. mariners by temporarily throwing some additional money at the Maritime Security Program will not work. As we did last year, I hope my colleagues will join me in—once again, in rejecting this misguided proposal.

I am also concerned that the budget again zeroes out funding for Title XI and other U.S.-flag promotional programs that are at the core of the Maritime Administration's mission. I look forward to hearing from the Acting Administrator on how he intends to move forward with his efforts to revitalize the U.S.-flag fleet under this budget.

Finally, the budget request for the Federal Maritime Commission proposes a $991,000, or 4 percent, increase over current levels. That increase will sustain current staffing levels at the Commission and help it continue with its acquisition of a new information technology system. I encourage the chairman to continue to review the operations of the Commission to find savings through efficiencies.

Our Nation is facing a very tough budget climate, as we all know. And this Congress is and must work together to find savings wherever possible. I look forward to working with my colleagues to achieve this goal in a responsible manner.

I thank the witnesses for appearing today, and look forward to their testimony. With that, I yield to Ranking Member Garamendi.

Mr. GARAMENDI. Mr. Chairman, thank you very much. I will make this quick, because I would like to hear from the witnesses.

However, Admiral Papp, I understand this is going to be the last time you will be testifying before this committee, unless we somehow bring you back before your May 30th departure from the Coast Guard. I want to congratulate you for the extraordinary career you have had, for the leadership that you have put forth during some very difficult budget times, knowing that the budget that you presented to us is not a result of what you want, but rather what we

have given to the administration to spend. It is, in fact, the Congress that has managed to go through an austerity period of time. You are working as best you can with it. However, we do have some questions for you about the priorities that you have listed.

In reflecting on the fiscal year 2015 budget request for the U.S. Coast Guard, Maritime Administration, and the Federal Maritime Commission, it dawned on me that it was an alarming situation, perhaps the greatest impediment to revitalizing our merchant marine, and realizing the vast potential of the U.S. maritime economy is a persistent disinterest by administrations, both current and past in the maritime agencies. This is reflected in the budgets.

If you subject to the idea, as I do, that the Federal budget request represents the administration's fundamental statement of policy, you cannot help but come to one conclusion: the budget request for the maritime agencies indicate that, as a matter of policy, these agencies remain undervalued, underresourced, and underappreciated. This is both regrettable and odd. After all, the global reach and dominance of the U.S. economy has historically been linked to our trade with other nations, trade that is dependent on vibrant maritime commerce.

As the world's largest trading nation, the United States exports and imports annually in value about one-fourth of the global merchandise trade. And approximately 95 percent of America's foreign trade—that is 1.3 billion tons—moves by ship. Moreover, based on current projections, by the year 2020 United States foreign trade in goods may grow to four times today's value, and almost double its current tonnage. And, additionally, our inland waterways traffic will increase by one-third.

The economic potential is there for any who care to look. What remains missing or obscured is our commitment to seize that opportunity. Our economy rose from a maritime foundation and remains tethered to that foundation today. We should be investing wisely and strategically to ensure that this foundation remains solid, and up to the challenges of the 21st-century economy. Unfortunately, the budget request for our maritime agencies suggest that if we are to seize the opportunity before us, it will have to be Congress that shows the leadership and initiative to provide the necessary resources. And for Congress to do that, we must revisit the sequestration and the austerity budgeting phenomena that has taken over this Congress.

With that, I yield back.

Mr. HUNTER. I thank the ranking member. On our first panel of witnesses today are Admiral Robert Papp, Jr., Commandant of the United States Coast Guard; and Master Chief Michael Leavitt, master chief petty officer of the Coast Guard.

Admiral Papp, thank you again for your over 40 years of service to our Nation and the Coast Guard. And, with that, you are recognized for your statement.

TESTIMONY OF ADMIRAL ROBERT J. PAPP, JR., COMMANDANT, UNITED STATES COAST GUARD; AND MICHAEL P. LEAVITT, MASTER CHIEF PETTY OFFICER OF THE COAST GUARD, UNITED STATES COAST GUARD

Admiral PAPP. Well, thank you, Mr. Chairman, for that, and also for your opening statement, and also to Ranking Member Garamendi for his statement, and for your support. It is a pleasure for me to be here, just as it has been for the last 4 years, to talk to you about the brave young men and women of the Coast Guard who have chosen to serve our Nation.

I would like to start by thanking this Congress for the support it provided in the Consolidated Appropriations Act of 2014. This Act helps to relieve the erosive effects of sequestration on our Service, and it restored frontline operations and badly needed training hours to ease many of the personnel management restrictions we have faced over this past year.

I would also like to take this opportunity to thank my secretary, Secretary Johnson. In the short time he has been in, he has jumped into the middle of the budget situation, and really provided us some great support on a number of key issues that might have been lost along the way, if we hadn't had his leadership.

As you know, America is a maritime nation, just as Mr. Garamendi mentioned. We rely on the safe, secure, free flow of goods across the seas and into our ports. And I firmly believe that one measure of a nation's greatness is its ability to provide safe and secure approaches to its ports. The system of uninterrupted trade is the life blood of our economy.

And you can see it at work today. We may be a week into the spring, but the Coast Guard Cutter *Mackinaw* just recently completed about 2 months of continuous icebreaking service, keeping open the passages between the Great Lakes. *Mackinaw*, as we speak today, is working off Duluth, Minnesota, in some of the heaviest ice cover that the lakes have seen in the last 30 years to help commercial traffic deliver badly needed iron ore to keep the steel plants open in the Heartland, and validating decisions made by Congress 15 years ago to build that icebreaker.

You can also see it in the work that we do to secure our maritime borders. Our new Fast Response Cutters have become the workhorses of our drug and migrant interdiction operations in the approaches to Florida and Puerto Rico, and they continue to be delivered on time and on budget.

Every day the Coast Guard acts to both prevent and respond to an array of threats that, if left unchecked, would impede trade, weaken our economy, and create instability. These threats disrupt regional and global security, the economies of our partner nations, and access to both resources and international trade. All of these are vital elements of our national prosperity and, in turn, our national security.

Layered security is the way I have described how the Coast Guard counters maritime threats facing the United States. This layered security first starts in foreign ports, then it spans the high seas, because the best place to counter a threat is before it reaches our ports. It then encompasses our exclusive economic zone, the

largest in the world, at over 4.5 million square miles, and continues into our territorial seas, our ports, and our inland waters.

The work to address these challenges is being done by committed coastguardsmen who face risks each and every day. Yesterday morning I was reminded once again of the dangerous work they do. As I traveled up to Narragansett in Rhode Island to attend a memorial service for Petty Officer Third Class Ron Gill. Petty Officer Gill was killed nearly 7 years ago, but I made a commitment to his father 7 years ago that I would do all I could to make sure our people get the right tools and the right training so that accidents such as the one that happened to Petty Officer Gill might not happen, or at least be minimized in the future. His service, even though 7 years ago, is still fresh in my mind, and his, like many other memorial services I have attended, reminds us that downstream of any decisions that are made here in Washington are the—is the work that is carried out by young men and women who are often cold, wet, and tired, and who have to stand the watch to keep our homeland safe.

It is our responsibility to detect and interdict contraband and illegal drug traffic, enforce U.S. immigration laws, protect valuable natural resources, encounter threats to U.S. maritime and economic security, worldwide. And it is often most effective to do this as far from our shores as possible.

Our fleet of major cutters has reached obsolescence, and is becoming increasingly expensive to maintain. The average Reliance class Medium Endurance Cutter is 46 years old; the oldest turns 50 this year. I sailed one of those ships, the *Valiant*, when I was a cadet. And by the time I became an officer, that ship had been sailing for over a decade. And, as I retire on May 30th, the ship will still be serving, 40 years later.

We have been able to keep them going because of the quality of our people. But this is no longer sustainable. And I am fully aware of the fiscal constraints we face, as a Nation. But the uncertainty and spending cuts have forced difficult decisions on how to prioritize our essential missions and functions. We examine the risks that exist, focus on the highest priority operations, and allocate our scarce resources where they are needed most, while continually working to maintain our readiness and surge capacity. And this often requires trade-offs informed by a clear understanding of the risks our country faces now, and what we foresee for the future. And we continue to make those difficult decisions, but I am encouraged by our recent down-selection of candidates for our Offshore Patrol Cutter, which is handled by a very capable acquisition for us, one that we have improved over the last 10 years, to become a model acquisition force for the Government.

We have also become the first military Service to pass an audit, and that was the result of dedicated efforts by our financial managers.

So, we can show how we are spending our money. We have a great acquisition force. We are at a critical point now where what we need is stable and predictable funding in order to give best return on investment to the taxpayers.

As the Nation's maritime governance force, the Coast Guard possesses unique authorities, capabilities, and partnerships, coupled

with capable cutters, aircraft, and boats. Operated by highly proficient personnel, we maximize those authorities and capabilities to execute layered security throughout the entire maritime domain. We are a ready force on continuous watch, with a proven ability to surge assets and our people to crisis events where and whenever they occur.

So, I thank you for the opportunity to testify once again, and I am really looking forward to your questions.

Mr. HUNTER. Admiral, thank you. I think you are totally right. Somebody said, "Whoever controls the ocean controls the world," and the Coast Guard plays a major part in that. And you have definitely left your mark, with the National Security Cutter that are going to be roaming the high seas.

Anyway, thank you for your service, again.

Admiral PAPP. Yes, sir.

Mr. HUNTER. Master Chief, question for you. If you have two sergeants major, it is sergeants major—attorneys general. Is it masters chief, or master chiefs, if there is two? If it is plural.

Master Chief LEAVITT. Master chiefs.

Mr. HUNTER. Master chiefs, OK. Well, thank you, Master Chief Leavitt, and I would like to recognize you and—for your statement. And thank you for your many years of service, as well.

Master Chief LEAVITT. Thank you, Mr. Chairman. And good morning, 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 diligently stand the watch every day, protecting and serving our great Nation.

For the past 4 years, as master chief petty officer of the Coast Guard, I have had the honor to see the resiliency, the hard work, and the outstanding accomplishments of our Coast Guard men and women on a daily basis. I have also seen the outstanding support they receive from their families, and it just fills me with pride. And it would you, too.

So, as you know, coastguardsmen operate in an inherently dangerous maritime environment, and we must all be mindful of those dangers as we prepare our crews to be ready for the call. Consequently, we must ensure that our coastguardsmen have the resources and training they need, and they need to remain proficient, both in craft and in leadership. This is particularly important as we continue to meet the Nation's needs, as demand for our services expand globally and at home with maritime trade, energy exploration, disaster response, search and rescue, law enforcement, and much more.

So, as you heard, many of our frontline cutters are well over 40 years old. And, as such, it becomes very difficult for our command to balance the ships' mission priorities, especially when our crew is already working extremely hard, and expending an extraordinary amount of time, just to keep the ships operating mechanically. It makes it much harder for our crews to train and stay proficient. So it is vital that we continue with our recapitalization efforts.

Regardless of the many challenges they face, coastguardsmen continue to successfully complete our missions. That is our legacy, and that is a legacy I am very proud to be a part of.

Last year in my testimony, I addressed some of the challenges our men and women and their families face, particularly with regards to providing adequate housing. So, on behalf of our servicemembers, we are truly grateful for your support in providing much-needed funding for our housing program. This funding will significantly enhance housing for our coastguardsmen and their families.

The fiscal year 2015 budget will allow us to continue with the recapitalization of our aging fleet of cutters, aircraft, and small boats, and will help us support our people programs.

Mr. Chairman and members of the committee, on behalf of the men and women of the United States Coast Guard and their families, I again thank you for your continued support, and I thank you for the opportunity to discuss some of the highlights and the challenges our Coast Guard men and women face. I look forward to answering any questions you may have.

Mr. HUNTER. Thank you, Master Chief. I am now going to recognize Members, starting with myself, for questions.

Admiral, first question is about the CIP. A few weeks ago, when you turned in the budget, the CIP didn't get turned in. I would—U.S. law right now requires the CIP to be turned in by the Coast Guard to Congress when the budget is presented, as well. So, my question is, you are operating on such a small budget anyway, we are here to help and conduct oversight in any way that we can to just make sure things stay on track, as you have them now. When is the CIP going to be turned in to us?

Admiral PAPP. Well, it should be any day, sir. I know that the Secretary has forwarded it on. The Secretary has been questioned on this, I was questioned on it 2 weeks ago at the Appropriations Subcommittee.

Frankly, 2 weeks ago, as I told the subcommittee then, part of it was my obstinance in holding out and trying to get the best position for what I foresee the Coast Guard needs——

Mr. HUNTER. I read your testimony, and I appreciate it.

Admiral PAPP [continuing]. In the future. And I think that is rightly so. We have those very robust discussions in the administration before the budget goes forward. The Secretary is supporting the position that I have, in terms of what should be in the CIP for the next 5 years. And I know that he was working directly with the Office of Management and Budget to—in order to get it through the administration as soon as possible.

I don't have the exact time, but I know, when I checked last, it was——

Mr. HUNTER. I don't understand something, though. The CIP should be written according to your strategy for recapitalization and building new ships, based on the Coast Guard requirements, right?

Admiral PAPP. Yes, sir.

Mr. HUNTER. Why does that have to be politically scrubbed?

Admiral PAPP. I am not sure it is a political scrub, sir. What I think——

Mr. HUNTER. Well, if you agree, and the Secretary agrees with the current CIP, as you have written it, then what are they doing with it, if they are not scrubbing it politically?

Admiral PAPP. Well, there are other priorities. For instance, we are facing the need for an icebreaker for the United States. It is going to be tough to fit a billion-dollar icebreaker in our 5-year plan, without displacing other things. If there is going to be no growth in the budget, and that is what I have to plan for right now, I need to address those highest priorities that I have.

But rightly so, there are other people who have opinions with an opening Arctic and other things that perhaps an icebreaker ought to be higher priority. These things need to be negotiated out, and then come to an administration's position on what the highest priorities are. I am hopeful that the priorities that I see for the Coast Guard will be reflected in that CIP when it gets up here.

Mr. HUNTER. And so, the CIP is stuck with OMB right now? Is that where it is at?

Admiral PAPP. I don't know exactly where it is today, sir. We can find out and get back to the subcommittee.

Mr. HUNTER. OK, thank you. And when it comes to the icebreaker, let's talk about that. We have talked about having all the different agencies and all the different groups that want a polar icebreaker, which is from the—you, the Navy, NOAA, I think just about everybody. I think the Department of State would probably like to have an icebreaker so they could do stuff in the Arctic, or at least keep it open for our guys. I mean it benefits everybody in every agency.

So, the question is, if you have to go it alone, what does that do to you? And, secondly, if you don't go it alone, we bring in all the actors that have an interest, and have them help pay for it, I guess—will it ever really happen? I don't think it would happen in that case, because trying to get one agency to do one thing takes many, many years. Trying to get five agencies to get on the same page I think would take more than both of our lifetimes. So what are your thoughts on that?

Admiral PAPP. Well, we—there is no doubt in my mind that, eventually, the United States needs another new polar icebreaker. The need will be there for many decades to come yet. And, right now, we are running the 38-year-old *Polar Star*, and *Healy* is about 14 years old now. And I am satisfied that we have sufficient capability to meet our needs. But we need to be planning for the future, as well.

As I balance our needs against what is projected in the budget—and granted, we got a little bit of relief in 2014; 2015 we may have a little bit of relief, but in 2016 all bets are off, and I may very well have to fit within a $1 billion CIP for the out-years. I can't afford to pay for an icebreaker in a $1 billion CIP, because it would just displace other things that I have a higher priority for.

So, we are looking at other alternatives. Perhaps one of those alternatives, the Congress came up with a requirement for a business case analysis on the remaining Polar class icebreaker, *Polar Sea*. And potentially, we might be able to overhaul *Polar Sea* and fit that into the CIP as an affordable means for providing an addi-

tional icebreaker, as we await a time that we can build a new icebreaker.

If we are going to build a new icebreaker, if that is a priority, we just can't fit it within our acquisition account. And I would look across the interagency—you are absolutely right. There are many people who welcome having an icebreaker, but everybody is glad to have the Coast Guard pay for it.

Mr. HUNTER. What about leasing?

Admiral PAPP. You know, everything I see, Mr. Chairman, is that leasing, particularly something that is such a large capital asset, is good for—to fill a short-term need, but there is a long-term need for an icebreaker for this country. And I continue to believe—and I think our business case analysis demonstrates—that the best option for the country, if it is affordable, is to build a new polar icebreaker that would be ours, and could be managed by us for the long term.

Mr. HUNTER. What about a long-term lease?

Admiral PAPP. I think the longer the term of a lease, you end up spending more money on a leased icebreaker that you never get to own than you would in building an icebreaker that then you own and operate—look at *Polar Sea* and *Polar Star*. Thirty-eight years, and we have still got them around and, obviously, capable of operating. I think the best bet, in terms of reliability and confidence that we have the asset for the United States is to purchase a new icebreaker, rather than leasing.

Mr. HUNTER. If your choice were between no icebreaker and leasing an icebreaker?

Admiral PAPP. It—you would have to look at the cost per year. Because if you are leasing an icebreaker, that is an additional cost that is going to have to go into my operating funds, which would displace other people.

And as you will see, as we go through this budget today, we are down to the point now where, when we talk about displacing things, what we are talking about is displacing people. We have got no further—we cannot cut any further in programs and other things without cutting people now. And that is why, as you look here, this budget reflects, potentially, another 800 people lost.

One of the most important things to me, when I became Commandant, was preserving our end strength for our Service. And in my opinion, I have failed miserably, because we are down—getting close to possibly 2,000 people lost in the Coast Guard over the last 4 years.

Mr. HUNTER. Beats the Army having to get rid of 80,000. But relatively, size-ratio-wise——

Admiral PAPP. I wouldn't throw the Army under the bus. They do an awful lot of—I personally will not. Ray Odierno faces a lot of challenges out there.

But what I would say is we are winding down from wars. Yes, there are other threats, but there has been no winding down in Coast Guard responsibilities. In fact, they have increased.

Mr. HUNTER. Last question. I am operating under the assumption that countries like Iran, in a matter of days or weeks, can get to a weaponized plutonium level. OK? They are not there yet, so we just kind of keep it—we talk about them not going past that

red line. The reality is the red line can be crossed in a matter of days, once you reach that 20-percent enrichment level.

Do you think that you are doing everything that you can, and are you funded? Are all of your priorities, when it comes to stopping a—any kind of a weapon from getting offshore, or into the homeland through different ports, do you have what you need to do that right now, operating under the assumption that they have nuclear capability, or they could very easily have nuclear capability in a matter of days or weeks?

Admiral PAPP. Well, rather than being specific about them, I would say the general threat of a weapon of mass destruction being shipped in a maritime conveyance, no, we don't have——

Mr. HUNTER. Well, it is not going to come from Canada. It is going to come from Iran——

Admiral PAPP. Exactly. We look out, in terms of being concerned about a weapon of mass destruction, or any other threat coming by maritime conveyance. You know, the first step is intelligence, and we are fully involved in the intelligence community. We look at the security within our ports. We are very strong within our ports. The Congress and the administration have done a great job in recapitalizing our boat forces, our people, our deployable specialized forces. But we don't want to be dealing with threats in the ports.

We are doing a good job overseas, under the International Ship and Port Security Code, in inspecting those countries that are trading with us, in combination with intelligence. I think we are doing pretty good there.

When I said we don't have everything we need, it is because we have these vast expanses of the Pacific and the Atlantic, where we need offshore resources to interdict threats before they get to our shores. We should get some warning. But if we are to intercept it before it gets into the red zone, in football terms, inside our ports, we need to have good cutters out there on the high seas that are capable of sustained presence to be able to interdict threats before they get to our shores, whether it is a weapon of mass destruction, drugs, or migrants, or other things.

Mr. HUNTER. So how do you reconcile that with your operating budget getting cut by .5 percent? It eliminates four vessel boarding and search teams that conduct safety and security, boarding foreign-flagged vessels entering U.S. ports. It cuts flight-hours of brand-new Maritime Patrol Aircraft by 200 hours, or 17 percent per aircraft. How do you reconcile that priority with this budget?

Admiral PAPP. What we—for instance, the VBS teams that you talked about, the boarding and search teams that go out, these are teams that were implemented post-9/11. We have also built up our forces, our deployable specialized forces, and put more people at our sectors and our stations.

If I had the wherewithal, I would love to keep those teams. However, we are making some very tough decisions as this budget gets tamped down, squeezed down. And, as I said earlier, we have no other option now than to start cutting people in specific locations, where we think we can absorb additional risk and use other forces to mitigate it. What it means, though, is those remaining forces work a little bit harder.

I keep on telling my Service that I am not going to make you do more with less. We will do less if we get less. But the fact of the matter is, Coastie's attitude is, "OK, if I lose the guy next to me, I am just going to work twice as hard." And I fear that is exactly what will happen. We will continue to look good, we will continue to get people out there doing the boardings, but it is making the other people that remain work harder. And I don't like to do that, because you wear out your people, just like you wear out machinery. And all those things that you listed are things I would rather not do, but they have to be done in order to fit within the top line that I am given.

Mr. HUNTER. I am just trying to reconcile this, and I am long out of time. But I am just trying to reconcile if you are—if the number one priority, let's say, of our homeland defense, which is—the Coast Guard is part of—is stopping a catastrophic event from happening on the American homeland, and one way that you do that is by searching vessels for radioactive material, and you then take all of—you eliminate the four vessel boarding and search teams that do that actual type of searching, then that must not be one of the top priorities.

It is hard for me to imagine that there aren't other places in the Coast Guard where you could find efficiencies and savings, maybe in the back end, as opposed to the tip of the spear.

Admiral PAPP. It remains a top priority. And we will inspect and board those vessels, but we will have to do it by different means. Instead of having a dedicated team at a sector office that—they become very good at that, and that's what they do, we may need to send a Coast Guard cutter out there, and use their organic boarding team to do it. We may need to put together collateral duty boarding teams. We will find ways of getting it done. We will not allow a ship in without being inspected.

What I am saying is having those teams available makes it easier on us, makes—allows us to do other things that are lower priority, because we have got the people. As we start whittling away at people, it just means other people in the Coast Guard have to take on those duties. They won't be assigned as a VBS team. What they will do is, as needed, we will take people on a collateral duty basis, put them together as a team, and send them out there.

Mr. HUNTER. Thank you, Admiral. I would like to yield to the ranking member, my good friend, Mr. Garamendi.

Mr. GARAMENDI. Thank you, Mr. Chairman. I am going to pick up where you were taking this conversation with regard to major threats: the nuclear threat, the dirty bomb threat. You and I are both on the Armed Services Committee, and I am on the subcommittee, the Strategic Arms Subcommittee, which deals directly with these threats, specifically, the hearing yesterday on missile defense, where billions of dollars are being spent on missile defense systems that may or may not work. And we do know that there is probably a much more likely threat from a weapon arriving in a container, maybe into the port, but maybe it doesn't have to even go there—offshore. Yet the Coast Guard is being cut, and the missile defense is being increased. So we are, in fact, making choices—the administration, together with us—making choices about prioritizing the threat.

At the present time, you are correct, Iran does not have a nuclear weapon. Certainly North Korea does. It is highly debatable whether North Korea has a missile that can reach the United States. Probably does. Its accuracy is questionable. Iran does not, at the present time. It could at some point in the future.

So, the imminent threat is more likely to arrive by sea. And we need to look at the silos in which we budget. The Department of Homeland Security is one silo, the Department of Defense is another, yet the threat is seen in both, but in different timeframes, and the imminency is different.

I would agree with the point you were making, that the threat from the sea is serious. The reduction in the Coast Guard's personnel reduces our ability to address that threat. I believe that our budget committees, or appropriation committees, ought to be taking a very careful look at how we are spending the overall appropriation, the overall money that is available, as reduced as it is. We are spending a vast amount of money on something that may or may not work, and it is certainly not needed right now—for example, a new missile defense system on the east coast—while at the same time we are cutting what we do need today.

Admiral, I am not going to ask you to respond, unless you would like to jump into this in the last 2 months of your tenure. But I would welcome such a response if you would like to do so.

Admiral PAPP. Well, Mr. Garamendi, hopefully I have never hesitated for the last 4 years. And what I will tell you is—along the same lines as I was saying, there are many things I would like to do with my Service. At the end of the day, I need to live within a budget. And when I am given my budget, we set priorities, and we look at places where there are things that are needed, but we will find a way to get the job done.

We never—you know, search and rescue always remains job number one, and closely linked to that is the security of our ports, the security of our country. And we are not going to allow anything to get through. We will find the people to get the job done. What concerns me is it means other people working harder when we displace these people because of the budget being squeezed down.

Mr. GARAMENDI. Admiral, I understand your—the pride that you take in your people. I understand the position you have, that you will get the job done. I am dubious. If we continue to cut your budget, as we are, you and your men and women will not be able to get the job done.

We have had testimony from South Command that they cannot get the job done, and they rely heavily on you. And one of the reasons they can't get the job done is that you're not there. That is the reality of the situation.

And the point I am making here is that this is our problem. And, frankly, it is the administration's problem in prioritizing. And it is the silo in which we budget and in which we operate—you, operating in the homeland defense silo, and the Department of Defense operating in a completely different one. And, for us, we have to look across these silos.

And, frankly, we would be much better off moving half-a-billion dollars from the Department of Defense missile defense to you, so that you could carry out the tasks that we know are very real

threats. Maybe they are drugs, maybe they are smugglers. Maybe it is a dirty bomb. Who knows what it might be? But we know that that threat is very real, and it is very viable. If somebody really wanted to threaten this country with a nuclear weapon, why would you go to all the trouble of a missile when you could just as easily deliver it in a tugboat? That is my point.

Admiral PAPP. Yes, sir.

Mr. GARAMENDI. But I have got some other points, and I will take a few moments to get to them.

We have pretty much talked about your budget in the personnel. I think it is a very real problem: 800 few personnel this year, and 1,200 in the previous cuts. That is a serious reduction. It is one that you have discussed, and I know you are going to say that you are going to do the best—you are going to do the job with fewer. I doubt that you are going to be able to do the complete job with fewer, but you have made your response on that.

I do have a question about the Fast Response Cutters. You have a contract to deliver four a year. You are going to deliver two—this budget calls for two. Are you renegotiating that contract? What does it mean, in terms of cost per cutter?

Admiral PAPP. Yes, sir. And, just quickly, I don't want to indicate that we are going to get the entire job done. What we do is—in fact, the term "re-scoping" came up in my last hearing, and the chairman brought that up, as well in his, suggesting that the administration re-scope. That is what I get paid to do.

You are exactly right: if we devote and try to do 100 percent of search and rescue, 100 percent of interdicting those threats, there are other mission areas that are going to get shortchanged. So I don't want to leave the impression the Coast Guard is going to get 100 percent of all our missions done, because we have never been able to.

To the Fast Response Cutter, the contract actually calls for up to six a year. Six a year is the most economical order quantity. That contract ran out in fiscal year 2014, when we ordered six. We are in the process of renegotiating that contract. What we have proposed is to—we were able to fit two into the budget this year when we got our final top line, and intend to award that under another vehicle, temporary vehicle with the shipyard, until we put out the new request for proposal to renew the contract.

We are scrubbing the contract right now to see if there are areas where we can come up with savings to give us the best possible deal on the remaining buy of those cutters. If we had the money available, we would love to buy six a year, because that gives us the best price. But for this interim year, until we get the new contract awarded, two is what we are able to afford.

Mr. GARAMENDI. When you have that information, I would like to know the cost per cutter. Up? Down? The same?

Admiral PAPP. What we are hopeful in negotiating with the shipyard is we will be able to buy those two just about at the same price that we have been buying them when we order them six a year. They can spread their workforce an average—the boats that are on order right now, they can average that out to five a year, in terms of actually building them. And when we add the two in there, they should be able to keep the price per boat about the

same. I am hopeful, at least. But we will get back to the subcommittee, once we have finalized the negotiations on that.

Mr. GARAMENDI. A final question. I am over my time, but this committee went to a lot of trouble to secure the C–27Js for you, for the Coast Guard. It appears that the budget does not provide for the actual use of those, but for—but, rather, only for the preparation of the C–27Js. Could you tell us if, in fact, there is any money to actually operate those in the coming year?

Admiral PAPP. No, because they won't be brought online—I think it is fiscal year 2017—I am sorry, 2016 that we actually will begin getting the aircraft processed through, and actually flying for us. We will address that in the 2016 budget, as they start coming online. We are working the 2016 budget right now. But I want to thank the subcommittee for all that work. As you know, it is going to save us about a half-billion dollars in future costs on the aircraft, and by the time we get them fielded——

Mr. GARAMENDI. Excuse me.

Admiral PAPP. Sure.

Mr. GARAMENDI. A technical question. Why does it take 2 years to retrofit them?

Admiral PAPP. It is just—well——

Mr. GARAMENDI. Is that a budget issue, too?

Admiral PAPP. No, sir. We have got money in the 2014 budget to set up the acquisition program office in order to start bringing them in. We have sent a team down there to look at the aircraft. The aircraft—basically, what we are going to do to get them into service is put them in our Coast Guard colors. But, being military aircraft, most of the equipment is compatible. They have a radar that is usable. They will not have a mission package, like the other medium-range aircraft that we have. But we were spacing those, the AC144s, out over the years, and buying mission packets, as they went along.

We are having to re-look within our budget, and decide how we fully get them—how we get them fully mission capable with mission packages. But, in the interim, with the radar that they have, we can use them for maritime patrol efforts out there.

Mr. GARAMENDI. OK. I would like a complete description of why it takes 2 years to paint the airplane, and to get it underway. I would like to get those half-billion-dollar savings sooner, rather than later.

Admiral PAPP. Yes.

Mr. GARAMENDI. So, if you could, provide that. I will yield back. There are other questions, but I will take them in the next round. Thank you.

Mr. HUNTER. I thank the ranking member. The gentleman from Florida, Mr. Southerland, is recognized for 5 minutes.

Mr. SOUTHERLAND. Thank you, Mr. Chairman. Admiral, welcome today. And I thank you for your service, as your tenure comes to a conclusion. And I want to also thank you for your kindness you showed me when we came over for a visit. Thank you very much.

Admiral PAPP. Good to see you again.

Mr. SOUTHERLAND. I am going to read a statement and then ask a question, a followup question. The Coast Guard participation and implementation of the National Ocean Policy is not referenced in

the White House's or Department's fiscal year 2015 budget documents.

At the same time, pursuant to the July 2010 National Ocean Policy Executive Order, Coast Guard representatives have been participating in the policy's marine planning initiative covering regions including the Northeast, the mid-Atlantic, the Gulf of Mexico, and the Pacific Islands. Language adopted by the July 2010 National Ocean Policy Executive Order stated that the policy's marine planning effort will require significant initial investment of both human and financial resources. And in early 2010, the National Ocean Council noted that Federal agency had been asked to provide information on how existing resources can be re-purposed for greater efficiency and effectiveness in furtherance of the National Ocean Policy.

So, my question, Admiral. Could you please describe in detail, if possible, any Coast Guard resources or personnel that have been or will be directed towards activities in support of the National Ocean Policy?

Admiral PAPP. No, sir, I don't have that in any detail. And I would request that we submit that for the record in response to your question.

Mr. SOUTHERLAND. OK, thank you. Do you know if, to date, any of your resources have been utilized for the National Ocean Policy?

Admiral PAPP. Well, we certainly have representatives that work with the staffs. And, once again, I would prefer to make sure I have accuracy in responding to your questions——

Mr. SOUTHERLAND. Sure, no, that is fair. I certainly would appreciate that information.

Next I want to switch over. The budget—is that me, with this sound here? All right. The budget includes $20 million to continue preliminary design for Offshore Patrol Cutter, the OPC. The OPC is intended to replace the 210- and the 270-foot Medium Endurance Cutters, the MECs. The Coast Guard intends to award a construction contract in the fiscal year 2016 budget, and estimates the acquisition will not be complete until the mid-2030s. Is this level of funding sufficient to keep the OPC on its current timeline, in your opinion?

Admiral PAPP. Yes, sir.

Mr. SOUTHERLAND. OK, all right. I am going to ask just a series of questions. They should be easy.

Three shipyards are currently challenging the Coast Guard's decision not to select them for the OPC final design phase. What impact will these challenges have on the OPC procurement schedule, if any?

Admiral PAPP. We believe there will be negligible impact at this point. It is part of the process. They are entitled to put in the protest. We are working through that right now. I am confident at this point that the—our decisions will be sustained, and then we will continue moving out on it.

Mr. SOUTHERLAND. Very good. Are—how are any concerns over cost factoring in to the final OPC design selection? Is there any—I know it is attracting a lot of attention, and so I am——

Admiral PAPP. The cost of the ship that we will eventually build?

Mr. SOUTHERLAND. Yes, yes.

Admiral PAPP. It is our driving requirement. I have made that clear at every group, whether it is testimony up here, or speaking in front of industry. I have continually insisted that affordability is the driving requirement for this ship.

And I think that our contracting vehicle is unique in the fact that we have put in our contract—and that is part of why it took us a little bit of time to get this going—is I wanted to have affordability right in there. We have made it known to the shipyards what our—what we think our budget is, what we think that ship should cost, and that has got to drive their process, if they want to be selected as the final candidate for building this ship.

Mr. SOUTHERLAND. Very good. Again, Admiral, thank you for your service, thank you for your candor. And I appreciate you being here today. And godspeed in your future endeavors.

Admiral PAPP. Thank you, Mr. Southerland.

Mr. SOUTHERLAND. With that I yield back.

Admiral PAPP. Thanks.

Mr. HUNTER. Thank the gentleman. And I would be remiss if I didn't introduce the newest member of the Coast Guard Maritime Subcommittee, Mr. David Jolly from Florida, the newest Member of Congress and to this committee. David, welcome.

And, with that, I would like to recognize Mr. Larsen for 5 minutes.

Mr. LARSEN. Thank you, Mr. Chairman. I just want to note, just in the Pacific Northwest, you are all doing search and rescue, your recreational boating enforcement and safety, aid to navigation, you have got a Navy escort mission there, as well. And, on top of that, a couple years ago you worked with our office on kayak safety after a rash of kayakers drowning, just flat-out getting caught in the currents. And we had to develop a volunteer kayak safety program.

And so, I mean, you kind of do it all. And so I understand your discussion about things being a top priority, because the priority some days for the Coast Guard is what shows up on the desk that day. Certainly got to do it. So I appreciate it.

I also was intrigued by your comment, Admiral Papp, as you might imagine, because I believe that you said the *Polar Sea* may be a good option for icebreaking. And as far as I am aware, that is the first time that the Coast Guard has said that rehab could be a good option. Can you talk about the retrofitting of the *Polar Sea*? Is it attractive? What is the direction the Coast Guard planned to take on that?

Admiral PAPP. Yes, sir. I want to make sure for the record I didn't say "a good option." I said it may be an option. I might have said——

Mr. LARSEN. For the record, an excellent option.

[Laughter.]

Admiral PAPP. It is certainly an option. It was demonstrated in the business case analysis, and I have known it has been out there as an option. Four years ago, I believed that the best option is to build a new icebreaker. And we put *Polar Star* back in service to provide us a gap of about 10 years in order to get it built.

The budget was looking a little challenging 4 years ago; it looks even more challenging right now. And if we need to stay within, you know, somewhere in the range of $1 billion a year in acquisi-

tions for the Coast Guard, I just don't see how we can fit an icebreaker in.

The Offshore Patrol Cutter is my highest priority for the Coast Guard. I need to fit that in the budget. And I fear that if we try to fit the cost of an icebreaker in there, it would displace the Offshore Patrol Cutter, or some other very important things. So, I—my number one option is to get support across the interagency, those agencies that benefit from the support of an icebreaker, to contribute towards the construction of it. That would be my first choice.

My second choice, however, when I start looking at what can I fit within our acquisition budget, refurbishment of the *Polar Sea* may be a viable option for that. I would say what you would want to do is overlap it so as *Polar Star* is coming towards the end of that decade of service after refurbishment, we have Polar—I think I said *Polar Star*——

Mr. LARSEN. Yes, right, yes.

Admiral PAPP [continuing]. *Polar Sea* would be available to start phasing in, working up, so that we could use her for another 10 years. And maybe you come up with a plan where you flip-flop. I don't know. And there will be other people making those decisions in the out-years. So I am just speculating right now of what those options are that are out there for us to potentially look at.

Mr. LARSEN. And right now, the budget, there is $6 million in the request for design, just to get started on design?

Admiral PAPP. Yes, sir. I don't think—I think that is money well spent. I think at some point, if the Nation can afford it, we need to build another new polar icebreaker that complies with modern environmental standards that can take care of the mission requirements of the National Science Foundation, and all those things that work across the interagency. I still believe firmly we need to build a new one. But we don't have the wherewithal right now. But doing the preliminary work should inform decisions that are made 3, 4, 5, maybe 10 years from now.

Mr. LARSEN. All right. That is all I got. Thank you. I yield back, sir.

Mr. HUNTER. Thank the gentleman. The gentlelady from Florida, Ms. Frankel, is recognized.

Ms. FRANKEL. Thank you, Mr. Chair. Thank you. Welcome. Thank you for being here, and for your service. My father was in the Coast Guard. My son was a United States Marine. So I have a lot of respect for what you do.

But I want to touch on a little bit of a sensitive issue. You know, I think it is very important that you have—get the resources that you need, the equipment, and so forth. But there is nothing more important than the people who—you are shaking your head, you agree—the people who serve us, and that they serve with dignity and respect for each other.

As I am sure you are aware of, there has been a lot of discussion about sexual harassment in the military, not just the Coast Guard, but the military. And this is particularly a sensitive issue, because I have had constituents come to me—and one, in particular, I am not going to get into her situation—but who was a member of the Coast Guard, and a very brave young lady who was subjected to

sexual harassment by her commander, who eventually was prosecuted.

In any event, because of her situation—actually resulted in this Congress passing some legislation last year, and I wanted to ask you about that. The—Congress mandated that the Coast Guard expedite processing of transfer requests from victims of sexual assault, so that they can physically get away from their attacker. And I am just wondering whether or not you have started to implement that policy.

Admiral PAPP. Oh, yes, ma'am. Absolutely. We refer to it as a safe harbor program. And there is actually a little bit of a distinction there, because sometimes the victims do not want to leave their unit where they are comfortable, they would prefer to have the alleged perpetrator transferred. And we offer that option.

We had a little bit of growing pains with it. In fact, I was at a large gathering—we call it all-hands meetings—as I travel around. For the last 2 years, every all-hands meeting—and I have spoken to—you know the size of our Service—we keep track, and I have spoken to, I think, about 35,000 people face to face, right there with them. And almost my entire discussion is on sexual assault, treating our people with dignity, harassment, hazing, whatever it might be. We have an eyeball-to-eyeball discussion.

And in one of those discussions a young lady raised her hand, and she was a victim. She had been transferred. And we didn't necessarily handle it very well, but she felt—this was a seaman apprentice—and she got up and raised her hand with the Commandant. Now, she was very nervous, but we looked into that particular case, it gave us some lessons learned on how we are dealing with it now, and we will continue to work that process, to make sure that each and every case is handled as an individual case, and with dignity.

Ms. FRANKEL. Well, thank you for that. And I was—really, my followup question was going to be what else are you implementing in terms of outreach to not only the superior officers, but also, you know, the recruits that come in. What type of outreach are you doing with them, and what policies are you changing?

Admiral PAPP. We have approached this head on. It started out with a flag officer, a group of admirals getting together for an action group to come up with a strategic plan. We assigned a Coast Guard captain to head our military campaign office on this. We have regular meetings at the White House, we have regular meetings with the Department of Defense. And, frankly, those inform our decisions, but I want to do more than everybody else to make sure our people are taken care of. And we have attacked this aggressively.

As I said, I have gone and personally met with every coastguardsman. In my state of the Coast Guard speech this year, which I spoke to 500 people in a room, but it goes out to each and every member of the Coast Guard, and they are required to view it at all-hands sessions, I spoke directly to the field, and talked to them about my concerns, what we were doing. And at the end of the day, though, it has to be those senior officers, and working its way down throughout the organization, through our chief petty officers, taking on this thing.

And my mission, my message, has been there can be no bystanders. Everybody has to be involved. It is their duty to be involved on this, and duty demands courage. And I—the anecdotal feedback, and people who have come to me, including the seaman apprentice up to a captain who was assaulted 26 years ago, they have had the courage to come forward now and talk to me. That captain, on the offense that happened 26 years ago, we had it investigated. And we came to a conclusion for that officer.

So, this is very personal for both the master chief and me, all our senior leadership, and everybody is engaged.

Ms. FRANKEL. Well, I thank you for your attention, and I hope you will continue to be vigilant. I know that we will. And I thank you for your time today.

Admiral PAPP. Yes, ma'am. And rightly so. And we appreciate the oversight on this issue, and pushing us forward on this. And also, for accommodating some of the concerns we had within the military, in terms of potentially taking out of our hands—this has to be handled by us, and we appreciate your support.

Ms. FRANKEL. Thank you, sir.

Mr. HUNTER. Has the gentlelady yielded?

Ms. FRANKEL. Back, Mr. Chair.

Mr. HUNTER. Thank the gentlelady. I would like to recognize Ms. Hahn from California for 5 minutes.

Ms. HAHN. Thank you, Mr. Chairman. I appreciate us having this opportunity to discuss the budget with the Coast Guard. I wish we would have just had one panel, Mr. Chairman, because I have some questions for the Chairman of FMC, Mario Cordero, and, unfortunately, I am going to have to leave; I have a conflict. So I wish we could have all been together on this. But I am just raising my, you know——

Mr. HUNTER. Be happy to submit any questions for the record.

Ms. HAHN. Thank you, I am going to do that.

So I—it is really disturbing to me to look at what we are imposing on the Coast Guard through our budget process: cuts to personnel, cuts to military pay, the—removing the Bravo Zero readiness, the—use—airborne use of force we are cutting, aircraft flight-hour reduction, it is disturbing to me.

And I know that the Coast Guard has—for the last several budget cycles, has really done a good job of doing—it is not even the same, you are kind of doing more with less. So it is disturbing to me that we are putting these budget restrictions on the Coast Guard.

And I want to thank Ranking Member Garamendi. Apparently, before I arrived, you brought up the issue of personnel reductions, and how that could impede the Coast Guard's ability to prevent bombs from going off at one of our ports. I will say, for the record, I still believe, ladies and gentlemen, that our ports are the most vulnerable entryway into this country. And I—every day, on the briefings that I get, I am more and more concerned about what can or what is coming in and out of our Nation's ports. So just know that I appreciate what you are doing. And it is unfortunate that our budget doesn't support the incredible mission that the Coast Guard has been given to protecting our coast. So I wish our budget

reflected the real security risk that I believe exists in our Nation's ports.

Let me just touch on one issue, Admiral Papp, and that is panga boats. And, of course, it became sort of highlighted in this country when we lost one of our coastguardsmen who was killed after a panga boat rammed the ship he was on in southern California.

So, wondered what we are doing. Any new information on our attempt to contain these boats? We have any new actions that we are taking to minimize the risk of these panga boats? And how have you done recently? It feels like I haven't seen any high-profile case of those off the cost of southern California, but wondering if you can give me an update on how you have been able to stem the tide of this threat of panga boats.

Admiral PAPP. Thank you, Representative Hahn. And also, let me thank you once again for being out there for the memorial service for Senior Chief Terrell Horne. The family is doing well. I included a bit about Senior Chief Horne in our new publication of Coast Guard Pub 1, talking about the qualities of leadership that he demonstrated. We provided a copy of that to his wife, and, of course, we just passed over a 1-year anniversary there. But once again, thank you for being there, and bringing it up.

The threat still exists. And, in fact, sequestration hurt us a lot. This last year—I think we went from roughly—oh, I think it was about—I will have to get you the—we went from 124,000 pounds of marijuana in fiscal year 2012 interdicted there to 81,000. So we had about a 35-percent reduction last year under sequestration, simply because we can't keep sufficient assets out there if we don't have the fuel to run them and the operating hours. Sequestration is the big thing that I fear. And we still have that specter out there for fiscal year 2016, if we don't have another budget agreement.

So, there is a direct correlation between reduction in the budget, which we got in sequestration, to people out there on the water. Everything we have indicates that people are using that route more and more, whether it is actually landings that we see, boats that are found on the beach. As we tighten up the border—and there has been a lot of resources put by our department along the southwest border—really, as a coastguardsman, I say a land border is much easier to defend, because you know where it is. In the maritime, there are thousands and thousands of miles and different routes you can take, and they can try to evade us, and we only have so many boats and aircraft that we can put out there.

The other thing is we are making good success by staging a major cutter out there, which we had not used before. We put a major cutter out there that is flight deck-capable, can carry a helicopter, can use airborne use of force, and we were seeing great success. But major cutters require a lot of fuel, and we had to cut back there, as well, under sequestration.

We are getting back to our historic numbers of cutters underway now, with the restoration and the fiscal year 2014 budget. But as we go into the 2015 budget and beyond, I become increasingly concerned that we just won't have the assets out there in sufficient numbers to attack this new route that people are taking, and smuggling around the southwest terrestrial border.

Ms. HAHN. Well, thank you. And I appreciate that. And certainly drugs is one of the problems, but I also worry about other uses of those boats. And, yes, there was a landside docking that was made less than a mile from my home in San Pedro. It was in Rancho Palos Verdes, I believe, 19 folks made land in a panga boat.

So, I appreciate your work. And again, it is unfortunate that some of the methods you were describing you have had to cut, in terms of how you operate within this budget. So thank you.

Admiral PAPP. Yes, ma'am.

Ms. HAHN. Appreciate that. I yield back no time.

Mr. HUNTER. Thank the gentlelady from California. And I would like to recognize the former subcommittee chairman, Mr. Cummings from Maryland.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. Admiral Papp, this is obviously your last budget hearing—I am sorry I wasn't here a little bit earlier, got an Oversight Committee hearing going on right now—but I want to just take an opportunity to thank you for your leadership. I have known you for quite a few years now, and I want to thank you for your candor and focus on identifying and addressing head-on the challenges that continued cuts in resources are creating for the Coast Guard.

I have often said that you all are called on to do more and more with less and less. But one of the—and I know you have talked about the cuts extensively before I got here, but there was one area that I was most concerned with, because it is an area that I have worked a lot in, and that is the whole marine safety situation. What impact will the budget cuts have on marine—the marine safety workforce? And how do you see that playing out?

Admiral PAPP. You know, Mr. Cummings, there could be some individual reductions across the marine safety workforce, but they are not many. Where the largest effect is is our VBS teams, the visit, boarding, and search teams that we discussed earlier here. They generally fall at the sector level. They are combinations of people with marine safety experience or response experience that we put together as teams to go out.

If we have vessels which are suspect, or we have sanctions on that we require to stay offshore before they come into port, these teams are sent out there to inspect. We have had to cut back a number of those teams within this budget. So there would be an impact on some people within the marine safety field that are a part of those teams.

We are not going to discontinue those inspections. What we will have to do is come up with other means of doing that, putting together teams from other organic sources that we have, or Coast Guard cutter boarding teams, et cetera, to continue on. It just means some of the people work harder.

Mr. CUMMINGS. As you will recall, one of the big issues that we were trying to address before, and because we got a lot of complaints from the maritime community, is whether we always had qualified inspectors, those who knew exactly what they were supposed to be doing. And I think we made some headway there.

How do you see that, making sure that we have—the people doing these inspections are doing them in an appropriate way, and lifting up the highest standards?

Admiral PAPP. Yes, sir. I make a point, when I travel around—we were talking earlier about my visits out to the field units—I visit a lot of our Coast Guard sectors. And, almost always, when I go there I ask for—to have them take me through the prevention department, where our marine safety people are, to ask them how is it going. I know about—I visit our Centers for Excellence, where we are training people. We have made vast improvements over the last probably 6 years or so. We continue on track. We are trying to retain as many people as we can.

And, in fact, part of my emphasis to make sure this program is going is both my Deputy Commandants for operations—first, Vice Admiral Salerno, and now Vice Admiral Neffenger—are probably the two best marine safety specialists we have in the Coast Guard to give that additional emphasis to that program.

Admiral Neffenger is going to be the next Vice Commandant. I have complete confidence that we will keep our foot on the gas pedal, in terms of our marine safety enhancement plan that was started under your tenure.

Mr. CUMMINGS. Again, I want to thank you for having your fingerprints on the past of the Coast Guard, the present. And, because of all the things that you have done over the years to have your fingerprints on the future. May God bless you.

Admiral PAPP. Thank you, sir. And thanks for your oversight over the years, as well.

Mr. HUNTER. Thank the gentleman. I have one last question.

Master Chief, when you talk to your young Coasties, what is their biggest complaint?

Master Chief LEAVITT. Well, the biggest complaint we have when I get out there—because there is a lot of different complaints—if you are asking what the biggest complaint is, it is to look at the military pay and benefits. What does that look like? What is the challenges? What is the budget going to roll on that? And then how those things worked out.

Within the Coast Guard, the biggest complaints depends on what unit you go to. Right now, the biggest ones I get is from these older ships. You know, at the end of the day—and it is no different in the Marines—what you want is a well-trained, equipped, and proficient crews, and you want to take care of your shipmates and their families. That means success for our future. So, as we push forward, we need to focus on those things.

And so, when they are working on a ship that is 40 years old, that takes a lot of time and effort. And that has already been addressed here. But the real cost is when you go to a unit like—I just went out to the *Scioto*. We didn't even talk about our river tender fleet. And they are out there setting buoys out there in the Midwest. I went out to its 50th year anniversary a couple years ago. And the crews are working hard. If you did walk on board that cutter, you can see the professionalism and pride that is put into that ship. They take really good care of it. But, at the same time, the amount of work and detail it takes to keep that cutter running is astronomical. It is extraordinary. And that is who we are, but there is a cost to that.

And the last thing—and so, for me, and for most of the crew out there, we got to keep our crews trained. That is one of the biggest

complaints we have. And proficiency is a huge piece of that. See, in the Coast Guard, we don't just operate. We have so many different missions out there. I am a surfman and I am a cutterman.

In other words, I could be off the Columbia River right now, in the dark, in the fog, searching for somebody in 20-, 30-foot surf. And the risks are real high. So I want to make sure my crews are trained. I want to make sure they are proficient. I could be on a cutter up in Alaska, operating on the Bering Sea. Those are the most important things, and those are the most important things my senior and junior members bring up to me, make sure our crews are trained and proficient.

And you have really helped us a lot with the recapitalization efforts that are happening right here, and you have really helped us a lot in regards to supporting our families with the housing and with the child care. You helped bridge that gap in parity.

And, you know, despite all these budget challenges we have out there, we have done a few things within the Coast Guard to help our families out. And one of those things we have done is put out what we call a program—this is for our people and our families—called CG support. It is a much more comprehensive program that our people can get into, get counseling, where there is education, financial. Because, as times change, the dynamics of the families change, depending on what region you live in, and all those other things. And people are really important; those things won't change.

But well-trained, well-equipped, proficient crews is success for our people. We have got to support our members, and we have got to support our families. How we balance that is going to be the key, Mr. Chairman. Thank you.

Mr. HUNTER. Thank you, Master Chief. Admiral Papp, thank you. Godspeed.

Admiral PAPP. Thanks, Mr. Chairman.

Mr. HUNTER. It is time for the second panel.

(Pause.)

Mr. HUNTER. All right, we are going to start our second panel. On our second panel we have the Honorable Paul "Chip" Jaenichen, Acting Administrator of the Maritime Administration, and the Honorable Mario Cordero, Chairman of the Federal Maritime Commission.

And also in the audience today I want to recognize Commissioners Dye and Doyle on the FMC. Thanks for being here today.

Mr. Jaenichen, you are now recognized for your statement.

TESTIMONY OF HON. PAUL N. JAENICHEN, ACTING MARITIME ADMINISTRATOR, MARITIME ADMINISTRATION; AND HON. MARIO CORDERO, CHAIRMAN, FEDERAL MARITIME COMMISSION

Mr. JAENICHEN. Good morning, Chairman Hunter, Ranking Member Garamendi, and members of the subcommittee. I am pleased to appear before you today, and I thank you for the opportunity to discuss the President's fiscal year 2015 budget priorities and initiatives for the Maritime Administration. This budget request supports MarAd's mission to foster, promote, and develop the U.S. merchant marine, and it reflects the MarAd's priorities of maintaining security and preparedness, investing in mariner train-

ing, enhancing U.S.-flag competitiveness, and fostering environmental sustainability.

The primary goal of the fiscal year 2015 budget request is to continue funding for MarAd readiness programs that support Department of Defense sealift capacity. These programs are critical to ensuring that vessels and mariners are available for national security needs, and often with little notice.

A recent example is the mobilization of the motor vessel *Cape Ray*, one of 46 vessels in MarAd's ready reserve force, which is currently being used as the platform for destruction of the highest priority, Syrian chemical weapons. The *Cape Ray* is the United States key contribution in the international effort to eliminate the Syrian stockpile of chemical weapons. And, of most significance, this is the first time the destruction of chemical weapons will be accomplished at sea.

Converting a sealift vessel into a U.N.-certified chemical weapons destruction facility, from concept to reality, was no easy task. Preparations were completed in record time, and—given the scope of the mission, the support of the maritime labor unions, the number of U.S. Government agencies, and commercial companies involved, and extensive modifications that were required to be completed.

The fiscal year 2015 budget request includes $291 million in funding for the ready reserve force program, as you pointed out in your opening remarks. That is to ensure those vessels continue to be available to support Department of Defense strategic sealift requirements, as well as the capacity to support and provide humanitarian assistance and disaster response. The MarAd program most critical to meeting DOD sealift requirements is the maritime security program. The MSP provides operating assistance funds as a stipend to a fleet of 60 commercial, privately owned, military-useful, U.S.-flagged, and U.S.-crewed ships. The MSP fleet ensures that DOD has a shared access to a global fleet of ships, and an ocean-borne foreign commerce with the necessary intermodal logistics capacity to move military equipment and supplies during both armed conflict and national emergency.

Moreover, as this subcommittee knows, the MSP fleet supports a pool of actively sailing U.S. mariners that we use to crew our Government sealift fleets. And I thank the subcommittee for your role in providing funding at the full authorized level in the Consolidated Appropriations Act of 2014. The President's budget request continues full funding for that program in fiscal year 2015.

However, there are challenges facing the MSP. The most immediate challenge is the declining cargo, specifically in defense cargo, due to the drawdowns of activity in Afghanistan and Iraq. Declining Government cargo volumes force greater reliance on commercial cargo in the global market. And, given that we have an overabundance of capacity, it makes booking cargo for the U.S.-flag fleet difficult in the international market.

This is why the MarAd is actively working with industry and Government stakeholders to develop a national maritime strategy. And that is to support the U.S. maritime industry, and ensure the future availability of U.S.-flag vessels for both national defense and for national—and for economic security.

MarAd is also working to complete our cargo preference rulemaking, as authorized by Congress. And while I recognize there is frustration, and that we haven't completed this rule, I can assure you that it is one of the Department's highest priorities.

The President's budget request also continues important investment in mariner education and training. The request includes $79.8 million for the U.S. Merchant Marine Academy, and $17.7 million for the six State maritime academies, of which $11.3 million will be used for the ever-increasing maintenance and repair costs for the school ships that are rapidly nearing the end of their useful life.

It also provides $3.1 million for Title XI guaranteed financing program, allowing for the administration of the—the current subsidy balance of $73 million supports approximately $735 million in projects. These items represent the key policy proposals and initiatives highlighted in the President's fiscal year 2015 budget, and we will continue to keep this committee appraised to the progress of our program activities and initiatives in these areas. In the coming year, and in particular, the work of the Congress, we are going to be focusing on the development of the national maritime strategy.

Mr. Chairman, I thank you for the opportunity to present and discuss our fiscal year 2015 budget, and I am happy to respond to any questions that you or members of this subcommittee may have.

Mr. HUNTER. Thank you. Mr. Cordero?

Mr. CORDERO. Mr. Chairman, Ranking Member, and members of the subcommittee, thank you for the opportunity to discuss the President's fiscal year 2015 budget for the Federal Maritime Commission. With me today are my colleagues Commissioners Rebecca Dye and William Doyle.

With the committee's permission, I would like to summarize my testimony, and request that my full written statement be included in the record as submitted.

The President's budget for the Federal Maritime Commission provides $25,660,000 for fiscal year 2015. This funds 124 full time equivalent employees, where $18,387,000 goes directly to salaries and benefits, to support the Commission's programs. As in previous years, rent, salaries, and benefits, and other necessary expenses alone account for 96 percent of our budget.

The Commission's budget represents the spending levels necessary to conduct the Commission's statutorily mandated activities. Those activities include cultivating a regulatory system that furthers competition, facilitating commerce to ensure reliable service to U.S. exporters and importers.

Furthermore, acquiring IT hardware and software to make sure our staff can provide these services is paramount. The Commission's IT situation is dire, and we have not been able to undertake proper backup and disaster preparedness measures. Without needed upgrades in 2015, and future years, the agency's operations could be crippled.

The recovery in the U.S. liner trades that began a few years ago continued in 2013 with U.S. container exports and imports reaching 30.5 million TEUs. And, of course, this is in the scope of a $944 billion international trade market.

The Commission continues to closely monitor the service cooperation between carriers in alliance agreements filed with the Commission, such as the recently effective P3 Network Vessel Sharing Agreement.

The Commission continues to work diligently to support the Nation's push to increase exports, the vast majority of which move by ocean and necessarily travel through our Nation's ports. Ports are the gateways that serve more than 80 percent of the volume of international trade; and the flow of exports, in particular, has the potential to create jobs for American business.

The Commission monitors industry innovations and transitions, such as ocean carriers, divesting themselves of their chassis fleets to reduce costs and the growth of chassis and equipment-sharing agreements.

The Commission continues to work with other Federal agencies on projects aimed at better understanding and finding solutions to supply chain bottlenecks that might negatively affect U.S. exporters. The Commission's Office of Consumer Affairs and Dispute Resolution Services' Rapid Response Team still serves the industry to quickly and inexpensively resolve shipping disputes generated by equipment availability.

To reduce regulatory burdens, the Commission exempted foreign-based NVOCCs from certain publication requirements for negotiated rate arrangements. 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.

With increased funding for fiscal year 2015, the Commission will be able to comply with governing IT statutes, and implement several information technology programs and initiatives to improve efficiency, convenience, and effectiveness of carrying out its congressional mandate. As noted, the Commission is at the beginning of a multiyear transition to upgrade information technology in order to better serve the public, and create staff efficiencies. With the committee's support, the Commission will regain a solid footing in its IT infrastructure.

The Commission's Office of Consumer Affairs Dispute Resolution Services facilitates discussions between consumers and cruise lines to resolve disputes. The Commission also provides relief to smaller cruise ship operators by allowing them to reduce their coverage requirements, recognizing that there may be alternative forms of financial protections available to their customers. These alternative security arrangements, approved by the Commission, free up capital for passenger lines to reduce costs.

The Commission's internal Marine Environmental Committee continues to study environmental initiatives in the industry, and to highlight the innovations and work being done in this area.

The Commission's Bureau of Enforcement, its area representatives located in key maritime corridors, and its investigative staff continue to take action to address unfair and deceptive shipping practices that negatively impact shipping business costs, as well as such practices that pose safety and security risks.

In fiscal year 2013, the Commission collected approximately $3 million in civil penalties for Shipping Act violations. To date, the

Commission, for fiscal year 2014, has collected approximately $2.25 million in penalties.

The FMC's unique mission affords it the opportunity to assist frontline security efforts by providing information regarding background of parties using our Nation's supply chain, including those with direct access to seaports. Last summer, the FMC signed an updated memorandum of understanding with U.S. Customs and Border Protection that allows the FMC to share data in order to ensure compliance with the SAFE Port Act. With added IT capabilities, the Commission will then be able to submit necessary information to the ACE system to fulfill its MOU obligations.

Mr. Chairman and members of the subcommittee, I thank you for your support of the Federal Maritime Commission throughout the years. It is an honor to be here before this subcommittee. And I am happy to answer any questions you may have.

Mr. HUNTER. Thank you, Chairman Cordero. I think you are down to just the ranking member and I. So we can take our time.

Administrator Jaenichen, I guess my first question is how hard is it to be flexible with the MSP? How hard is it to be flexible with Food for Peace? Meaning if we are down in cargo one year, we are not in any conflicts, then you are going to have fewer ships needed. The next year you may have need for 10 more ships than you had the previous year. How hard would that be, to be able to implement those changes, kind of on the fly, because you don't really know right now what you will have next year? You could always have something pop up. How would you work to make it more flexible to where the MSP can respond to the market and to what the U.S. Government's, say, excursions are that particular year?

Mr. JAENICHEN. I thank you for the question. I think there is a couple things we would have to take a look at. The basic tenants of the MSP program was threefold. One was the stipend amount. The second was the fact that we—there would be access to Government-impelled cargo, primarily Department of Defense cargo, that you referred to that fluctuates fairly significantly. And final, to commercial cargo.

As we look forward on that program, if you have a decrease in one of those particular areas, or you keep something else the same, we need to take a look at adjusting one of the other two areas. Either we increase the opportunity for commercial cargo, or potentially you increase the stipend rate to be able to level-load that over time.

We would have to take a look at—because of the way the program is currently authorized, in terms of how we might be flexible, currently today it is authorized at 60 ships at the 3.1 stipend level, but we do have some specific requirements in the administration of the program, in terms of the commercial viability of those ships.

I have been consulted by a couple of companies who have told us that right now it is not working, in terms of being able to make it feasible, financially, and that is going to create problems. So I think we are going to have to take a look at what we can do, going forward, with regard to that program.

Mr. HUNTER. Does—on a different note, does MarAd have any say or control or jurisdiction or purview over building an icebreaker? Meaning, if it is a whole-of-Government approach, if every

agency, including DOD and Homeland Security and State and the EPA, and everybody wants to be involved in this—and Department of Energy, I would guess, too, you could name the departments—what organization do you think should have kind of the umbrella over all of those different agencies trying to come together on an icebreaker?

Mr. JAENICHEN. I think, primarily, as you are taking a look at that particular mission set, that clearly falls within the Coast Guard's purview. As you take a look at across the—all of the whole of Government, I think we would have to take a look at a solution. MarAd is really focused on the commercial side, from the ship financing side, specifically in the Title XI, in terms of what we do. That particular vessel would not be crewed by U.S. maritime labor or U.S. merchant marine. So——

Mr. HUNTER. If you lease it, it will.

Mr. JAENICHEN. Potentially it might. That might be something that we could take a look at.

But I think, as Admiral Papp pointed out, as you look at a leasing-type option, that always is going to cost you significantly more in the long run than it would be if you purchased a vessel outright.

Mr. HUNTER. So back to the—who should have purview over bringing all these different agencies and departments together, is the Coast Guard capable of that? Or should it be an organization like MarAd, that has different interests and works with different agencies and different departments? Who is to pull everybody together?

Mr. JAENICHEN. I think I would like to take an opportunity to sort of think a little bit deeper about that particular issue and get back to you, sir.

Mr. HUNTER. OK, thank you. Chairman Cordero, let's talk about ocean transportation intermediaries.

In your statement, your full statement that you submitted, you argue that the advanced notice of proposed rulemaking concerning the licensing of ocean transportation intermediaries somehow reduces regulatory burden. I could not disagree more. The proposed rule will significantly increase regulatory burdens for OTIs, and it does so without a clear or compelling public policy purpose.

My two questions are, one requirement included in the regulation would increase levels of responsibilities for ocean transportation intermediaries by as much as 50 percent. How many cases are the FMC aware of where an OTI exceeded its current level of financial responsibility? And are such large increases warranted for so few instances?

Mr. CORDERO. Well, thank you, Mr. Chairman, for the question.

Mr. HUNTER. And let me couch that in context. You are not a—you are not necessarily a regulatory agency. You are an agency that is there to promote and foster commerce, when it comes to shipping and maritime, not fine or introduce more regulatory burdens on the industry. We have plenty of groups that already do that, right? What you are there to do is make sure that that industry is flourishing, and do everything that you can in your power to make sure that that industry and that commerce stays strong. So that is the context in which this question is couched.

Mr. CORDERO. Thank you, Mr. Chairman. First of all, as you have mentioned, the mission of the FMC is to ensure that we have efficient, reliable ocean transportation, international ocean transportation system. Second is to make sure we protect the shipping public against deceitful and unlawful practices.

With that in mind, I think the whole perspective and the intent of the OTI ANPR is to streamline, not only with regard to the rules, and address the regulatory burden aspect that you have referenced. And I will say that, with regard to the advance notice, at my direction, staff has presently composed a memorandum that has been presented to the Commission to substantially mitigate some of the concerns that have been addressed by the industry and your constituents. So I am very confident that, going forward, we will be able to move forward in such a way that I think most people will see that our objective here is, in fact, to streamline this process, and to protect the shipping public.

Mr. HUNTER. So let's talk about—and you said—let me see—in fiscal year 2013 the Commission collected $3 million, roughly, in civil penalties for Shipping Act violations, and that is over $2 million more than the $838,000 it collected in fiscal year 2012. So you over—you are basically 300 percent over the previous fiscal year. Right?

Mr. CORDERO. In terms of the penalties?

Mr. HUNTER. Yes.

Mr. CORDERO. I think, as I have referenced, I think the penalties scenario—and I can bring some context to that—in accordance with the Shipping Act, we are mandated to address some of the violations that refer to the Shipping Act. I think some of the penalties that are involved are not just the OTI community, so to speak. I think there are some recent cases involving carriers, in terms of vessel carriers. And I think some of those penalties that I have referenced for fiscal year 2014 involve some of these cases.

So, in fair context, I think the penalties that I have made reference, are ones that are mandated we address, in terms of those entities who do not follow the rules in accordance with the Shipping Act.

Mr. HUNTER. I understand. I guess my fear and my reason for asking these questions is it seems like everybody is going to have their hands in the maritime cookie jar, and you are going to have—I mean it is great to have good regulation that stops fraudulent practices, and the Coast Guard to make sure that the ships are safe, and the EPA checks on the ballast water, and everybody has their fingers in this. And to some extent, it does become burdensome, and it becomes—it makes our U.S. carriers switch flags and go to other countries. And that is one reason that they do it, is because it costs so much, and it is just so arduous to do it as an American-flag ship, when it comes to Commerce.

So, I would just—I would urge you, in the end, to get with Administrator Jaenichen, whoever the next Coast Guard Commandant is going to be, whoever the next head of the EPA is going to be, the Department of Energy, Department of Labor, which all of our mariners have to live under and comply with those rules. Everybody has got their hands in the maritime cookie jar. And if we could kind of maybe funnel those into one agency with a clear

set of rules, and stop making up different rulemaking procedures to increase the burdens more on our shippers—because it is not like they are coming in droves to be American-flagged ships. And there is a reason for that.

And I think our job, and your job, is to make it as easy as possible, and say, "Hey, here we are. You want to ship with an American flag, with an American crew." That is what you all are here for, and it is to promote American shipping on American ships. And as it gets more expensive and cost-prohibitive to do that, you are going to have more ships dropping that American flag and going to flags of convenience or to other countries.

So, with that, thank you both for your service. And I am going to yield now to the ranking member, Mr. Garamendi.

Mr. GARAMENDI. Thank you, Mr. Chairman. I believe there is a study that has been done in the recent past that addresses the concerns that you have about the ability of the American-flagged fleet to sustain itself through the course of time. I have asked for that study, and I am going to take a look at it. I will share with you what may be useful from that. You have raised some very important questions, ones that we might be able to address, in one way or another, as we move forward.

In my opening statement, I expressed concern that the budget proposals are really a statement of policy priorities. And the budget proposals that we have before us for the Coast Guard and for the two agencies that are before us now indicate a retrograding, a reduction in what appears to me to be the administration's lack of concern about the maritime trade.

I trust that is not the case, and I will ask the two witnesses to respond to that concern. But I want to be very specific about an opportunity that presents itself to the maritime industry. Natural gas is a strategic American asset that is allowing America to enjoy low energy cost, and a resurgence of American manufacturing. The export of LNG at a modest level could create even more American jobs, if the LNG is transported on American-made LNG tankers, flying the American flag, with American sailors.

The current approved export terminals—one just approved yesterday or the day before—will require America—will require approximately 100 LNG tankers. This tanker fleet will be phased in as the LNG export terminals come online, and LNG exports grow. The American shipyards could build these tankers over the next decade and beyond, creating thousands of jobs, and maintaining a vital industrial base for America and for our national security, specifically the Navy.

For you two gentlemen, do you believe it is in the interest of the American business and American workers to share in the benefit of exporting LNG by requiring—by requiring—that LNG be transported on American-built ships, flying the American flag, with American sailors? Mr Jaenichen first, then Mr. Cordero.

Mr. JAENICHEN. Ranking Member Garamendi, thank you for that question.

First, I would say, from a perspective of supporting the U.S. maritime industry, the answer is absolutely. The question is can you do it within the confines of the current statutes, with regard to the various——

Mr. GARAMENDI. No, no. My question doesn't go to current statutes. It goes to the overarching policy direction. Should we do this, or not? If we should, then the next question is how can we achieve that. But I haven't asked that question yet. I have asked, "What is your policy position?"

Mr. JAENICHEN. The policy position right now, as you know, we do have export licenses that are able to approved. The Maritime Administration is involved in export policies on the deepwater side. We were authorized back in 2012 to do exports. Currently, we have no applications for deepwater ports, but we are in consultation with the Department of Energy and the Federal Energy Regulatory Commission to be able to do that.

Mr. GARAMENDI. So, what is your policy? Are you going to push and promote a policy of LNG being exported on American ships with American sailors and American-built ships, or not? Yes or no?

Mr. JAENICHEN. Well, let me caveat my answer. We are putting together a national maritime strategy which is going to focus on cargo opportunities. I believe that the energy sector is one of those areas that we need to focus on. So the answer is we are developing the policy to be able to take advantage of this particular opportunity, although I am not sure we are there yet.

Mr. GARAMENDI. When will I know that policy?

Mr. JAENICHEN. I will have to get back to you, sir.

Mr. GARAMENDI. Mr. Cordero?

Mr. CORDERO. Thank you, Congressman. Let me, first of all, say that the FMC, in terms of how it was composed, and per its regulatory mandate, is flag-neutral. So, given that mandate, the FMC has not taken a position with regard to the question you have posed.

However, having said that, I will clearly say that the FMC has, pursuant to its regulatory purview, taken the opportunity to advocate on the American flag issue when the opportunity arises. So, with that, I believe that might answer your question. But I cannot represent to you that the FMC has a specific policy with regard to the question that you have posed. That doesn't necessarily mean that I personally would be opposed to that, or if the statute is amended so that the FMC could weigh in on such a issue. Then, of course, I——

Mr. GARAMENDI. The President has stated repeatedly that he wants to rebuild the American manufacturing sector. We have an opportunity to do so with shipbuilding, for American shipyards, the workers in those yards, all across this Nation, and in many, many ports across this Nation. So, the administration's stated policy of rebuilding the American manufacturing sector would seem to me to be carried out in America's shipyards, specifically building the tankers that will be exporting a strategic American asset, our natural gas.

And I guess it has not yet filtered down to MarAd or to the Maritime Commission that that Presidential statement would and could be implemented by a very aggressive policy implemented by the two of you. So, perhaps I shall deliver to you the President's most recent statements on rebuilding the American manufacturing sector, and urging you to carry that out in your domain.

Now, I—after delivering those statements by the President to you, perhaps you can then answer my question. Do you support the construction, the building of tankers in American ports, or American shipyards, to export this strategic asset, liquified natural gas, with American-flagged ships, with American sailors? Obviously, you are not prepared to answer that today, but I shall deliver to you the President's statement on this matter of rebuilding the American manufacturing sector.

The question goes also to Mr. Jaenichen with regard to the $25 million welfare program for American sailors—that is in your budget—when they lose their jobs because of the administration's Public Law 480—that is, the destruction of the Public Law 480 program, the cash-out of it. How do you propose that that $25 million welfare program for American sailors, who I assume would prefer to be sailing, rather than getting a welfare check, how do you propose to implement that?

Mr. JAENICHEN. Thank you for that question, Ranking Member Garamendi. As you pointed out, the President's budget proposal is for up to 25 percent of food aid to be essentially done by local purchase. We have analyzed that and have estimated that approximately 4 to 6 ships would be affected, 200 to 275 mariners. The $25 million that is currently in the Maritime Administration budget is to support the potential loss of those mariner jobs.

We have taken a look at how the $25 million would be used. And, again, that would be the beginning of a long-term, multiyear program to preserve those mariner opportunities. The first $24 million would be essentially taking a look at the ships that would potentially be affected by the changes in the cargo preference that would—they would be applied to. This would be outside of the maritime security program, and we would structure that program during the course of the summer.

Again, that $25 million is only if that food aid reform is enacted. But in order for the Maritime Administration to be ready, we are going to have to do the planning throughout the summer to be able to make sure we can do that.

The final $1 million would be to support training opportunities and also apprentice programs for the mariners for the specific jobs and specialty skills that are required. So, the $24 million would be in stipend payments, essentially to—as we transition to something else, in terms of cargoes, and then $1 million would be for mariner training.

Mr. GARAMENDI. So transitioning into other cargoes like what cargoes?

Mr. JAENICHEN. Potentially, as you have already pointed out, the energy sector is probably the most right for being able to have an opportunity for a U.S. flag to carry those cargoes. That would be something we would be taking a look at.

Mr. GARAMENDI. So what is it going to be, peanut butter or is it going to be steel, coal, liquified natural gas? What is the cargo that you are looking at to replace the Public Law 480 cargoes?

Mr. JAENICHEN. I will tell you that we have actually partnered with the Volpe Center, and they are doing a study for us that will be done later this summer. That study is focused on two things. Primarily, it is on the LNG market, what future markets will be,

what market opportunities are, and then we take a look at the potential policies and the various assumptions that might be used over a full range there. And so I will have a better answer in that timeframe in terms of what the potentials are. That is going to include shipbuilding opportunities and other things, so we are actually taking a look at this specific question that you have asked.

Mr. GARAMENDI. If you hadn't noticed, I am interested in this matter. And there are times when I have been accused of being tenacious. And I am going to be really, really tenacious on this matter.

However, at this moment, Mr. Cummings has a series of questions. I would like to yield to him. Mr. Cummings?

Mr. CUMMINGS. I want to thank the gentleman for yielding, but I want to pick up where the gentleman left off.

Mr. Jaenichen, how many—do we have any idea of how many people would be replaced with regard to the—this $25 billion that we are using? About how many people do you think might be replaced? In other words, taken out of their normal jobs.

Mr. JAENICHEN. Congressman Cummings, as I pointed out earlier, we have estimated it is four to six ships that are potentially affected. Those ships will either do one of two things. They will either re-flag, or potentially they will be—cease to be in service, and they will likely be scrapped. That is 200 to 275 mariner jobs we believe will be affected, and that was one of the reasons why there is the $25 million, if that particular proposal is enacted, that we would have to have a way to compensate and transition those mariners to—and other jobs within the maritime industry.

Mr. CUMMINGS. Did you—have you had any impact on the $25 million? I mean did anybody talk to you about that, and this whole Food for Peace situation? I am talking about you.

Mr. JAENICHEN. That——

Mr. CUMMINGS. When this was being put in the budget.

Mr. JAENICHEN. The answer to that, sir, is yes. And as—what we were taking a look at is what it would take to essentially mitigate the potential impact on mariner jobs. And we have taken a look at a couple different ways to do that.

In the fiscal year 2014 proposal was the first time that we had seen that, and we have had some opportunities to take a look at how it might be conducted over the last year. Again, we would have to go into specific details. I have briefly discussed this with the maritime industry as the budget proposal for this fiscal year was rolled out, but we would have to go into significant detail on how we would actually structure that stipend program to minimize the impact on mariners.

Mr. CUMMINGS. But shouldn't we be working to prevent American job losses? I mean, hello. I mean shouldn't we?

Mr. JAENICHEN. Sir, I would agree with you, and that is one of the reasons why we recognize that this is going to impact mariner jobs, and it is one of the reasons why that $25 million was actually in the President's budget.

Mr. CUMMINGS. You know, I do appreciate your leadership at MarAd. And you have been a breath of fresh air. But I do share the concerns of our ranking member. I think we can do better.

In 1975 we had 857 oceangoing ships under U.S. flag, according to a 2009 study produced by IHS Global Insight for U.S. Maritime Administration. Today there are approximately 100 oceangoing vessels in a United States flag, and they carry barely 2 percent of our commercial cargoes. Doesn't that bother you?

Mr. JAENICHEN. Sir, indeed it does. In fact, as of the first of January of 2014, there were 89 vessels that were actually operating in international trade today. That is 60 in the MSP and then 29 additional that are outside of the MSP program.

Mr. CUMMINGS. And so, what are the risks to the Nation that we lose our U.S.-flag oceangoing fleet? What is the risk?

Mr. JAENICHEN. The potential risk is we lose control over our supply chain. We have 60,000 vessel calls that occur around the country to all of our ports where various commodities come into. And, as you pointed out, currently today about 2 percent of that is on U.S. flag. I think that is a strategic decision, and that is one of the reasons why MarAd is taking a leadership role to develop a national maritime strategy that addresses this particular issue.

Mr. CUMMINGS. So, what impact is the decline in the U.S. military cargo having on the U.S.-flag fleet, and what can we do to help our fleet meet the challenge? I know what you just said—that loss of cargo poses, because it seems to me that we are sort of standing over somebody whose—we could save, and it just seems to be saying, "Well, what the hell, let's just wait and wait and wait." And every second that passes, they march closer to their death. I mean that is what it feels like.

So, I mean, are we really putting forth the effort to do a rescue job here? Or are we—have we thrown up our hands already? It seems like we have thrown up our hands and said "What the hell?"

Mr. JAENICHEN. First of all, Congressman, I think you have exactly what the situation is for the maritime industry. We are at the precipice of potential failure. And I am concerned about that, primarily because of the decrease in overall cargoes. Eighty percent of the cargo that is Government-impelled, that is carried by the U.S. flag, either the MSP operators or by the ships that are enrolled in a visa program, which is a voluntary intermodal sealift, 80 percent of that is DOD cargo. I am concerned that those cargoes currently are not there, and are going down rapidly, which means that the U.S.-flag fleet has to be able to have commercial cargo opportunities.

In this particular market, where there is an overabundance of capacity, we have to structure or take action, essentially, as an administration, as a Congress, to be able to put the correct policies, regulations, and statute in place to be able to support the maritime industry. Otherwise, it will potentially cease to exist, as you pointed out.

Mr. CUMMINGS. So, my last question, Mr. Chairman, just one last thing.

So, as I—based upon what you just said, then why are we proposing cutting Food for Peace? Duh. I mean, am I missing something?

Mr. JAENICHEN. Congressman, that particular position, obviously, is the administration's position in order to feed more starv-

ing children. And we are looking at opportunities to minimize the impact on the maritime sector.

Mr. CUMMINGS. Thank you very much. Thank you, Mr. Chairman.

Mr. HUNTER. I thank the gentleman from Maryland. I would like to recognize Mr. Garamendi for a closing statement, and we will be out of here.

Mr. GARAMENDI. Thank you, Mr. Chairman. Mr. Cummings carried on with the questions I had.

I have questions about the Title XI loan program. The basic question is, is this a guarantee program or not? It seems as though it is not. I take the answers for the record, because we do have to shut down here.

I am going to just—oh, TIGER grants, there is a question about TIGER grants, and whether those are—whether the Department of Transportation is going to use TIGER grants for the ports. This is multimodal issues. Again, Mr. Jaenichen, if you could—and Mr. Cordero, if you could provide that information for the record, I will give you the specific questions. And, in fact, I will give you all of the questions in writing, and let the chairman——

Mr. HUNTER. Without objection.

Mr. GARAMENDI. Thank you.

Mr. HUNTER. And seeing as there are not any further questions, I thank the witnesses for their testimony, the Members for their participation, and, with that, the subcommittee stands adjourned.

[Whereupon, at 11:28 a.m., the subcommittee was adjourned.]

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

ON THE
COAST GUARD FISCAL YEAR 2015 BUDGET REQUEST

BEFORE THE
HOUSE COAST GUARD AND MARITIME TRANSPORTATION SUBCOMMITTEE

MARCH 26, 2014

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 Appropriations Act 2014,* to recapitalize our aging fleet and sustain front-line operations.

The men and women of the United States Coast Guard continue to exhibit the honor, respect, and devotion to duty that secures the Coast Guard as the Nation's maritime first responder. For 223 years, the Coast Guard's unique authorities, cutters, boats, aircraft, infrastructure, and dedicated personnel have ensured that the Nation's safety, security, and stewardship needs are met. No matter what the challenge, the Coast Guard will remain *Semper Paratus* – "Always Ready" – and provide sound maritime governance to protect those on the sea, protect the Nation from threats delivered by the sea, and protect the sea itself.

Before discussing the Coast Guard's FY 2015 Budget Request, I would like to highlight some of the Coast Guard's recent operational successes, our role in the Department of Homeland Security (DHS), and our value to the Nation.

In performing all of our missions, in all manner of conditions, Coast Guard Active Duty, Reserve, Civilian and Auxiliarists dedicate themselves to living the Coast Guard ethos: I will protect them. I will defend them. I will save them. I am their shield. This past year was no exception. The Coast Guard responded to over 17,000 search-and-rescue cases and saved more than 3,200 lives; seized over 88.4 metric tons of cocaine and 36.8 metric tons of marijuana destined for the United States; detained 190 suspected drug smugglers; interdicted more than 2,000 undocumented migrants; conducted 5,079 marine casualty investigations; completed over 8,400 International Ship and Port Facility Code (ISPS) security exams on foreign vessels; and responded to approximately 11,146 reports of pollution incidents.

An example of the work we do every day can be found on the Great Lakes, which have experienced the worst ice cover in decades. Cutter MACKINAW recently completed almost two months of continuous icebreaking in the passages between the Great Lakes, providing escorts and direct assistance to commercial traffic, and validating decisions made nearly 15 years ago to build a new Great Lakes icebreaker.

The cutter HOLLYHOCK, along with our 140-ft icebreaking tugs, worked with Canadian icebreakers to groom navigational channels to ensure commerce could continue.

And the work we do extends beyond our own borders. One of the Coast Guard's greatest strengths is our ability to develop and sustain strong coordination and operational relationships with domestic and international maritime governance forces. It is our responsibility--working with domestic and international partners--to detect and interdict contraband and illicit trade, support enforcement of U.S. immigration laws, protect the natural resources of the sea, safeguard and protect U.S. maritime transportation systems, and defend against threats in the maritime domain. We do some of this work in foreign ports and on the high seas, because the best place to counter threats is well *before* they reach our borders. As an example, the Coast Guard has bilateral and multi-lateral agreements with over twenty-nine maritime nations in the Caribbean and in Central and South America to help facilitate our missions of law enforcement, search and rescue and pollution response. In the Northern Arabian Gulf, Patrol Forces Southwest Asia focuses on maritime security, infrastructure protection, military-to-military assistance in the U.S. CENTCOM area of responsibility. And in the Pacific, we work closely with the other member states of the North Pacific Coast Guard Forum. These activities facilitate securing our borders and safeguarding trade.

The Coast Guard's recapitalization efforts continue to make good progress and our newest assets are already proving their value to the Nation. The FY 2015 Budget includes funding for the eighth National Security Cutter (NSC), which completes the program of record for these vessels. In August we will christen the fifth NSC, Coast Guard Cutter JAMES. The NSC command and control, helicopter, and boat capabilities facilitate a broad range of coverage and interdiction tools essential to mission success in the offshore environment. This summer, CGC BERTHOLF's two week exercise with unmanned aircraft system (UAS) capabilities resulted in a maritime drug interdiction of nearly 600 kilograms cocaine when the UAS detected a suspected go-fast vessel and maintained on-scene surveillance until BERTHOLF's cutter boats and embarked helicopter could interdict it. There will be many more success stories like this as our recapitalization efforts continue.

Our new Fast Response Cutters are already integral to drug and migrant interdiction in the Caribbean and the approaches to Florida. We have taken delivery of eight of these highly capable patrol boats. We have taken delivery of 16 new HC-144 medium range surveillance aircraft, and have nearly completed the H-60 conversion project. We are standing up the Asset Project Office to accept transfer of 14 HC-27J aircraft from the U.S. Air Force as authorized in the National Defense Authorization Act of 2014. At the Coast Guard Yard, we will complete vital sustainment work on the 270-foot Medium Endurance Cutter fleet this summer and will begin a Service Life Extension Project for our fleet 140-foot Ice Breaking Tugs. And in February we awarded three Preliminary and Contract Design contracts for a new Offshore Patrol Cutter. None of these critical recapitalization milestones would have been reached without the strong support of the Administration and the Committees.

As the maritime arm of DHS, Coast Guard continues its proud tradition as both a military service and a federal law enforcement agency. The dedicated men and women of the Coast Guard train relentlessly to ensure proficiency in their craft. Our Nation faces a range of maritime opportunities and challenges that continue to grow and evolve. The global economy is spurring investment in ever larger and more complex ships to carry goods across the seas.

The Arctic is seeing increases in shipping, natural resource exploration, and other human activity. And we continue to see persistent efforts by terrorists and transnational criminal networks to exploit the maritime environment.

Equipped with capable assets, untiring commitment, and proper training, Coast Guardsmen patrol our maritime domain daily to interdict the illicit trafficking of goods and people, respond to man-made and natural disasters, rescue mariners in distress, and prevent and respond threats that jeopardize our national security and economic 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 protecting the maritime domain from illegal activity and potential acts of terrorism.*
- *The sea* itself: *regulating hazardous cargo transportation, holding responsible parties accountable for environmental damage and cleanup, and protecting living marine and natural resources.*

FY 2015 REQUEST:

The Coast Guard's FY 2015 Budget preserves today's critical front-line operations and invests in tomorrow's Coast Guard by continuing recapitalization efforts for new cutters, boats, aircraft, systems and infrastructure. In 2015, the Coast Guard will implement efficiencies and better business practices, overlaid with a near and long-term operational assessment, to strategically allocate resources to optimize mission performance. This approach sustains the balance between today's operational requirements and continued investment in recapitalization.

The Coast Guard's FY 2015 strategic and budget priorities are to:

1. Invest in long-term Operational Capacity;
2. Strengthen Resource and Operational Stewardship; and
3. Preserve Critical Front-Line Operations

Invest in long-term Operational Capacity
Dedicated investment to build boats, cutters, aircraft, and corresponding infrastructure capable of meeting today's threats and those of the future is essential to the Coast Guard's continued role as America's maritime first responder. The current condition and serviceability of the Coast Guard's legacy surface fleet and aircraft and the projected timelines to complete replacement of 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 2015 Budget provides for the acquisition of the eighth National Security Cutter - which completes the recapitalization of the Coast Guard's High Endurance Cutter fleet - two Fast Response Cutters, and continues to invest

in 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
The FY 2015 Budget reflects sound, risk-based allocation of resources. In 2015, Coast Guard will decommission two 1960's era High Endurance Cutters (WHECs) that are being replaced by more capable National Security Cutters. The Coast Guard will also decommission eight 110-ft patrol boats, three HC-130 aircraft, and corresponding shore side support personnel while accepting the delivery of new, more capable Fast Response Cutters, HC-144 aircraft, and HC-27J aircraft to the fleet. The FY 2015 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.

Preserve Critical Front-Line Operations
The FY 2015 Budget sustains critical frontline operations, including maintaining search and rescue coverage, protecting critical infrastructure and key resources, and preserving operational hours dedicated to proficiency. Field commanders will continue to optimize operational capacity to support safe navigation, safeguard natural resources, protect the environment, detect and interdict drugs and individuals attempting to enter the United States illegally, and support the Nation's foreign policy objectives and defense operations.

FY 2015 Highlights:

Invest in Long-term Operational Capacity

- **Surface Assets..... $803.0M (0 FTE)**
  The budget provides $803.0 million for the following surface asset recapitalization and sustainment initiatives:
  - **National Security Cutter (NSC)** – Provides funding for the eighth NSC, completing the recapitalization of the Coast Guard's High Endurance Cutter fleet. The acquisition of NSC 8 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. The NSC also provides a robust command and control platform for homeland security contingency operations;
  - **Fast Response Cutter (FRC)** – Provides production funding to procure two FRCs. These assets replace the aging fleet of 110-foot patrol boats that 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 review of the preliminary design work for the OPC. The OPC will replace the Medium Endurance Cutter classes that conduct missions on the high seas and coastal approaches;
  - **Polar Ice Breaker (WAGB)** – Continues pre-acquisition activities for a new polar icebreaker;

- **Cutter Boats** – Continues 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 funding for sustainment projects on 140-foot ice breaking tugs (WTGB), 225-foot seagoing buoy tenders, the training Barque EAGLE (WIX), and initial sustainment on the 47-foot motor lifeboats (MLB);
- **Survey and Design** –Continues funding for multi-year engineering and design work for multiple cutter classes in support of future sustainment and acquisition projects.

- **Air Assets ..... $68.0M (0 FTE)**
  The budget provides $68.0 million for the following air asset recapitalization or enhancement initiatives:
  - **HC-144A** – Funds spare parts required to maintain the operational availability of the HC-144A Ocean Sentry aircraft;
  - **HC-27J** – Funds continued activities of the C-27J Acquisition Program Office (APO). The APO (new in 2014) will organize logistics, training, maintenance support and ensure these newly acquired aircraft are ready for induction into the operational fleet;
  - **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 and sustainability improvements, where obsolete components are replaced with modernized sub-systems, including an integrated cockpit and sensor suite;
  - **C-130J** – Funds spare parts required to maintain the operational availability of the HC-130J Long Range Surveillance aircraft.

- **Other Acquisition, Construction and Improvements (AC&I) Initiatives....$57.3M (0 FTE)**
  The budget provides $57.3 million for other initiatives funded under the AC&I account, including the following equipment and services:
  - **Program Oversight and Management** - Funds activities associated with the transition of the Coast Guard's assets from acquisition to operations, including delivery, provision of logistics, training and other services necessary to ensure seamless integration into the operational fleet;
  - **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 of this system to Coast Guard operational assets.

- **Shore Units and Aids to Navigation (ATON) ..... $40.6M (0 FTE)**
  The budget provides $40.6 million to recapitalize shore infrastructure for safe, functional, and modern facilities that support Coast Guard assets and personnel:
  - **Specific Project** – Funds construction of a new small arms firing range at Coast Guard Training Center in Yorktown, VA; completes the second phase of renovations to facilities at Coast Guard Station Woods Hole, MA; funds renovation of existing facilities and construction of a new maintenance and engineering building at Coast Guard Station Morro Bay, CA;

- **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..... $115.3M (881 FTE)**
  The budget provides $115.3 million for pay and benefits of the Coast Guard's acquisition workforce.

Strengthen Resource and Operational Stewardship

- **Operational Adjustments**
  In FY 2015, the Coast Guard will make sound, risk based operational reductions while investing in critical recapitalization initiatives. These reductions include:
  - **Vessel Board and Search Teams (VBST).....-$1.4M (-18 FTE)**
    Eliminates four VBSTs; one team each from Sector Boston, Sector Southeast New England, Sector San Diego and Sector San Francisco. VBSTs consist of law enforcement personnel dedicated to Ports, Waterways and Coastal Security (PWCS) enforcement activities. The types of boardings accomplished by these teams will be conducted by Sector Response and Station personnel or from cutter-based crews;

  - **HC-144A Programmed Flight Hours.....-$4.9M (0 FTE)**
    Adjusts the Coast Guard's HC-144A annual Programmed Flight Hours from 1,200 to 1,000 hours per aircraft to align with mission demands.

  - **Fixed Wing aircraft Bravo-0 Response.....-$2.2M (-24 FTE)**
    Removes the fixed-wing Bravo-Zero readiness requirement from Coast Guard Air Stations, with the exception of Air Station Kodiak, AK, and Air Station Barbers Point, HI. This initiative includes a commensurate reduction to staffing of fixed-wing aircrew personnel;

  - **Aids to Navigation (ATON).....-$3.5M (-15 FTE)**
    Consolidates funding for coastal and western river aids to navigation, enabled by modernization and efficiencies in servicing aids to navigation, policy modifications, and logistics. Billets at associated Aids to Navigation Teams (ANTs) will be reduced and ANT Eufaula, AL will be closed, with remaining maintenance responsibilities distributed to other ANTs;

  - **Operational Efficiencies .....-$15.0M (0 FTE)**
    Operational commanders, using risk-based prioritization of patrols and operational activities, are able to adjust operations and balance emerging mission demands with daily operations. Additionally, new Coast Guard assets are equipped with enhanced intelligence and communication tools that enable field staff to target threats and prosecute them more efficiently. As a result, operational efficiencies that scale cutter, boat, and aircraft hours will reduce resources required for fuel and variable maintenance with no anticipated impact to operations. Safety of life (SAR), urgent security activities, and operational hours dedicated to meet minimum proficiency standards will be preserved.

- **Asset Decommissioning and Retirement**
  As the Coast Guard recapitalizes its cutter and aircraft fleets and brings new assets into service, the older assets that are being replaced will be decommissioned or retired.
  - **High Endurance Cutter (WHEC).....-$14.9M (-184 FTE)**
    Decommissions the sixth and seventh High Endurance Cutters (WHECs). National Security Cutters are replacing the aging WHEC fleet.
  - **Patrol Boat (WPB).....-$6.1 M (-73 FTE)**
    Decommissions eight 110-ft WPB patrol boats. These assets will be replaced with Fast Response Cutters (FRCs) in the Seventh and Eighth Coast Guard Districts.
  - **HC-130 Aircraft Retirement.....-$11.6M (-43 FTE)**
    Eliminates funding and personnel associated with the retirement of three HC-130H to the Air Force for transfer to the U.S. Forest Service as outlined in the FY 2014 National Defense Authorization Act. Newly acquired HC-130J aircraft will provide increased operational reliability.

Preserve Critical Front-line Operations

- **Pay & Allowances ..... $83.1M (0 FTE)**
  Maintains parity with DoD for military pay, allowances, and health care, and for civilian pay raise and retirement contributions. 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 ..... $72.1M (281 FTE)**
  Provides funding for operations and maintenance of shore facilities, as well as cutters, boats, aircraft, and associated C4ISR subsystems delivered through acquisition efforts.
  - **Shore Facilities** – Funds operation and maintenance of shore facility projects scheduled for completion prior to FY 2015;
  - **Response Boat-Medium** – Funds operation, maintenance and support of 15 RB-Ms as well as adjustments for the Standard Support Level (SSL) for the 155 RB-Ms currently in service;
  - **Rescue 21 (R21)** –Provides additional funds for the R21 System for maintenance of Coast Guard leased and owned towers, and Alaska communications sites;
  - **FRC** – Funds operation and maintenance of FRCs #13-17 and provides funding for personnel to operate and maintain hulls #15-18, including the shore-side support personnel;
  - **NSC** – Funds personnel, operations and maintenance for NSC #5, including costs for shore side support personnel. Provides new funding for operation of the NSC baseline mock-up laboratory at the Maritime Domain Awareness Center in Moorestown, NJ;
  - **HC-144A MPA** – Funds operations, maintenance, and personnel funding for aircraft #18 that will be assigned to Air Station Miami, FL.

Question#:	1
Topic:	rulemaking
Hearing:	Coast Guard Fiscal Year 2015 Budget Request
Primary:	The Honorable Duncan D. Hunter
Committee:	TRANSPORTATION (HOUSE)
Witness:	Admiral Robert Papp – USCG Commandant
Organization:	U.S. Department of Homeland Secuirty

Question: The towing vessel inspection rulemaking ("Subchapter M") was mandated by Congress nearly 10 years ago in the Coast Guard and Maritime Transportation Act of 2004, and is now three and a half years past the statutory deadline for its issuance. The Subcommittee has consistently urged the Coast Guard to expedite the finalization of this unacceptably past due rulemaking because the delay is hindering potential advancements in safety for the tugboat, towboat and barge industry.

Please provide a prospective timeline for publication of the towing vessel inspection rulemaking, including (a) a date for finalization and transmittal to the Department of Homeland Security (DHS) for review; and (b) Coast Guard's plan to work with DHS in developing a mechanism for prompt review of the rulemaking.

Response: The latest projection for publication of the final rule in this rulemaking (RIN 1625-AB06) is March 2015, as published in the Spring 2014 Unified Agenda. Coast Guard is still developing this final rule, and once review concludes within the Department, will be and sent to the Office of Management and Budget, Office of Information and Regulatory Affairs pursuant to Executive Orders 12866 and 13563. The Coast Guard Marine Safety & Security Council and DHS executive leadership, as well as their staffs, collaborate on a regular basis. However, due to the volume and scope of the comments received for a particular rule, and the time it takes to adjudicate those comments, the timetable for rulemakings is unpredictable in nature.

Question: Please also provide the status of Coast Guard's review of the Towing Safety Advisory Committee's recommendations—in particular, the committee's 2011 report on the notice of proposed rulemaking—and plans to incorporate these recommendations in the proposed rule.

Response: The Coast Guard has reviewed the recommendations contained in the Towing Safety Advisory Committee's 2011 report on the notice of proposed rulemaking on towing vessel inspections. The Coast Guard is currently adjudicating those recommendations, and will incorporate them into the final rulemaking as deemed appropriate.

STATEMENT OF PAUL N. JAENICHEN
ACTING 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 2015 BUDGET REQUEST

MARCH 26, 2014

Good morning Chairman Hunter, Ranking Member Garamendi, and Members of the Subcommittee. I am pleased to appear before you today, and I thank you for the opportunity to discuss the President's Fiscal Year (FY) 2015 budget priorities and initiatives for the Maritime Administration (MARAD). This budget request supports MARAD's mission to foster, promote and develop the U.S. Merchant Marine and it reflects MARAD's priorities of maintaining security and preparedness, investing in mariner training, enhancing U.S.-flag competitiveness and fostering environmental sustainability.

BUDGET REQUEST HIGHLIGHTS

One of the primary goals of the FY 2015 budget request is to continue funding for MARAD readiness programs that support Department of Defense (DOD) sealift capacity. These programs are critical to ensuring that vessels and mariners are available to meet national security needs, often with little notice. A recent example is the mobilization of the CAPE RAY, one of the 46 vessels in MARAD's Ready Reserve Force (RRF), which currently is being used as the platform for the destruction of the highest priority Syrian chemical weapons. The CAPE RAY is the United States' key contribution to the joint United Nations/Organisation for the Prohibition of Chemical Weapons (OPCW) international effort to eliminate the Syrian stockpile of chemical weapons and is the first time that destruction will be accomplished at sea. Converting a sealift vessel into an OPCW-verified chemical weapons destruction facility from concept to reality was no easy task. Preparations were completed in record time given the scope of the mission, the number of U.S. Government agencies and commercial companies involved, and the extensive vessel modifications required. The FY 2015 budget request includes a change with the direct transfer of $291 million in funding from Navy DOD to MARAD for the RRF program. This funding will ensure these vessels continue to be available to support DOD strategic sealift requirements as well as the capacity to provide disaster response and humanitarian assistance.

Another MARAD program that is critical to meeting DOD sealift capacity requirements is the Maritime Security Program (MSP). The MSP provides operating assistance funds as a stipend to a fleet of 60 commercial privately-owned, militarily useful, U.S.-flagged and U.S.-crewed ships. The MSP fleet ensures DOD has assured access to a global fleet of ships in ocean-borne foreign commerce with the necessary intermodal logistics capability to move military equipment and supplies during armed conflict or national emergency. Moreover, as this Subcommittee knows,

the MSP fleet, supports a pool of actively sailing U.S. mariners to crew the government's sealift fleets, and I thank the Subcommittee for their role in providing funding at the full authorized level in the Consolidated Appropriations Act, 2014 (P.L. 113-76). The President's budget request continues full funding for the program in FY 2015.

The President's budget request also continues important investments in mariner training. Having a pool of qualified U.S. mariners is critical for emergency response and national security. The U.S. Merchant Marine Academy (USMMA) and the six State Maritime Academies (SMAs) educate and graduate Merchant Marine officers ready to serve the maritime industry and Armed Forces by providing the highest caliber academic study with state of the art learning facilities. The budget request reflects the Department of Transportation's (DOT) continued commitment to USMMA by providing funds to meet operational and academic needs, as well as to address critical capital improvements of the facilities on the campus. In addition, the budget provides support for the SMAs with funding for tuition assistance and direct support for maintenance and repair of each Academy's school ships.

The FY 2015 budget request includes funding to continue energy and environmental technology initiatives designed to enhance maritime sustainability and affordability, focusing on areas such as vessel and port air pollution reduction, invasive species control through ballast water management and underwater hull husbandry, improved and diversified marine propulsion systems and increased energy efficiency at sea. A critical focus area is the use of less polluting, domestically produced and more sustainable maritime propulsion fuels, such as natural gas, biofuel blends and fuel cell/hybrid technologies.

Funding is also requested to support the disposal of obsolete National Defense Reserve Force (NDRF) vessels and non-combatant auxiliary vessels to advance the agency's contribution to environmental stewardship. Due to the presence of hazardous materials, these surplus non-retention ships pose a risk to the surrounding environment. MARAD's Ship Disposal Program manages ship dismantling and recycling for obsolete, Federally owned, merchant-type vessels in an environmentally responsible manner that further reduces the risk of environmental contamination.

Other priorities for MARAD in FY 2015 include the continued oversight of Transportation Investment Generating Economic Recovery (TIGER) grant funding to complete maritime projects totaling $415 million supporting new marine highway services, expanding port capacity and improving freight efficiencies. Additionally, the agency is committed to improving the management of our human resources, information technology and financial resources.

FY 2015 BUDGET REQUEST

The President's FY 2015 budget request for MARAD is $658 million, which funds activities supporting ships and shipping, port operations, vessel operations, national security and strategic mobility, ship disposal, environment, safety and education. Significant changes in the budget request include a new initiative to mitigate the impact on mariner jobs from proposed reforms for P.L. 480 Title II Food Assistance, and a shift in the budgetary treatment of funding for the RRF and the NDRF. A summary of the FY 2015 request that supports MARAD program priorities of

security and preparedness, mariner training, economic competitiveness and environmental sustainability is provided below.

SECURITY AND PREPAREDNESS

National Defense Reserve Fleet (NDRF)/Ready Reserve Force (RRF)

MARAD manages and maintains a fleet of government-owned merchant ships in the NDRF, which includes a component of 46 RRF vessels that are maintained in an advanced state of surge sealift readiness for the ocean transport of cargo to a specific area of operation to satisfy Combatant Commanders' critical war fighting requirements, such as Operations IRAQI FREEDOM and ENDURING FREEDOM. The level of surge sealift readiness maintained allows MARAD to complete RRF vessel activation in five days or less to support DOD requirements. RRF vessels and NDRF school ships may also be called upon to provide relief effort and humanitarian assistance in times of national emergency, as was the case when one of the RRF ships was activated to provide support relief efforts following the November 2012 Hurricane Sandy. Additionally, each vessel can be configured to support other emergent situations as was the case in mobilizing the CAPE RAY for use in the international effort to destroy a portion of Syria's chemical weapons.

The RRF ships are berthed at 15 different ports around the country and serve as important assets supporting the Department's emergency preparedness and disaster response activities. RRF ships meet approximately half of the U.S. Transportation Command's surge sealift requirement during a mobilization. Without the RRF, DOD would have insufficient sealift capacity during armed conflicts.

The FY 2015 request reflects a direct transfer of $291 million from Navy DOD to support the RRF and NDRF program activities. Historically, DOD provided these funds on a reimbursable basis from an appropriation to the National Defense Sealift Fund, but through a budget change, a direct transfer to MARAD's RRF account will serve as the funding mechanism. Funding provided by Navy DOD will allow MARAD to continue to provide ready surge sealift support in FY 2015 in the areas of activating, operating, deactivating and special mission requirements for RRF vessels and maintaining MARAD's three NDRF fleet sites.

Maritime Security Program (MSP)

The MSP complements the RRF vessels with a fleet of 60 commercial privately-owned, militarily useful, U.S.-flagged and U.S.-crewed ships. The primary purpose of the MSP is ensuring the military's access to a global intermodal system with sealift capacity using a U.S.-flag fleet and ready U.S. mariners, while also maintaining a U.S.-flag presence in foreign commerce. The MSP provides critical employment for 2,700 U.S. merchant mariners, creating a reliable pool of mariners ready to support the activation of the government's sealift fleets.

MSP vessels have been key contributors to our Nation's efforts in Afghanistan and Iraq over the last decade, moving over 50 percent of all military cargo – over 26 million tons – to the Middle East. Since 2009, MSP carriers have moved over 90 percent of the ocean-borne cargo needed to

support U.S. military operations and rebuilding programs in both countries.[1] Of even greater significance, MSP carriers led development of multi-modal services into Afghanistan via the Northern Distribution Network and establishing air-sea intermodal bridging to provide critical alternative routes to resupply and support our U.S. military forces.

While MSP carriers are a critical part of drawdown plans for the U.S. Military as Operation ENDURING FREEDOM in Afghanistan winds down; however, one of the challenges facing the MSP is declining DOD cargo due to the drawdown of activity in Iraq and Afghanistan. Declining cargoes create real challenges for all of the U.S.-flag fleet operating in international trade. This is why MARAD is actively working with industry and government stakeholders to develop a National Maritime Strategy to support the U.S. maritime industry and ensure the availability of U.S.-flag vessels for our nation's national security.

For FY 2015, a total of $186 million at the authorized level for 60 vessels is requested for the MSP. Funding at this level will enable DOT to continue to maintain a U.S.-flag international trade merchant fleet, crewed by U.S. mariners, to be available to serve the Nation's homeland and national security needs. Without the MSP, there would be a significant reduction in the number of U.S.-flag vessels and the number of mariners available to crew U.S. Government surge sealift vessels.

Food Aid Reform

The President's FY 2015 budget request includes $25 million as a component of Food Aid reforms proposed for P.L. 480 Title II Food Assistance that would provide a flexible option that has proven to be critical when the U.S. provides emergency food in conflict situations and logistically difficult crises like Syria and Typhoon Haiyan. If the reform is enacted, most P.L. 480 Title II food aid would still be sourced and shipped from the U.S. with this additional funding to mitigate the impact that such reforms could have on mariner jobs. Most of the request would be devoted to provide direct stipend payments to operators of vessels in foreign trade, separate from MSP payments. Additionally, some of the request would support training programs to retain and educate U.S. mariners for critical occupations to preserve mariner employment on U.S.-flag vessels. This summer, MARAD will begin to develop this mitigation program.

MARINER TRAINING

United States Merchant Marine Academy (USMMA)

The President's FY 2015 Budget requests $79.8 million for USMMA. Of this, $65.3 million will support Academy operations and $14.5 million will fund the Capital Improvement Program. The FY 2015 request will maintain a sufficient base budget to support mission-essential areas and enable the Academy to effectively achieve its core responsibility of providing the highest caliber

[1] Report by NDTA Military Sealift Committee Maritime Policy Working Group, "The Use of Commercial Vessels and Intermodal Systems for Military Sealift," 2009-2011 Addendum.

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 210 licensed merchant marine officers for service in the maritime industry and the U.S. Armed Forces in 2015. Nearly all of USMMA graduates receive either an active duty or reserve commission in the U.S. Armed Forces or uniformed service (National Oceanic and Atmospheric Administration or Public Health Service) and provide a guaranteed source of mariners to crew surge sealift vessels

The agency's strong commitment to improved Academy facilities is reflected in the FY 2015 request for $14.5 million for the Capital Improvement Program. The funding includes $13 million for Bowditch Hall renovation, the second academic building renovation as identified in the Academy's Five-Year Capital Improvement Plan, and $1.5 million for necessary building repairs. The budget request continues DOT's commitment to maintenance and improvement of Academy's 70-year-old facilities. The improvements are critical to creating an enriching educational environment. A number of major capital improvement projects are scheduled for completion or are completed. In July 2013, the Academy's fifth dormitory renovation was completed on schedule and within budget. The sixth and final dormitory renovation is currently underway and will be completed September 2014. The renovation of the Academy's main dining facility will be completed April 2014, on schedule and under budget. Additionally, the replacement of Mallory Pier, the Academy's main waterfront pier, is scheduled for completion in April 2014, within budget. Infrastructure improvements for the water distribution and electric power supply are also currently underway.

Significant progress in improving institutional management and oversight, and strengthening internal controls at the Academy has been accomplished. A broad range of corrective actions, controls and process improvements were implemented at the Academy over the past few years, in addition to an organizational restructuring and leadership changes. Of note, the Government Accountability Office (GAO) has confirmed closure of 46 out of 47 recommendations in the 2009 audit report. A USMMA Internal Control Program Plan was submitted for the remaining recommendation for "a comprehensive, risk-based internal control system for the Academy". GAO acknowledged the plan was responsive to the recommendation and will evaluate this action to close out the report.

State Maritime Academies (SMAs)

The President's FY 2015 budget requests $17.7 million for the SMA program. This request includes $2.4 million to fund the Student Incentive Payment (SIP) program, enabling enrollment of 300 students per year (75 graduates annually) who maintain a U.S. Coast Guard Merchant Mariner Credential and fulfill a service obligation through active or reserve duty in the U.S. Armed Forces or through employment in the maritime industry. Also, included in the request is $3.6 million for annual direct payments to provide for operational support and school ship fuel; and $11.3 million to fund maintenance and repair costs for federally owned training ships on loan to the SMAs.

The SMAs regard the SIP program and support for their training ships as among the most important recruiting tools to encourage potential academy cadets to pursue careers as merchant

marine officers. MARAD anticipates approximately 660 students in the license program will graduate from the academies in 2015. The SMA program contributes about 75 percent of the entry-level licensed mariners trained annually who begin working in various positions within the maritime industry.

Annually, the six SMA training vessels provide for approximately 123,000 cadet sea days which present opportunities for important hands-on license coursework and technical training. The quality and length of sea time these students receive aboard these vessels is a critical educational component needed to qualify to take the U. S. Coast Guard merchant marine officer examination. Maintaining the operating condition of these NDRF vessels as training ships is vital to ensure their safe and seaworthy condition and compliance with regulatory requirements. The training ships are approaching the end of their useful lives, and as they age, the costs of ship maintenance repair and spare parts increase significantly. MARAD will develop a school ship recapitalization proposal and analysis of alternatives with multi-year budget estimates to address replacement of these vessels.

Additionally, these ships have been called upon in the past to respond to emergencies or relief efforts. For example, during FY 2013, two training vessels were deployed to provide support to the Federal Emergency Management Agency (FEMA) as part of the Hurricane Sandy Relief efforts, combined with a Ready Reserve Force (RRF) aviation support ship for two months. These three ships eventually provided lodging and dining accommodations to nearly 1000 personnel from the Red Cross, FEMA, and other government and non-government relief organizations daily.

The agency is able to provide additional support to the six SMAs and the USMMA by distributing a portion of the funds accrued from recycling obsolete vessels from MARAD's NDRF. The National Maritime Heritage Act requires 25 percent of vessel sales to be provided to the academies to reimburse expenses in ship fuel and facility and simulator upgrades critical to meet emerging international training requirements. In the first quarter of FY 2014, MARAD provided $7 million to the academies from the vessel scrap sales. Since 2009, MARAD has provided more than $13.4 million in funding generated from vessel sales to the SMAs and USMMA. The agency remains committed to support the education that prepares the next generation of maritime professionals.

ECONOMIC COMPETITIVENESS

Maritime Guaranteed Loan Program (Title XI)

The Maritime Guaranteed Loan Program, commonly referred to as Title XI, encourages investment in the maritime sector. The primary purpose of the program is to promote the growth and modernization of the U.S. Merchant Marine and U.S. Shipyards. Title XI offers loan guarantees for shipyard modernization projects and for building vessels in U.S. shipyards. The loan guarantees enable applicants to secure long-term financing at favorable interest rates, thereby sustaining facilities for shipbuilding and ship repair within the U.S., and promoting system capacity and jobs.

The current portfolio is $1.7 billion in Title XI outstanding loan guarantees and 39 individual loan guarantee contracts, covering approximately 250 vessels to foster efficiency, competitive operations, and quality ship construction, repair, and reconstruction. The President's FY 2015 budget requests $3.1 million for administration of the loan portfolio to ensure agency compliance with the Federal Credit Reform Act requirements, borrower compliance with loan terms, and to process new loan applications. The current Title XI subsidy balance for new loan applicants is $73 million. This will support approximately $735 million in shipyard projects assuming average risk category subsidy rates.

ENVIRONMENTAL SUSTAINABILITY

MARAD environmental programs are aimed at reducing and mitigating maritime transportation-related impacts on ecosystems and communities; with a focus on obsolete vessel disposal, reducing port and vessel air emissions, testing and verification of ballast water treatment technology and underwater hull husbandry, improving and diversifying marine propulsion systems and fuels, and increased energy efficiency at sea.

Ship Disposal

The 2015 budget request for the Ship Disposal Program is $2 million, consistent with FY 2014 funding. The request will support the continued priority emphasis on the disposal of worst condition non-retention NDRF vessels.

MARAD currently has 25 obsolete vessels that are not yet under contract for disposal, which is an historic low. By the end of FY 2014, we anticipate contracting for the disposal of 20 remaining obsolete ships. With the requested funding level in FY 2015, and available carry-over balances, MARAD plans to remove approximately 10 additional obsolete ships through competitive vessel sales from the James River and Beaumont Reserve Fleets, assuming scrap steel prices remain stable. The requested funding level does not include the purchase of ship recycling services for vessels that do not sell, or for the removal of Suisun Bay Reserve Fleet (SBRF) vessels, which require dry docking and hull cleaning to meet California regulations. However, MARAD is currently two years ahead of the SBRF vessel removal schedule required by the court-ordered settlement with California. With 49 of the 57 vessels already removed, MARAD expects to dispose of an additional three vessels from the SBRF in FY 2014, and the five remaining SBRF vessels will be removed for disposal by FY 2017.

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 2015 request includes $2.8 million for the inactive Nuclear Ship SAVANNAH (NSS), 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.

The NSS, the world's first nuclear powered merchant ship, is a legacy asset assigned to the NDRF in retention status. The ship's activities and maintenance are actively licensed and inspected by the Nuclear Regulatory Commission (NRC) which oversees the regulated process of decommissioning, which includes dismantling, removing, and properly disposing of residual nuclear facilities. MARAD is currently developing formal decommissioning project execution plans and future multi-year budget estimates to meet the NRC's required nuclear reactor core decommissioning activities, which must be initiated by 2026 and completed by 2031.

Maritime Environment and Technology Assistance

The President's FY 2015 budget requests $3 million for urgent environmental challenges facing the maritime industry in such areas as invasive species in ballast water, energy use, and air emissions.

MARAD actively supports research, demonstrations, and technology development efforts to facilitate environmental compliance and enhance sustainability in the marine industry. One important focus area is the use of lower-polluting, domestically-produced, and more sustainable maritime propulsion fuels, such as natural gas, biofuel blends, fuel cells and hybrid technologies. Other focus areas include ballast water management and hull cleaning technology to control invasive species, and development of technologies that improve the efficiency of marine engines and reduce air pollution. An underlying principle of MARAD's initiative is collaborative engagement of other stakeholders, including Federal and state partners, the maritime industry, and academia, to leverage and focus resources on identifying realistic and economically viable ways to address today's maritime industry environmental challenges. The budget request will continue to advance critical research and development to assist the maritime industry in meeting the ballast water discharge standard, advance infrastructure and methodologies for certifying and verifying ballast water technologies, reduce port and vessel emissions, and increase knowledge regarding appropriate methods for addressing these challenges in the unique setting of ships and ports.

Maritime transportation, which includes U.S. vessel operations in deep sea, coastwise, Great Lakes, and inland rivers and waterways, is a vital industry, supported by more than 38,000 U.S.-flag commercial vessels of all types ranging from oceangoing ships to tugs, tow boats, barges and ferries. MARAD programs help to strengthen and improve the water transportation industry, shipyards, ports and other components of the Marine Transportation System. Collectively, this system provides reliable transportation to industry and relieves traffic congestion and wear-and-tear on roads and railways by offering an alternative to landside movements. Waterborne transport is the most fuel-efficient transportation mode per ton-mile, saving energy resources and reducing the Nation's carbon footprint.

The above items represent the key policy proposals and initiatives highlighted in the President's FY 2015 Budget. We will continue to keep this Committee apprised of the progress of our program activities and initiatives in these areas in the coming year and in particular to work with the Congress on the development of a National Maritime Strategy.

Mr. Chairman, thank you for the opportunity to present and discuss the President's FY 2015 request for MARAD. I appreciate the Subcommittee's continuing support for maritime programs and I look forward to working with you on advancing maritime transportation in the United States. I am happy to respond to any questions you and the members of the Subcommittee may have.

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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

March 26, 2014

Mr. Chairman, Ranking Member Garamendi, and members of the Subcommittee, thank you for this opportunity to discuss the Federal Maritime Commission's (Commission or FMC) important accomplishments and our planned achievements within the funding provided in the President's Fiscal Year (FY) 2015 budget.

Commission Activities

The Commission continues to have a responsible role in implementing a regulatory system that ensures competition, facilitates commerce, and encourages reliable service to U.S. exporters and importers, while minimizing government intervention and costs. We are focused on supporting U.S. exports and the Nation's economic growth. In its 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, and to protect the public from unfair and deceptive practices.

I believe that the two most important ways the Commission promotes economic growth are: (1) working to facilitate the competitiveness of our Nation's ports and maritime transportation system to support growth in exports; and (2) providing maritime businesses regulatory relief so businesses 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 will remain vigilant on behalf of the American importer, exporter, and consumer. I also continue to look for opportunities, consistent with the Commission's statutory 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 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. The vast majority of our nation's exports and 80% of international trade travel through a port and by ocean.

The Commission monitors the Nation's ports, including marine terminal operators' efficient stewardship of resources and their focus on productivity. The industry has recently seen innovations aimed at productivity, sustainability, and efficient use of resources. The Commission's mission is to ensure these innovations do not operate to decrease competition in a way that is likely to cause unreasonable disruptions to the supply chain.

One example of such an industry shift involves the chassis that are used for moving international ocean containers in the U.S. In recent years, the ownership and provision of chassis has been migrating from ocean carriers to chassis leasing companies, as ocean carriers have been divesting themselves of their chassis fleets to reduce costs. This has led to increased focus on chassis pools and equipment sharing agreements at U.S. ports and inland terminals.

Equipment sharing agreements filed with the Commission, such as, the Consolidated Chassis Management Agreement (CCM), facilitate chassis pools that aim to enhance the efficiency of intermodal chassis operations in the United States. CCM operates six cooperative chassis pools in the South and Midwest sectors of the United States. CCM pools are owned and managed by the ocean carrier members of the Ocean Carrier Equipment Management Association (OCEMA) agreement, and leasing companies, motor carriers, and others can contribute chassis to the CCM pools. At this stage of the transition, leasing companies are the primary owners and contributors of chassis in the CCM pools. The Commission closely monitors activities under these agreements, particularly with respect to the transition that is taking place in the provision of chassis and the availability of chassis in the marketplace.

The Commission monitors the increasing use of technology to drive industry innovations in the operations of the Nation's international ocean ports. As an example, PierPASS is an agreement originally created in 2005 among terminal operators in the ports of Los Angeles and Long Beach. Filed with the FMC, PierPASS addresses 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 shift cargo movement.

The Commission continues to monitor this program to ensure its effects meet Shipping Act requirements.

We will continue our efforts to assist U.S. exporters. The Commission will monitor rate discussion agreements in the nation's largest trade lane to ensure that those agreements do not impede U.S. exports and imports through anticompetitive practices that impact rates or services. For small businesses that want to start exporting, as well as for individuals shipping personal goods, we 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 United States Department of Agricultural (USDA) Ocean Shipping Container Availability Report (OSCAR) continues to provide 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.

The Commission's Office of Consumer Affairs and Dispute Resolution Services (CADRS) assists parties to informally resolve shipping disputes. These services are available to the public without charge and can assist parties in disputes relating to commercial shipments, shipments of household goods, privately-owned vehicles and effects, as well as problems that may arise between passengers and cruise lines.

During Fiscal Year 2013, 1,211 requests for ombudsman services were received. These included 116 passenger complaints about cruise line issues, 857 complaints with respect to household goods shipments, and 229 complaints involving other cargo shipment matters. Cargo shipment complaints continued to be of increasing complexity. In one recent example, CADRS received over 1,000 consumer complaints related to the collapse of a single OTI; the Commission's staff is working diligently with other federal, state and local authorities to assist the consumers harmed in this case

The Commission's CADRS Rapid Response Team (RRT), focuses on assisting U.S. exporters. To accomplish this, the RRT works with ocean carriers and importers. The Commission has received feedback from industry stakeholders that the CADRS' Rapid Response Team has 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 re-evaluated several of our regulations in the interest of reducing regulatory burdens and identifying potential cost savings and flexibility to the shipping industry and the customers they serve.

Last summer, the Commission issued a final rule that exempts foreign-based NVOCCs from certain publication requirements for negotiated rate arrangements. During that time, the Commission also issued an Advance Notice of Proposed Rulemaking (ANPRM) to its OTI rules to establish a licensing and renewal program that adapts to industry conditions, improves

regulatory effectiveness, enhances transparency, streamlines processes, and reduces regulatory burdens.

The ANPRM process is only the first step in the Commission's consideration of amendments to its OTI applications, and this process provides for public comment on any proposal in the ANPRM. Not only did the ANPRM request comments on the substantive content of the proposed changes, it also requested responses to specific questions seeking information relevant to the analysis required by the Regulatory Flexibility Act (as amended by the Small Business Regulatory Enforcement Fairness Act) (RFA). The RFA-related questions sought information with regard to each OTI's type of business, firm size, and estimated cost of compliance with the proposed rule. The Commission is reviewing the comments that respond to those questions, so that it can determine whether additional information from the industry may be needed to complete the assessment required by the RFA.

Only after the Commission completes its review of the public comments will it be in a position to determine what changes to the proposed draft rule should be made, and whether to move forward. The Commission would then need to publish a Notice of Proposed Rulemaking (NPRM), and commence an additional round of public comments. Parties who previously filed responses to the ANPRM could file new or updated comments; parties not heard from previously may also participate in the NPRM stage.

3. Foreign Shipping Practices, International Activities, and Global Alliances

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.

In December 2013, the Commission held a Global Regulatory Summit at its headquarters in Washington, DC, where it met with regulators from the European Union and the People's Republic of China, to discuss their respective regulatory roles in considering the impact of the changes in the ocean shipping industry. The team of international regulators found the meeting to be illuminating and productive. Although each regulatory regime employs its own standards, the regulators acknowledged that the ocean transportation industry is evolving, and the ability to discuss issues that relate to each regulator is paramount and facilitates the role of each regulator.

The proposed P3 Alliance agreement, which has been filed at the Commission, consists of the world's three largest container carriers Maersk Line, CMA-CGM, and Mediterranean Shipping Company. The three carriers announced they would begin cooperating in 2014 on routes covering Asia to Europe, as well as transpacific and transatlantic routes to the United States. Early estimates by Maersk Line's chief trading and marketing officer put market control of such an alliance at about 42 percent on the Asia to Europe route, 24 percent on the transpacific routes, and 40–42 percent on the transatlantic route. Just last week, the Commission voted to

take no further action to prevent the implementation of the P3 agreement, and imposed alternative monitoring requirements tailored to unique features of the P3 agreement. These enhanced monitoring requirements will provide the staff an early warning system to identify – and be prepared to ameliorate – any conditions that may threaten effective competition in the pertinent trades.

Also in December 2013, the Commission received an amendment to the G6 Alliance Agreement to expand their collective services to include the transatlantic and transpacific U.S. West Coast trades. The original agreement authorizes member lines, among other things, to operate together in the Far East/U.S. East Coast trade and the Mediterranean/U.S. trade. The proposed expansion of the agreement's geographic scope would allow G6 operational cooperation to extend to the Far East/U.S. West Coast trade and the North Europe/U.S. trade. If the agreement were to become effective, the G6 Alliance would have market shares of 31 percent inbound and 36 percent outbound in the Far East/U.S. West Coast trade, and market shares of 40 percent inbound and 42 percent outbound in the North Europe/U.S. trade. The Commission is examining what anticompetitive effects, if any, would result from this amendment.

The Commission addressed how the People's Republic of China is implementing its new regulations on a nationwide value added tax (VAT). Maritime industry stakeholders have expressed concerns about the application and scope of the VAT. In response to those concerns, as well as the Commission's concerns about the VAT, the Commission is working with the State Department in its consultations with Chinese officials and industry stakeholders on the interpretation of the VAT.

4. Protecting American Consumers

As noted above, the Commission's mission includes ensuring service and providing protection for members of the public. The Commission seeks to provide this protection to all participants in the transportation system — including those who are not sophisticated shippers, or those who may travel on cruise ships or deal with international shipping only infrequently, for example, when they ship personal belongings or household goods abroad. Aggrieved parties can file complaints with the Commission that are heard by Administrative Law Judges, and ultimately reviewed by the Commission. Thus, if parties believe that they have been harmed and the conduct runs afoul of the prohibited acts in the Shipping Act of 1984, the Commission provides a forum for the parties to seek review of the complaint. Through the formal complaint process, and the informal complaint resolution process administered by CADRS, the Commission serves as a knowledgeable, respected source for resolving complaints relating to ocean shipping practices.

CADRS also receives a significant number of requests from passengers and from members of Congress on behalf of their constituents for assistance with cruise lines. The most common examples of these complaints are cruise cancellations, changes of itinerary, difficulties encountered with connecting transportation (*i.e.*, flight cancellations), reports of discrepancies in cruise advertising, and problems with passenger documentation (*i.e.*, refused boarding due to failure to have appropriate type of personal identification). CADRS facilitates discussions between consumers and the cruise lines to resolve such disputes.

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" continues as a widespread industry practice that is beginning to affect future engine designs and carriers' service network configurations. Sustainable practices are part of a business model in the maritime industry. As a result, the Commission has monitored changes to fuel surcharges made by the major rate discussion agreements in the Transpacific trades. 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.

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 address 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 2013, the Commission collected $3,027,500 in civil penalties for Shipping Act violations, more than $2 million over the $838,000 it collected in FY 2012.

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 that receive, handle, and transport 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.

Last summer, the FMC signed an Automated Commercial Environment-International Trade Data System (ACE-ITDS) memorandum of understanding with U.S. Customs and Border Protection (CBP). That memorandum allows the FMC to share the ACE data in order to strengthen the balance of facilitation of commerce with enforcement of the regulation of ocean carriers and other entities involved in ocean trade and ensure compliance with the SAFE Port Act.

Cooperation with other agencies has expanded into joint field operations to investigate entities suspected of violating both agencies' statutes and 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

In fiscal years 2014 and 2015, the FMC must continue the multiyear enhancement of its IT systems. Much of this work will involve a transition to the use of Enterprise Content Management or ECM technology. In connection with increasing the public's accessibility to FMC information, the Commission will begin implementing a plan to upgrade the website and document repository in fiscal year 2015.

Planned FMC IT actions for FY 2014 and 2015 include efforts to:

- continue to develop and deploy ECM technology, which will consolidate all OTI applications and renewal processes, enhancing the ability of applicants to file electronically, reducing errors and enabling staff to significantly increase efficiency in processing applications and renewals for approximately 6,000 licensed/registered OTIs;
- build and deploy a new Service Contract Filing System for ease of filing, and optimize the internal architecture of SERVCON, particularly the search functionality needed to keep pace with the rapid accumulation of records;
- modernize and expand the Regulated Persons Index (RPI), a critical database that contains up-to-date records of licensed OTIs (ocean freight forwarders and NVOCCs), ocean common carriers, MTOs and other entities, which is used by both FMC staff and the shipping public;
- develop and implement an updated CADRS case tracking system for responsive handling of consumer complaints;
- design and deploy an updated Automated Tariff Registration System (Form-1) for VOCCs, NVOCCs, conferences, and MTOs;
- migrate IT security standards from the Certification and Accreditation (C&A) process to the FedRAMP process for all applicable systems;
- modernize the FMC IT infrastructure to enhance the user experience and availability of mission-critical software applications;
- enhance IT systems with respect to agreement filing and trade monitoring programs in order to streamline internal business processes;
- develop a partnership to establish shared services with other Federal agencies to provide disaster recovery and continuity of operations support; and
- develop and implement a plan to upgrade the FMC's current internet hosting, maintenance, and public document repository solution.

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. Accordingly, our Human Capital Plan is vital in order to guide our actions in planning for succession. Training and development in leadership competencies, within a technical context, is essential to prepare the next generation of leaders. In addition to providing training opportunities to develop a new generation of leaders, the 2015 funding level will allow the Commission to provide training opportunities to all employees in order to provide better service to regulated parties, and increase the efficiency of each employee's work.

The 2015 funding level will allow us to retain positions backfilled in 2014 crucial to our mission. Vacancies, which currently represent about 10% of the current staff, have compromised the Commission's ability to carry out many of its functions, including responding to shipping disputes, resolving complaints, and addressing industry concerns. Filling those positions will also allow the FMC to provide oversight of the economic impact of marine terminal operators (MTOs) and ocean common carriers (VOCCs), including anti-competitive effects such as higher transportation costs and reductions in transportation service.

FUNDING

The President's Budget for the Commission provides $25,660,000 for FY 2015. Our FY 2015 budget request contains $18.4 million for salaries and benefits to support the Commission's programs. This figure includes funds for salaries and benefits for 124 full-time equivalent employees. The President's Budget for 2015 contains a mechanism that would allow the agency to receive user fees that otherwise go to the Treasury, with the intent that the agency could use those additional funds to hasten IT upgrades to avoid a technical disaster, and create staff efficiencies in order to operate at the authorized 124 FTE level.

Official travel has been held at the 2014 enacted level of $200,000. The ability of our staff to travel is essential to accomplish our oversight, investigation, and enforcement duties more effectively. Travel also enables the Commission to engage with our foreign counterparts, which is an essential part of our effort to provide better service to the ocean transportation industry.

Administrative expenses are funded at $7.1 million in FY 2015 to support our usual and customary business expenses, such as rent, security, telephones, postage, commercial and government contracts, and supplies. This funding level includes slight increases for office space, telephones, supplies and materials and much-needed IT hardware and software.

The remaining increase of approximately $200,000 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 improving technology to enhance Commission services and facilitate public interaction while adding greater efficiencies to Commission business practices.

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 over fifty years ago. Throughout those years, we have worked 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. To recognize the impacts of global commerce, 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 a few years ago continued in 2013 with U.S. container exports and imports worldwide reaching 30.5 million twenty-foot equivalent units (TEUs) in 2013, as compared to 29.8 million TEUs in 2012. In 2013, as compared to 2012, U.S. container exports worldwide decreased slightly by one percent, while U.S. container imports grew by two percent.

The global containership fleet continued to expand in 2013. The fleet's nominal capacity grew by approximately six percent. At the end of 2013, 4,976 containerships, with a total fleet capacity of 17.3 million TEUs, were available to serve the world's container trades. Globally, as of December 2013, there were orders for 507 new containerships with an aggregate capacity of 3.9 million TEUs, which is equivalent to 23 percent of the existing fleet capacity.

As 2013 came to a close, 235 containerships lay idle, representing 4.5 percent of the total fleet capacity measured in TEUs. In comparison, 297 ships representing 5 percent of the containership fleet capacity lay idle at the end of 2012. In terms of concentration, at the close of 2013, the top ten carriers controlled 63 percent of the world's containership capacity, the top five controlled nearly 46 percent; and the top three controlled 36 percent.

In the U.S. trades, proposed major alliance agreements were filed in 2013, which would represent a substantial amount of service cooperation between carriers. In February 2013, carrier members of the Grand Alliance and the New World Alliance agreements formed the *G6 Alliance Agreement* to collectively operate six liner services between the U.S. Atlantic Coast and Asia. After a comprehensive review by the Commission, the agreement went into effect in March 2013.

Subsequently, in October 2013, A.P. Moller-Maersk A/S (Maersk Line), Mediterranean Shipping Company (MSC), and CMA CGM S.A. proposed formation of the *P3 Network Vessel Sharing Agreement* to operate collective services in the transatlantic and transpacific trades. Similarly, in December 2013, the carriers in the G6 Alliance filed an amendment to their agreement to expand their collective services to include the transatlantic and transpacific U.S. West Coast trades. The Commission formally requested additional information on the amendment to the G6 Alliance, while the P3 alliance is scheduled to go into effect on March 24, 2014.

The Commission is also monitoring the growth of chassis agreements, which impact the movement of cargo from the vessel to the truck or rail and ultimately impacts U.S. exports and imports. There are currently six chassis pool agreements filed at the Commission. These supply chassis to marine terminals at nine ports and numerous inland terminals in the United States.

While experiencing 1.1 percent growth overall, U.S. container ports saw very mixed results in 2013. Total container volumes at the Nation's largest and third-largest ports (Los Angeles and New York-New Jersey) contracted by 4.9 and 3.7 percent, respectively. Substantial double-digit percentage decreases in volume occurred in Jacksonville and Seattle, while Tacoma, Long Beach and Norfolk each experienced strong double-digit percentage gains.

Transpacific Trades

In terms of container cargo volumes, Asia is our primary trading region. In 2013, Asia accounted for 62 percent of the total U.S. container cargo volume (export and import containers combined), amounting to 18.9 million TEUs. Northeast Asia accounted for 53 percent of the total U.S. container cargo, and Southeast Asia accounted for 9 percent. In 2013, compared to 2012, U.S. container exports to Asia increased by three percent, and imports from Asia also rose by three percent. Container imports exceeded exports by a ratio of two to one.

The *Transpacific Stabilization Agreement* (TSA) is the major discussion agreement in the trade. Under TSA, fifteen carrier members are authorized to discuss and agree voluntarily on ocean freight rates, charges and other terms.

Under the proposed new alliance agreements, the P3 carriers propose to replace their current operations in the trade with six services between the U.S. Pacific Coast and Asia, along with the four services between the U.S. Atlantic/Gulf Coasts and Asia via the Panama or Suez Canal. Three of these P3 services would also make port calls in North Europe or the Mediterranean. In addition to their existing services under the agreement, the G6 carriers propose to operate 12 services between the U.S. Pacific Coast and Asia, and two pendulum services between Asia, the U.S., and North Europe.

U.S. – North Europe Trades

In 2013, container exports and imports between the U.S. and North Europe both grew by three percent, compared to the preceding year. By the end of the year, vessel capacity in the trade also increased by approximately three percent in each direction, and the average utilization of capacity was reported to have been 78 percent in the outbound direction, and 92 percent in the inbound direction. The volume of container cargo amounted to 3.2 million TEUs, and accounted for 11 percent of the total U.S. container volume in 2013.

In the transatlantic trade, the P3 carriers propose to operate three services between North Europe and the U.S. Atlantic and Gulf Coasts, in addition to a pendulum service between ports in Asia, the U.S. Pacific Coast, and North Europe. The G6 carriers also propose to operate three services between North Europe and the U.S. Atlantic and Gulf Coasts, and two pendulum services between ports in Asia, the U.S. and North Europe.

U.S. – Latin America Trades

Economic ties have strengthened between the U.S. and the region of Latin America, which includes nations in South and Central America and the Caribbean. The U.S. has five free trade agreements in the region, including Colombia, Chile, Peru, Panama, and the Dominican Republic/Central America. In 2013, compared to 2012, U.S. container exports to Latin America fell slightly by three percent, while container imports from the region grew by four percent. Overall, the volume of container cargo amounted to 3.8 million TEUs and accounted for 13 percent of the total U.S. container volume for 2013.

Trade between the U.S. and South America comprised about 50 percent of container cargo from the region, amounting to 1.9 million TEUs. South America is divided into two distinct service sectors between the East and West Coasts. Ocean carriers serving the East Coast of South America do not participate in a dedicated discussion agreement for that service sector. In the West Coast service sector, eleven carriers participate in a discussion agreement with voluntary rate authority, the *West Coast of South America Discussion Agreement* (WCSADA). In March 2013, the country of Peru was removed from the geographic scope of WCSADA due to concerns of a potential conflict with their competition laws.

U.S.-Mediterranean Trades

The liner trade between the U.S. and southern Europe was more robust than other trades. In 2013, U.S. container exports to the Mediterranean grew by four percent, and imports from the region to the U.S. increased by seven percent. Overall, the volume of container cargo amounted to 1.3 million TEUs, or four percent of the total U.S. container volume for 2013.

Under its new arrangement, the P3 carriers propose to replace their current services with three collectively operated services between ports in the Mediterranean and the U.S. Atlantic and Gulf Coasts, with one service operating as a pendulum with port calls in Asia. A separate pendulum service would operate between Asia, the U.S. Pacific Coast, and the Mediterranean.

U.S. – Oceania Trades

The Oceania trade includes the nations and territories of Australia, New Zealand, and the Pacific Islands. In 2013, as compared to 2012, container cargo growth was sluggish. U.S. container exports declined by 3 percent, and imports from the region dropped by one percent. The ratio of export to import containers in the trade was 1.7 to one. The leading export commodities were auto parts, general merchandise, grocery products, paper and tires. The top two container import commodities were meat and wine. The volume of container cargo in the Oceania trade was 449,885 TEUs, which equated to about one percent of the total U.S. container volume for 2013.

Carriers providing direct service in the trade are linked through agreements. Two main rate discussion agreements cover the trade. Six carriers participate in the *United States/Australia Discussion Agreement* (USADA) in the outbound direction, and six carriers participate in the

Australia and New Zealand-United States Discussion Agreement (ANZUSDA) in the inbound direction. Most of the carriers that serve the trade directly operate collective services through several vessel sharing agreements. Further, a number of major carriers serve the trade through transshipment arrangements. In addition, five carriers serving the Pacific Islands participate in the *Pacific Island Discussion Agreement*. Given the extent of cooperation in agreements among a limited number of carriers, the Commission closely monitors the carriers' activities in this trade.

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 2015 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.

Responses to questions for the record issued by Hon. Steve Southerland II, a Representative in Congress from the State of Florida

Chairman Cordero, Federal Maritime Commission

(1) What is the status of the FMC's review of its jurisdiction over Agreements that relate to the operating and managing of chassis pools?

The Commission undertakes a rigorous examination of every agreement filed pursuant to the Shipping Act of 1984. The Commission is aware of the evolving conditions in the chassis ownership and provisioning model in the last decade. Despite this change, under the Shipping Act, certain agreements must be filed with the Federal Maritime Commission. Specifically, under the Act, any agreement among ocean common carriers that falls within a broad range of conduct must be filed with the Commission. Parties must file their agreements with the Commission when they are regulated entities under the Shipping Act (such as ocean common carriers), and when the conduct at issue is one identified by the Shipping Act. *United Stevedoring Corp. v. Boston Shipping Assn.*, 15 F.M.C. 33, 40 (1971); *see also Volkswagenwerk Aktiengesellschaft v. Fed. Maritime Comm'n*, 390 U.S. 261 (1968); *Agreement No. 003-010965, Island Ocean Terminal Agreement*, 24 S.R.R. 895, 897 (FMC 1988).[1] Specifically, Section 5 of the Shipping Act requires an agreement to be filed at the Commission if it is between two ocean carriers that agree to undertake the following, among other identified actions: (1) discuss, fix, or regulate transportation rates, including through rates, cargo space accommodations, and other conditions of service; or (5) engage in an exclusive, preferential, or cooperative working arrangement between themselves or with a marine terminal operator. *See* 46 U.S.C. § 40302 and 40301(a).

Based on this framework, the Commission must make a case-by-case analysis of each agreement, and each amendment to an agreement, to ensure that the Shipping Act applies. If the parties demonstrate that they are indeed regulated parties and the subject of the agreement requires filing, the Commission's focus turns to the anticompetitive concerns outlined in section 6(g) in order to ascertain whether an agreement is likely, by a reduction in competition, to unreasonably increase transportation costs or decrease service.

(2) If you are basing jurisdiction on the fact that shipping lines still own a percentage of the total chassis market, at what percentage of ownership by the shipping lines can the FMC no longer justify jurisdiction over this land-based business?

The Commission itself would have to resolve this issue, and as Chairman, I have the same input as my fellow Commissioners. With that large caveat, I offer a few observations. First, the Shipping Act applies when regulated entities enter into agreements falling within the

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[1] *Agreement No. 003-010965, Island Ocean Terminal Agreement*, the Commission stated that its jurisdiction under Section 15 of the Shipping Act, 1916 had two components: "First, the Commission must have *personal* or in *personam* jurisdiction over two or more of the parties to the Agreement. Second, the Agreement must fall within the Commission's *subject matter* jurisdiction, *i.e.*, the Agreement must relate to some aspect of ocean transportation."

Responses to questions for the record issued by Hon. Steve Southerland II, a Representative in Congress from the State of Florida

scope of the Shipping Act – percentage of ownership is not necessarily determinative. The pertinent inquiry is whether ocean carriers have entered into an agreement, and if so, whether the agreement is the type that must be filed with the Commission. Thus, while ownership of chassis could place ocean carriers' behavior within the act if they entered into an agreement, it is possible for ocean carriers to agree to certain terms relating to chassis, whether or not the carriers own them. For example, two carriers could agree to provide joint through service at a port, and could agree on the rate that would be charged to the shipper for the provision of the chassis that the ocean carriers leased from chassis leasing companies. Many other types of agreements could trigger filing under the Shipping Act, but would not be based on the carriers' ownership of the chassis. Thus, while ownership may be dispositive under some agreements, in other agreements, the Commission would have to weigh whether the conduct actually dealt with ocean or through transportation, and would have to evaluate the relationship between any participants to the agreement that were not regulated entities.

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