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THE STATUS OF THE MERCHANT MARINE

(113–82)

HEARING

BEFORE THE

SUBCOMMITTEE ON
COAST GUARD AND MARITIME TRANSPORTATION

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

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

Bill Shuster Chairman	Washington, DC 20515	Nick J. Rahall, II Ranking Member
Christopher P. Bertram, Staff Director	September 5, 2014	James H. Zoia, Democrat Staff Director

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 "The Status of the Merchant Marine"

PURPOSE

On Wednesday, September 10, 2014 at 9:30 a.m., in 2167 Rayburn House Office Building, the Subcommittee on Coast Guard and Maritime Transportation will meet to examine issues impacting the U.S. merchant marine. The Subcommittee will hear from representatives from maritime industry and labor organizations.

BACKGROUND

U.S. Merchant Marine

The U.S. merchant marine is the fleet of U.S. documented (flagged) commercial vessels which carries imports and exports into and from the United States during peacetime and becomes a naval auxiliary to deliver troops and war materiel during wartime. The merchant marine also carries cargoes in the U.S. domestic trade. Throughout our history, the Navy has relied on U.S. flagged commercial vessels to carry weapons and supplies and ferry troops to the battlefield. During Operations Enduring Freedom and Iraqi Freedom, U.S. flagged commercial vessels transported 63 percent of all military cargos moved to Afghanistan and Iraq. An additional 35 percent of the total cargo was carried on government-owned sealift vessels activated from reserve status and crewed by American mariners.

The merchant marine was formally recognized in the *Merchant Marine Act of 1920* (46 U.S.C. Subtitle V). Section 50101(a) of title 46, United States Code, states that "It is necessary for the national defense and the development of the domestic and foreign commerce of the United States that the United States have a merchant marine…". Sections 50101(b) and 51101 of title 46, United States Code, establish that "It is the policy of the United States to encourage and aid the development and maintenance of the merchant marine…" and that "merchant marine vessels of the United States should be operated by highly trained and efficient citizens of the United States…".

Currently, there are more than 40,000 non-fishing related commercial vessels flagged in the United States. The vast majority of these vessels are engaged in domestic waterborne commerce, moving over 100 million passengers and $400 billion worth of goods between ports in the United States on an annual basis. Each year, the domestic fleet carries over a billion tons of cargo through the inland waterways, across the Great Lakes, and along the coasts, contributing $100 billion in economic output.

Of the 40,000 U.S. flagged vessels, approximately 85 are currently employed in international commerce moving goods between U.S. and foreign ports. Over the last 35 years, the number of U.S. flagged vessels sailing in the international trade has dropped from 850. The percentage of international commercial cargoes carried on U.S. flagged vessels has fallen from 25 percent in 1955 to approximately 2 percent today.

There are currently 117 U.S. shipyards located in 26 states that are active shipbuilders. Of the 117, 10 are major shipyards currently building large naval vessels and oceangoing commercial ships. There are over 200 additional facilities engaged in ship repairs. Since 1983, the United States has lost approximately 300 shipyards.

The U.S. maritime industry currently employs more than 260,000 Americans. This includes approximately 65,000 mariners, 95,000 port workers, and 100,000 shipyard employees. These jobs represent approximately $29 billion in annual wages.

U.S. Merchant Marine Laws and Programs

Since 1789, Congress has passed several laws to help keep the U.S. merchant marine competitive in the global economy and maintain a sealift and shipyard industrial capacity necessary for our national security. Current laws and programs include:

Jones Act

The Jones Act first came into effect as part of the *Merchant Marine Act of 1920* to encourage the development of a strong merchant marine for both national defense and economic security. The Jones Act contains a number of provisions designed to encourage a robust U.S. shipbuilding capacity and employment opportunities for U.S. mariners:

1. U.S. Owned and Flagged - Chapter 551 of title 46, United States Code, requires that merchandise and passengers being transported by water between two points in the United States must travel on vessels owned by U.S. citizens and flagged in the United States with an endorsement by the Coast Guard to participate in the coastwise (also known as "Jones Act") trade;

2. U.S. Built - Chapter 121 of title 46, United States Code, requires vessels seeking a coastwise endorsement to have been built in the United States. Chapters 551 and 801 of title 46, United States Code, also place restrictions on the involvement of foreign owned, built, and flagged vessels in towing, dredging, and salvage activities in U.S. waters;

3. U.S. Crewed - Chapter 81 of title 46, United States Code, requires the master, all of the officers, and at least three-quarters of the crew to be U.S. citizens in order for a vessel to be flagged in the United States; and

4. Rebuild/Reflag Prohibition - Chapter 121 also prohibits vessels that were once eligible to engage in coastwise trade and then later sold to a foreign citizen, documented under a foreign registry, or rebuilt outside the United States from engaging in the coastwise trade (a vessel may be considered rebuilt when work performed on its hull or superstructure constitutes more than 7.5 percent of the vessel's steelweight prior to the work).

The Coast Guard is responsible for reviewing applications from vessel owners seeking a coastwise endorsement to participate in the Jones Act trade. The Coast Guard determines whether the owners meet the U.S. citizenship requirements and whether the vessel was built in the United States, or the extent to which it was rebuilt outside the United States, before it will issue a coastwise endorsement. Customs and Border Protection determines whether the cargo to be moved on a vessel constitutes "merchandise" under section 55102 of title 46, United States Code, and is therefore subject to the Jones Act.

Section 501 of title 46, United States Code, provides a mechanism to waive the Jones Act and other vessel navigation and inspection laws. The Jones Act can be waived by the Secretaries of Defense and Homeland Security in the interest of national defense. Waivers by the Secretary of Homeland Security first require a determination by the Administrator of the Maritime Administration (MARAD) that U.S. flagged, owned, built, and crewed vessels are not available to meet national defense requirements.

Domestic Shipbuilding Programs

In addition to the Jones Act, the federal government supports the viability of the domestic shipbuilding industry through a combination of laws and programs including:

1. Tariffs – Under the *Smoot-Hawley Act of 1930*, U.S. vessel operators are liable for a 50 percent duty on maintenance and repairs performed on their vessels at overseas shipyards.

2. Capital Construction Fund – First established by the *Merchant Marine Act of 1936* (46 U.S.C. 53501 et seq.), the Capital Construction Fund (CCF) enables U.S. vessel owners and operators to defer federal income taxes on their income by depositing the income in a CCF. Income deposited in a CCF may only be used to finance the construction, reconstruction, or acquisition of a vessel built or rebuilt in a U.S. shipyard. As of 2010, over 180 companies had established a CCF.

3. Title XI Federal Ship Financing Program – Established by Title XI of the *Merchant Marine Act of 1936* (46 U.S.C. 53701 et seq.), the Title XI program provides federal government loan guarantees to: (1) vessel operators for the purpose of financing or refinancing the construction or reconstruction of vessels in U.S. shipyards; or (2) U.S.

shipyards for the purpose of financing advanced shipbuilding technology for a facility located in the United States. Loan guarantees cannot exceed 87.5 percent of the project's actual cost.

No funds are requested for Title XI loan subsidies in MARAD's fiscal year 2015 budget request. There is currently $73 million in Title XI loan subsidies available, which equates to approximately $735 million in available loan guarantees. MARAD has pending applications for $525 million in loan guarantees. MARAD's current Title XI loan portfolio includes 39 loan guarantee contracts valued at $1.7 billion.

4. Small Shipyard Grants – Section 3508 of the *National Defense Authorization Act for Fiscal Year 2009* (P.L. 110-417) established the Assistance to Small Shipyards Grant Program. Under the program, U.S. owned and operated shipyards with less than 1,200 production employees are eligible to receive matching grants from MARAD to finance capital improvements and equipment purchases.

   The fiscal year 2015 budget does not include funds for the grant program. To date, over $171.9 million has been made available under the grant program. Since 2010, the number of grant applications has exceeded the funds available. Section 305 of H.R. 4005, the *Howard Coble Coast Guard and Maritime Transportation Act of 2014*, reauthorizes the program through fiscal year 2016 at $10 million, the current authorized level.

Cargo Preference

To ensure sealift capacity and guarantee a skilled cadre of U.S. seafarers, several laws were enacted beginning in 1904 to require certain percentages of government impelled cargo to be carried on U.S. owned, flagged, and crewed vessels. Government impelled cargo is ocean-borne cargo moved either as a direct result of federal government involvement, or indirectly through financial sponsorship of a federal program, or in connection with a guarantee provided by the federal government. The following is a breakdown of the percentages of cargo required to be carried on U.S. owned, flagged, and crewed vessels under the Cargo Preference Program:

1. Military Cargo – 100 percent (governed by Military Cargo Preference Act of 1904, 10 U.S.C. 2631);

2. Export-Import Bank – 100 percent (governed by Public Resolution 17, 48 Stat. 500);

3. Federal Civilian Agencies Cargo – at least 50 percent (governed by Cargo Preference Act of 1954, 46 U.S.C. 55301 et seq.); and

4. Agricultural Cargoes – at least 50 percent (governed by the Food Security Act of 1985, 46 U.S.C. 55311 et seq.). Section 100124 of *MAP*-21 (P. L. 112-141) reduced the level from 75 percent. The *Bipartisan Budget Act of 2013* (P.L. 113-76) eliminated funding for the 20 percent Excess Coast Differential reimbursement, a program created to reimburse federal agencies for the relatively higher cost of transporting agricultural cargoes on U.S. flag vessels.

Food For Peace

Under the Food for Peace program, the U.S. Agency for International Development (USAID) purchases agricultural commodities grown by U.S. farmers and distributes it to starving populations around the world. Pursuant to cargo preference laws, 50 percent of Food for Peace cargo must move on U.S. owned, flagged, and crewed vessels.

The President's FY 2015 budget proposes to restructure the Food for Peace program and cut funding available to purchase and transport U.S. agricultural commodities by 26 percent. This decrease in cargo is expected to further reduce the number of U.S. flagged vessels in the foreign trade and jobs for American mariners. The President's FY 2015 budget proposes to offset some of the job losses by providing an additional $25 million to the Maritime Security Program (MSP) to support activities yet to be specified. Section 318 of H.R. 4005, would restore to 75 the percentage of agricultural cargo, including Food for Peace cargo, that must be carried on U.S. owned, flagged, and crewed vessels.

Enforcement

Section 3511 of the *National Defense Authorization Act for Fiscal Year 2009* (P.L. 110-417) authorized the Secretary of Transportation to audit cargos shipped by other federal agencies to determine compliance with cargo preference laws and to impose penalties, including fines, on agencies and individuals found in violation. The provision required MARAD to promulgate regulations to carry out the new authorities. MARAD has yet to publish such regulations. Section 316 of H.R. 4005 would require the Secretary to immediately determine which programs are subject to cargo preference and ensure such programs are conducted in accordance with the law.

Military Sealift Programs

Maritime Security Program

The Maritime Security Act of 1996 (P.L. 104-239) established MSP, replacing the Operating Differential Subsidy Program established under the *Merchant Marine Act of 1936*. The MSP provides direct financial assistance to the operators of U.S. owned, flagged, and crewed vessels to make their vessels available to support military sealift during times of war or national emergency. Currently, 13 vessel operators operating 60 vessels receive $3.1 million per vessel per year under the MSP.

Ready Reserve Force

Section 11 of the Merchant Ship Sales Act of 1946 (50 U.S.C. App. 1744) established the National Defense Reserve Fleet (NDRF), a fleet of U.S. government owned vessels available for national defense and national emergencies. The NDRF is managed by MARAD. Of the 103 vessels currently in the NDRF: 21 are no longer useful and are set for disposal; 36 are being preserved for potential government use; and 46 are assigned to the Ready Reserve Force (RRF).

The RRF is primarily used by the Navy's Military Sealift Command (MSC) to support the transport of military equipment to the battlefield. RRF vessels are expected to be fully operational within 5 to 10 days and sail to designated loading berths. MARAD contracts with U.S. owned vessel management companies to provide maintenance, repairs, logistics support, activation, manning, and operations for RRF vessels. In additional to regular activation by the MSC, RRF vessels were activated recently in support of relief operations in the wake of Hurricane Sandy in November 2012. The RRF vessel M/V Cape Ray, which was activated in January 2014, recently completed its mission serving as an offshore facility to destroy Syrian chemical weapons.

RRF vessels have an average age of 31 years, though many are approaching 50 years old. Many of the vessels are now outmoded and inefficient to operate. Similar commercial vessels are usually replaced or renovated after 20 years. Given the condition of the fleet, MARAD is currently considering options to recapitalize the RRF.

Marine Highways Program

Section 1121 of the *Energy Independence and Security Act of 2007* (P.L. 110-140) directs the Secretary of Transportation to establish a short sea transportation program and designate short sea transportation projects to mitigate landside congestion or promote short sea transportation. Using this authority, the Secretary has designated 11 Marine Highway Corridors, 4 Connectors, and 3 Crossings.

Designated Marine Highway Projects may compete for Marine Highway Grants to acquire equipment and make other improvements to facilitate service along a designated Corridor. To date, $7 million has been awarded to six entities for this purpose. MARAD's fiscal year 2015 budget does not include funding for further Marine Highway Grants. However, Marine Highway Projects are eligible to apply for grant funds under the Transportation Investment Generating Economic Recovery (TIGER) Discretionary Grant program.

Liquefied Natural Gas Permitting

Section 304, of the *Coast Guard and Maritime Transportation Act of 2006* (P.L. 109-241) requires the Secretary of Transportation to develop and implement a program to promote the transportation of liquefied natural gas (LNG) to the United States on U.S. flagged vessels. It also amends the Deepwater Port Act of 1974 (33 U.S.C. 1503) to prioritize the processing of applications to import LNG through deepwater ports from companies that use U.S. flagged vessels for such importation.

As a result of the resurgence in American oil and gas production, MARAD is currently processing licenses for export of LNG. On July 30, 2014, Representatives Garamendi and Hunter introduced H.R. 5270, the *Growing American Shipping Act*. H.R. 5270 would ensure the export of LNG on U.S. flagged vessels is included in the promotion program, as well as extend the prioritization in the processing of deepwater port LNG import applications to export applications.

X

WITNESSES

Mr. Mark Tabbutt
Chairman
Saltchuk Resources

Mr. Niels Johnsen
Chairman/CEO
International Shipholding Corporation

Mr. Don Marcus
President
Masters, Mates and Pilots

Mr. Matthew Paxton
President
Shipbuilders Council of America

THE STATUS OF THE MERCHANT MARINE

WEDNESDAY, SEPTEMBER 10, 2014

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

The subcommittee met, pursuant to call, at 9:40 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 review issues impacting the U.S. merchant marine, the important role it plays in our economy and national security and ways we can work together to strengthen and expand the merchant marine.

The U.S. maritime industry currently employs more than 260,000 Americans, providing nearly $29 billion in annual wages. There are more than 40,000 commercial vessels currently flying the American flag.

The vast majority of these vessels are engaged in domestic commerce, moving over 100 million passengers and $400 billion worth of goods between ports in the U.S. on an annual basis. Each year the U.S. maritime industry accounts for over $100 billion in economic output.

Beyond the important contributions to our economy, a healthy merchant marine is vital to our national security. Throughout our history, our Nation has relied on U.S.-flag commercial vessels crewed by American merchant mariners to carry troops, weapons, and supplies to the battlefield.

During Operations Enduring Freedom and Iraqi Freedom, U.S.-flag commercial vessels transported 63 percent of all military cargoes moved to Afghanistan and Iraq. Unfortunately, over the last 35 years, the number of U.S.-flag vessels sailing in the international trade has dropped from 850 to less than 90. Less than 2 percent of the world's tonnage now moves on U.S.-flag vessels.

In the same period, we have lost over 300 shipyards and thousands of jobs for American mariners. For the sake of our national and economic security, we need to reverse this trend. We cannot rely on foreign vessels and crews to provide for our national security.

It is critical that we maintain a robust fleet of U.S.-flag vessels to carry critical supplies to the battlefield, a large cadre of skilled American mariners to man those vessels, and a strong shipyard in-

dustrial base to ensure we have the capability to build and replenish our naval forces in time of war.

I know the new Maritime Administrator is hard at work on a national maritime strategy that will hopefully include recommendations to strengthen the merchant marine. As soon as the strategy is complete, I look forward to calling him before the subcommittee to present it.

In the meantime, representatives of maritime industry and labor have been working on a similar proposal at the request of Ranking Member Garamendi and myself. I look forward to hearing about the proposal today as well as other recommendations our witnesses may have.

If we want to grow our economy and remain a world power capable of defending ourselves and our allies, we must work together to strengthen our merchant marine.

I thank the witnesses for appearing today and look forward to working with them. I thank the witnesses—I already put that.

And, with that, I yield to Ranking Member Garamendi.

Mr. GARAMENDI. Chairman Hunter, thank you.

I am downright excited about this hearing. I am excited about the potential that we have to really strengthen our maritime industry and to build the American economy and provide a significant number of jobs.

The status of the U.S. merchant marine could not be a better topic for us to take up in the waning days in the 113th Congress. We have got a stretch run. Maybe we can get something done in the last couple of months of this session.

Our merchant marine has been a fundamental element of our national defense and a key industry in our national economy since the founding of this Republic more than 230 years ago.

Unfortunately, recent history over the past five decades has not been very kind to our maritime industry. For example, the number of vessels serving the U.S. international trade has shrunk from 850 in the mid-1980s to roughly 90 vessels in 2014.

Since 1983, the United States has lost approximately 300 shipyards and only 10 shipyards are capable now of building large naval vessels and oceangoing commercial ships. Such losses are very disturbing.

Nevertheless, despite the setbacks of the recent past and the ongoing challenges, a strong maritime foundation endures, especially in coastwide trade that has remained protected under the Jones Act.

I am convinced now more than ever that, with purposeful cooperation and action, our merchant marine can again flourish and resume its standing as a vital contributor to our national defense and economic might.

Progress has been made. We have successfully fought off ill-advised waivers of the Jones Act. We have rallied and beaten back some of the worst proposals to rewrite our cargo preference laws.

We have also succeeded in reauthorizing and fully funding the Maritime Security Program to ensure that the Pentagon retains the sealift capability it needs to move our military quickly, efficiently, and securely.

But just as sure, real challenges remain. We need to recapitalize our Ready Reserve Fleet, to modernize our sealift vessels, and provide new job opportunities for our shipyards.

We need to better utilize existing financial assistance programs, such as Title XI of the Maritime Loan Guarantee Program, to again demonstrate that the Federal Government is a willing partner in the maritime industry.

We should note that our competitors around the world are more than willing and, in fact, are doing significant support to their—for their maritime industry.

And perhaps most important, we must take advantage of the recent emergence of a U.S. LNG export trade to ensure that the export of this strategic national resource does not more than merely increase the profits of the energy exporters, but also directly benefits our merchant marine and the expansion of our domestic shipbuilding industry.

To that end, in this hearing, I want to hear the views of our witnesses on this emerging LNG trade and, also, seek their comments on legislation recently introduced by Chairman Hunter and myself, H.R. 5270, the Growing American Shipping Act, or GAS Act. I like that.

Thank you very much.

Mr. HUNTER. I thank the ranking member.

The witnesses today are Mr. Mark Tabbutt, chairman of Saltchuk Resources, on behalf of the American Maritime Partnership; Mr. Niels Johnsen, chairman of Central Gulf Lines, on behalf of USA Maritime; Captain Don Marcus, president of the International Organization of Masters, Mates and Pilots, on behalf of maritime labor organizations; and Mr. Matthew Paxton, president of the Shipbuilders Council of America.

TESTIMONY OF MARK TABBUTT, CHAIRMAN, SALTCHUK RESOURCES, ON BEHALF OF THE AMERICAN MARITIME PARTNERSHIP; NIELS M. JOHNSEN, CHAIRMAN, CENTRAL GULF LINES, INC. AND WATERMAN STEAMSHIP CORPORATION, ON BEHALF OF USA MARITIME; DON MARCUS, PRESIDENT, INTERNATIONAL ORGANIZATION OF MASTERS, MATES AND PILOTS, ON BEHALF OF AMERICAN MARITIME OFFICERS, MARINE ENGINEERS' BENEFICIAL ASSOCIATION, MARINE FIREMEN'S UNION, SAILORS' UNION OF THE PACIFIC, AND SEAFARERS INTERNATIONAL UNION; AND MATTHEW PAXTON, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. HUNTER. Mr. Tabbutt, you are recognized for your statement.

Mr. TABBUTT. Good morning, Chairman Hunter, Ranking Member Garamendi, and members of this subcommittee.

My name is Mark Tabbutt, and I am here today on behalf of the American Maritime Partnership. We represent all segments of our industry—shipping companies, ship construction and repair yards—and our industry's skilled workforce.

I am also the chairman of the board of Saltchuk, which is a family of transportation companies. We employ 7,500 people and have operations in the United States, stretching from the U.S. Virgin Islands to Barrow, Alaska.

In our domestic shipping operations, we currently carry one-third of all general cargo that moves to Alaska and about 30 percent of all general cargo carried to Puerto Rico.

In Hawaii, we provide a lifeline to the islands by transporting significant amounts of general cargo, moving on the water between the islands. We are a privately owned second-generation family business.

My testimony today comes on behalf of the American domestic maritime industry. That is the shipping industry that operates exclusively between points within the United States. Of the total U.S.-flag fleet, the overwhelming majority operates within the Jones Act, the business of transporting cargo by water from one U.S. port to another.

I want to thank this subcommittee for its consistent support of the Jones Act. Certainty in Government policy is the principle and critical ingredient in the success of the domestic maritime industry. Without it, the investment picture and growth profile I am about to describe could not take place.

I also want to thank you, Chairman Hunter and Representative Garamendi, for your leadership, exploring ways to expand the U.S. fleet in all trades.

I am happy to report that this industry is experiencing an extraordinary renaissance. Our industry is investing billions to construct new state-of-the-art vessels in shipyards across the land and serving our customers with modern fuel and cost-efficient vessels.

The largest sector of our domestic marine transportation industry supports our energy infrastructure with the movement of crude, refined petroleum products and chemicals. This sector has seen dramatic growth as a result of the shale oil revolution.

But the growth is not limited to the energy sector. Our company and others like us are building large modern container ships to serve the noncontiguous areas of the United States. I have provided much more detail about these ships in my written testimony.

We are seeing growth in the offshore supply business as the Gulf of Mexico oil industry rebounds. The inland trades remain strong. We have inland shipyards that are building and launching an average of one new barge every single day of the year.

My written testimony includes a long list of large vessels under construction and under contract to be built in the future. I would add that these vessels feature cutting-edge technologies, like engines that will burn natural gas as a fuel, breaking new ground not only in the United States, but, also, as the first of their kind in the world. This is American ingenuity at its best.

In fact, while we have the best trained maritime workforce in the world, our industry is growing so fast that, at times, it has been difficult to hire all the skilled personnel that we need. To help address that situation, our industry recently launched a major initiative to hire veterans for jobs in the domestic maritime industry.

We had 400 veterans at our Military2Maritime job fair last week in Houston, and a similar number attended earlier this year at an event in Jacksonville. Our industry has always hired veterans, especially from the sea services, but we are ramping up that effort today. We love hiring veterans.

This spike in commercial vessel construction is coming at a time when military ship construction in the United States is sharply declining due to deep Federal budget cuts. As such, the expansion in commercial work helps keep shipping—shipyards operating and the technical expertise fully subscribed. Shipbuilding is critical to our Nation's defense industrial base, and commercial vessel construction has helped fill the gaps caused by the cutbacks in military ship construction.

It is a very good time to be a part of our industry. Our industry's contributions to American's economic, national, and homeland security have never been greater. We deeply appreciate this subcommittee's support for the Jones Act, and we thank you for understanding the need for certainty in legal and regulatory framework that is the foundation of our industry.

Thank you.

Mr. HUNTER. Thank you.

Mr. Johnsen.

Mr. JOHNSEN. Thank you, Mr. Chairman.

I am Niels M. Johnsen, chairman of Central Gulf Lines and Waterman Steamship Corporation, U.S.-owned section 2 citizen companies that, together with their affiliates, operate 16 U.S. commercial vessels.

I am testifying on behalf——

Mr. HUNTER. Would you mind pulling—would you mind pulling the mic a little bit closer? You can move the whole thing over. Thank you.

Mr. JOHNSEN. I am testifying today on behalf of USA Maritime and its member companies, a coalition representing all the privately owned U.S.-flag oceangoing vessels operating in foreign trade.

I will highlight the present challenges confronting the merchant marine and suggest ways in which Congress and the administration can provide much needed support to our industry.

Mr. Chairman, the Congress and the administration have to answer a simple question: Do we want a robust U.S.-flag merchant marine to support our national and economic security for the rest of this century and beyond? The simple answer is yes. The maritime industry strongly believes that the only answer to this question is yes.

To achieve this objective, the Federal Government must act quickly to develop a comprehensive national maritime strategy, absent which, we fear, the decline of our industry will only accelerate.

In July, the Maritime Administration advised Congress that the number of U.S.-flag vessels in international trade had decreased by 18 percent between 2008 and 2013, from 101 vessels to 84 vessels, and that a further decline is anticipated. This has been caused by a sharp decline in military cargo, food aid, and other Government cargoes moving on U.S.-flag vessels.

History has proven that the United States depends heavily upon the U.S.-flag merchant marine to support our Nation's military and economic security. U.S.-flag vessels provided direct support to DOD during World War II, the Korean war, the Vietnam war, Operation Desert Shield Storm, Operation Enduring Freedom in Afghanistan, and Operation Iraqi Freedom.

U.S.-flag vessels carried more than 90 percent of the war materiel to forward-operating bases during the Afghanistan and Iraqi conflicts.

While the U.S.-flag fleet is in decline, challenges on the world stage multiply rapidly. In the past few months, we have witnessed the emergence of the Islamic State of Iraq and Syria, significant turmoil in Libya, Israel and the Ukraine, and several provocative actions by China.

We cannot predict when the American military will be called upon to respond to these or other conflicts, but our military must be ready to answer the call when it inevitably comes, including the strategic sealift support provided to DOD by U.S.-flag merchant marine.

We are pleased to recommend several specific initiatives that can lay the foundation for a new maritime strategy. First, a strong, fully funded Maritime Security Program must be a key component of any future maritime policy.

MSP provides a privately owned U.S.-flag fleet of 60 militarily useful commercial vessels to support the sustainment of U.S. forces throughout the world. Under this program, U.S. carriers commit their vessels and their global logistics network of ports, rail, trucking, and infrastructure to support American troops and to maintain America's readiness.

The capital cost to DOD to replicate this fleet would be $13 billion, and it would cost another $52 billion to replicate the worldwide intermodal system that has been developed by the MSP participants.

In 2012, the Congress reaffirmed its support for the MSP by reauthorizing this program through 2025. In his fiscal year 2015 budget, the President requested a fully authorized annual amount of $186 million for MSP.

While the Senate recommended funding at this level, the House bill, unfortunately, recommended only $166 million, a $20 million cut that, if enacted, would undoubtedly result in a reduction of the MSP fleet and a further decline in the U.S. merchant marine.

So our most immediate request is for Congress—and we know this is in process—to fully fund the MSP in fiscal year 2015 at the authorized level of $186 million.

Once that is accomplished, we need to address the appropriate level of funding required to sustain the MSP fleet in future years. It is critically important that the level of support for MSP vessels be adjusted to achieve commercial viability and a more level playing field for MSP vessels.

When the MSP was created, Congress sought to incentivize shipowners to document modern vessels under the U.S. flag and enroll those vessels in the MSP with the full cooperation of the Coast Guard.

For 15 years, the Coast Guard adhered to the original intent of Congress by working closely with MSP carriers to expedite the documentation of dozens of modern vessels.

Unfortunately, the Coast Guard recently issued guidance that alters this longstanding cooperative approach. NVIC 01–13 requires vessels entering the MSP to comply with more costly standards

that exceed international standards routinely accepted by the Coast Guard.

USA Maritime urges this subcommittee to request the Coast Guard to revoke this NVIC and return to the prior practice that has worked so effectively since the inception of the MSP.

In addition to MSP, it is critically important for U.S.-flag vessels to have access to a broad array of Government cargo. We strongly support cargo preference requirements for the transportation of Government-impelled cargo.

The three most important cargo preference statutes are the Cargo Preference Act of 1904, Public Resolution 17, and the Cargo Preference Act of 1954, requiring that at least 50 percent of all Government cargoes and 75 percent of all food aid cargoes be transported on U.S.-flag vessels.

Unfortunately, the food aid percentage was reduced in 2012 from 75 percent to 50 percent, which very negatively impacts the U.S.-flag fleet. We strongly support the provision that you and Congressman Garamendi included in the Coast Guard bill to restore the U.S.-flag share of food aid cargoes to the 75-percent level.

Unfortunately, the volume of military and food aid cargoes has declined precipitously in recent years. This dwindling cargo base has put pressure on MSP carriers and will lead to additional shrinkage of the U.S.-flag fleet unless action is taken by Congress to address insufficient MSP funding levels and otherwise assist in increasing the available pool of Government cargoes for U.S.-flag vessels. We urge MarAd to redouble its efforts to enforce the cargo preference laws and ensure that all Federal agencies comply with all such requirements.

Mr. Chairman, we support the additional cargo preference enforcement language that your subcommittee has included in the Coast Guard bill that, again, clarifies that MarAd has the responsibility to determine if a Federal program is subject to cargo preference.

Another challenge for U.S.-flag carriers is that numerous countries continue to erect barriers that exclude or limit the ability of U.S.-flag vessels to access those markets. A new maritime strategy should include provisions designed to eliminate unfair anticompetitive practices of our trading partners.

We are ready to work with all facets of the Federal Government, particularly the trade representative, in a sustained effort to eliminate those barriers wherever they exist.

In conclusion, Mr. Chairman, the state of the U.S. merchant marine is precarious. Our industry is in the midst of a perfect storm: dwindling U.S. military cargoes, a precipitous drop in food aid cargoes, escalating costs and regulations from the Coast Guard and other agencies, and intense low-cost foreign competition.

A national maritime strategy that addresses these issues in a comprehensive way must be developed immediately. It must preserve an enhanced Maritime Security Program, reinforce and expand existing U.S.-flag cargo preference requirements, and strengthen commercial opportunities for U.S.-flag vessels with our trading partners.

Thank you, Mr. Chairman.

Mr. HUNTER. Thank you.

Mr.—Captain Marcus.

Captain MARCUS. Thank you, Chairman Hunter, Ranking Member Garamendi, and members of the subcommittee.

I am Don Marcus, president of the International Organization of Masters, Mates and Pilots and a professional mariner, having been employed as third mate through master aboard U.S.-flag commercial vessels engaged in foreign trade.

I am speaking on behalf of Masters, Mates and Pilots, the American Maritime Officers, the Marine Engineers' Beneficial Association, the Marine Firemen's Union, the Sailors' Union of the Pacific, and Seafarers International Union.

Our organizations represent the men and women who supply our military overseas. We also ensure that the seaborne trade that our economy depends upon is not carried exclusively in the hands of foreign vessels with foreign crews. "In peace and war" is the motto of the U.S. merchant marine.

The critical need for our industry has been recognized in every conflict during our Nation's history. I am proud to say, as was pointed out earlier, that 90 percent of the military supplies carried to our troops in Afghanistan and Iraq were carried by American labor. Despite the indisputable need for a strong American maritime industry, the U.S. merchant marine is in jeopardy.

The declaration of policy of the Merchant Marine Act of 1936 states, "It is necessary for the defense and the development of its foreign and domestic commerce that the United States shall have a merchant marine sufficient to carry a substantial portion of its waterborne export and import foreign commerce of the United States." This policy objective is not being met.

U.S.-flag commercial vessels and their American citizen crews are subject to a variety of Federal rules, regulations, and tax obligations that are not applicable to our foreign-flag competition.

As a result, there has been a disastrous decline in the share of U.S. foreign trade carried by U.S.-flag commercial vessels, the number of U.S. vessels engaged in foreign trade has declined, and there has been a loss an of jobs and employment security for American mariners.

It must be emphasized that it takes many years for an individual to gain the experience and sea time necessary to obtain U.S. Coast Guard-issued licenses and credentials. Our young people will not be encouraged to enter an industry that has been abandoned by our policymakers and that promises no future.

Our Government, U.S.-flag shipping companies, and America's maritime labor organizations must work together to modify existing programs and create new programs and opportunities that will increase the amount of cargo, the number of vessels, and the employment opportunities in the American merchant marine.

For example, as stated earlier today, the Maritime Security Program is a key component of our military security. It is critical that Congress appropriate the full $186 million that has been authorized.

The current $20 million funding shortfall may cost as many as seven ships in the U.S. 60-ship fleet if not rectified. Considering the cost of replacement of this program, it makes no sense to begin the process of gutting our sealift capability.

Another key component of maritime strategy is the cargo preference statutes. These provide U.S. cargo baselines and a number of advantages and protection for our U.S.-flag foreign fleet.

Congress must direct that Maritime Administration enforce the U.S.-flag shipping requirements and report on MarAd's enforcement activities. Congress must restore the U.S. flag of P.L. 480 Food for Peace cargoes to the 75-percent level.

It would be far better to streamline the P.L. 480 program rather than replace it with a cash handout program that gives cash to third parties. Cash handouts do not guarantee that the needy of the world will receive more food. The generosity of American taxpayers should be tangible and transparent if the U.S. constituency that supports foreign aid is to be sustained.

On another matter pertaining to the competitiveness of the U.S. maritime industry, the Merchant Marine Act of 1920 sets out the legal remedy available in the event a seaman is killed or injured aboard ship. Congress should work with maritime labor and management to determine whether an alternative remedy should be available.

Our maritime union strongly supports H.R. 5270, the Growing American Shipping Act, which encourages the use of LNG U.S.-flag vessels. We urge Congress to allow foreign-built LNG vessels to be documented under the U.S. flag in order to engage in our international export trade, provided that they meet standards for vessels—international standards for vessels entering U.S. waters.

Also, extending the provisions of the Internal Revenue Code's foreign-source income exclusion to American mariners working aboard LNG export vessels would also be a means of reducing the competitive advantage of foreign-flag LNG carriers.

American labor salutes you all. We thank you for your legislative support and your commitment to the U.S. merchant marine. A healthy U.S. merchant marine will safeguard our country's military economic and homeland security. American labor stands ready to work with you to achieve these objectives.

Thank you.

Mr. HUNTER. Thanks, Captain.

Mr. Paxton.

Mr. PAXTON. Thank you. And good morning.

On behalf of the Shipbuilders Council of America, I would like to thank Chairman Hunter, Ranking Member Garamendi, and members of the subcommittee for the opportunity to provide a brief overview of the domestic commercial shipbuilding industry, some recent market trends, and issues facing the industry.

The shipyard industry is a vital component of any robust merchant marine. And today I am pleased to inform the committee that the state of America's commercial shipyard industry is the strongest it has been in decades.

Today the American shipyard industry represents a strong manufacturing sector contributing hundreds of thousands of jobs and billions of dollars to the economy. According to a recent report by the U.S. Maritime Administration, the shipyard industry supports over 400,000 jobs in all 50 States, representing nearly $24 billion in labor income and contributes over $36 billion to the GDP.

In fact, when explaining the economic impact of our industry, it is important to point out that, on average, over the past 4 years, American shipyards have delivered approximately 1,300 ships per year.

Moreover, shipyards have a big impact on the local communities and the country at large. With over 300 facilities located in 27 States and a supplier base that provides economic impacts in all 435 congressional districts, each direct job leads to another 2.7 jobs nationally. The men and women who are employed by the shipyard industry are highly skilled. And, in 2011, the average labor income per job was approximately $73,000 a year. The salary is 45 percent higher than the national average for the private-sector economy.

Much of the growth of the commercial shipyard sectors has been in response to the country's oil and natural gas revolution. The result has been a boom for shipyards who are currently building out 19—that is options included—large crude and petroleum product carriers, representing millions of barrels of new capacity for coastwise transportation.

At the same time, U.S. shipyards currently have seven—including options—large container ships on order to serve the noncontiguous trades. All of these vessels and several of the petroleum product carriers will be powered by liquefied natural gas or will be LNG-conversion-ready.

In fact, the world's first LNG-powered container ships are going to be built out in San Diego at General Dynamics NASSCO, which is a huge feather in the cap of the shipyard industry.

Shipbuilding and ship repair associated with the offshore oil and gas sector in the Gulf of Mexico is equally important. With roughly 4,000 offshore oil and gas platforms in the Gulf of Mexico, there has been steady shipbuilding and repair contracts for this sector for many years now.

In 2013, shipyards entered into 111 contracts for offshore oil and gas support vessels. As a result of this strong order book, the U.S. is now a leader in offshore workboat shipbuilding, so much so, we now build for international markets exporting these vessels to work worldwide.

Finally, the industry continues a steady stream of building tugboats, ferries, inland barges, patrol and fireboats, as well as other craft. All of these vessels provide important merchant mariner jobs, which contribute the eyes and ears of the waterfront and waterways, a true national security success story.

Commercial vessel construction represents billions of dollars in investments each year, underscoring the importance of maintaining the Jones Act. Each dollar invested in new commercial vessel construction is done so with the understanding that the Jones Act is the law of the land. So it is absolutely critical that any attempts to undermine the law are not entertained, which includes unnecessary waivers.

Before closing, I do want to mention another challenge. The shipbuilding industry, like so many other manufacturing sectors, faces an aging workforce. Attracting a younger generation towards a career path inside the shipyard industry must begin in our high schools, trade schools, and community colleges. SCA has recently set up a workforce development committee to begin to address this

issue. We look forward to discussing the workforce development in any future national maritime strategy.

Today the state of commercial shipbuilding is strong relative to past decades. However, SCA is looking ahead for new market opportunities, those opportunities such as the ones I know you guys are working on in H.R. 5270.

SCA sincerely appreciates this committee's support of the Jones Act and efforts to grow the industry. SCA also appreciates this committee's efforts to raise the visibility of the domestic maritime industry as a whole by advancing the conversation for a national maritime policy. We look forward to continuing to work with you in these discussions.

Thank you very much. And I look forward to any questions you might have.

Mr. HUNTER. OK. Thank you.

Thank you all again for being here.

I guess the first thing I would say is you can look around you, at least on the Republican side, and you can see the impact that this subcommittee—or that these issues have in Congress.

If you go to a Subcommittee on Aviation hearing, a Subcommittee on Highways and Transit hearing, or a Subcommittee on Railroads, Pipelines, and Hazardous Materials hearing, you have a lot more people there. You have a lot more Members up here listening. I would say, number one, that is on the ranking member and I, but it is also on you. And I think this is a great starting point for that.

I would ask, too, that—after this, that the type of coalition that you have—that you are right now in the position paper that you come up with, that it doesn't kind of disband and go off with the wind. I think you need to stay more engaged and get more engaged so that you have Members sitting up here listening and caring about what your issues are.

Because right now those other three subcommittees that I mentioned, they just dwarf you. Even though, in terms of economic output and in terms of districts that you touch and people that you employ and the actual industrial strength that you guys bring, it is not reflected, I don't think, by Members showing up here and listening to what you have to say.

So I would encourage more of this. And we will work together, John and I will, with you to make sure that, when you come up here in 6 months, you have some more interested Members of Congress listening and learning. Because right now that is just not reflected.

Number one, I guess the first question, Mr. Tabbutt—in fact, I will ask all of you.

My first question is: Can you talk about the Ex-Im Bank, the Export-Import Bank, and what it does for you, if anything. I am just curious. That is to anybody that wants to answer that.

Mr. JOHNSEN. The Export-Import Bank is very important to international trading, U.S.-flag vessels, because it provides the cargo base that is required by Ex-Im Bank regulation.

So if the Ex-Im Bank goes away, that will be a further degradation of the cargo base that I referred to in my remarks that is so

critical and you will see—unfortunately, you will see vessels moving out of U.S. flag if that happens.

I can't tell you how many it would be at this point because it depends on the cargo base, ultimately, but it is an extremely critical issue to the U.S.-flag merchant marine.

Captain MARCUS. Yes, Mr. Chairman. I would just like to follow up on Mr. Johnsen and reiterate that the Ex-Im Bank is important. Some 50 percent of the Ex-Im Bank exports go aboard U.S.-flag vessels, project cargo being a big component of that.

Our particular organization, Masters, Mates and Pilots, has at least two ships running right now that are dependent on project cargo, one of which is with Waterman/Central Gulf.

So we feel very strongly that destruction of this program as far as U.S. shipping would be negative and, of course, it would be a negative for the U.S. economy and jobs, generally. Jobs are the concern of labor, and these are an important source of jobs for us.

Thank you.

Mr. HUNTER. Thank you.

Next question. I am just watching Congressman Ed Royce, who is chairman of the Foreign Affairs Committee. He has got his eye out on cargo preference. I think it was his—he had a bill on the floor that tried to cut cargo preference even more.

And last year—I think it was the Under Secretary of Defense, Frank Kendall, wrote a letter in response to Congressman Royce's question about cargo preference, and Kendall's response, the U.S. Department of Defense's response, was, "You can lower cargo preference and it will not have an impact in any way on the military's capability to move goods and services."

Have you seen that—the response?

Captain MARCUS. Yes, sir. I remember reading that with dismay, quite frankly. Because if you take away cargo, people don't operate ships. And this is an important stream of cargo, and to say that this is not an important source of cargo is ridiculous.

Plus, the ships need to run to keep men and women employed in the industry. If you start reducing cargo, you could, of course, put ships in reserve status. You could have a bunch of gray hulls sitting around, but you won't have the manpower to operate the ships.

So to say that this would not affect or impact the Department of Defense, I have to disagree heartily. Manpower is critical and, if you don't have trained crew, you won't have ships operating under U.S. flag when you need them.

Thank you.

Mr. HUNTER. Captain, let me ask you one more question, then.

Have you and the Department of Defense come together on a number of merchant mariners that are in the pool—in the work pool, basically?

Captain MARCUS. Well, we have had——

Mr. HUNTER. Do you agree on that?

Captain MARCUS. We have had discussions and sent numbers to USTRANSCOM and MarAd regarding how many deep-sea mariners there are in the industry. So, yes, we have an understanding of the approximate number that are available. And

USTRANSCOM, of course, in terms of number of ships, has been very outspoken on the need for the 60-ship maritime security fleet.

Mr. HUNTER. Thank you.

Mr. Tabbutt, one last question here. We hear about Jones Act waivers all the time and whether or not the waivers are actually—whether they are needed, whether there aren't American ships—American-flag vessels available.

We have heard that sometimes there are—and we actually know this to be the case sometimes—and still U.S. Government agencies go with foreign flag.

So, in your opinion, why is this happening? And do you think that there is an organized effort to basically water down the Jones Act simply by waiving it all the time?

Mr. TABBUTT. First of all, the American Maritime Partnership works with anybody requesting a waiver of the Jones Act and, when there is no capacity, it does not exist, the American Maritime Partnership position is it will not object to a waiver.

The—today the biggest voice that you have just expressed is on the—on domestic movement of crude and the—and the shipyards are building at record pace the number of tankers.

The industry is responding, and there is a backlog of orders to get—to meet the demand that has come up. And if—if there is a demand for a vessel that—in the Jones Act that doesn't exist, there are dozens and dozens of companies that stand ready to make that investment. And we have ourselves.

Mr. HUNTER. OK. So who do you think is motivating the effort to get more Jones Act waivers? And do you think that that exists?

And anybody else, feel free to answer.

Mr. TABBUTT. It seems that—it seems to go from time to time to different very targeted, very specific tonnage, and I don't—I don't think it is an organized effort between all those. I think they are disconnected.

Mr. HUNTER. Sir.

Captain MARCUS. Yes, sir. I would like to say that there are some instances when waivers are appropriate. For example, if there are U.S.-built ships that were built for international trade in years gone by, there is no reason why those ships couldn't be brought back in to serve sectors of the industry that are not currently served.

For example, there were three LNG ships several years ago that were U.S.-built, built in Quincy, Massachusetts. A waiver was approved in Congress for those ships to come back into the domestic Jones Act LNG trade if there is a shipper that needs those vessels. Similarly, there are a couple small pocket drugstore chemical tankers available that waiver is being sought.

So, in some cases, the waivers make sense. In other cases, for example, the strategic oil movement of a couple of years ago, it made no sense. So I think it is a case-by-case situation.

Thank you.

Mr. HUNTER. Thank you.

Mr. Garamendi.

Mr. GARAMENDI. Mr. Chairman, thank you very much for your leadership in promoting the maritime industry. It is exceedingly important.

I want to go to a series of questions dealing with the export of LNG. But before I do those questions, I want to enter into the record a series of news articles that have recently come to light.

This one is August 5th, "China Pushes to Build Its Own Ships to Deliver Gas." This one, August 18th, "South Korea to Support Shipbuilding Industry."

And this one, a July 30th article, GAIL, which is the national—which is the Indian Government's gas utility program, they want to build nine ships to ferry liquefied natural gas from U.S. producers to India, and they are going to require that three of those nine ships be built in India.

And, also, a memo from my staff entitled "The global LNG fleet needs to grow by 225 vessels by the end of 2020. How are foreign governments supporting their shipbuilding industries?" and another article on the modernization of the—"China to Modernize Shipping Industry," basically the support that the Chinese Government is giving to the shipbuilding industry; and a series of maps on the LNG facilities that have been suggested for the United States.

So, with your permission, Mr. Chairman, I would like to enter those into the record.

Mr. HUNTER. Without objection.

[The information appears on pages 72–79.]

Mr. GARAMENDI. And now a series of questions.

As I mentioned at the close of my opening statement, Mr. Hunter, you and I have introduced legislation, H.R. 5270, the Growing American Shipping Act, to promote the use of American-flag vessels for the looming export of liquefied natural gas.

So the questions I have to solicit the view of our witnesses, first and foremost, for the record, do each of your organizations—you and your organizations support the bill as introduced?

And then at the same time you might answer. Are there any changes that you recommend to the bill to improve it? And are there amendments that you would like to see in the legislation?

Let's start from Mr. Paxton, and then we will go down the aisle.

Mr. PAXTON. Congressman Garamendi, yes. The Shipbuilders Council of America does support the Growing American Shipping Act. Sorry. We do support that.

I probably wouldn't suggest at this point we have amendments that we would offer to you. We understand how technical this legislation can be, especially when you start requiring shipbuilding construction as element, which this legislation does not do.

So we would just want to work with you on continuing to see how this evolves. We obviously support our—our—the maritime industry international trades. We want to see that grow.

Mr. GARAMENDI. Very good.

Captain.

Captain MARCUS. Thank you, Mr. Garamendi and Mr. Chairman, for bringing forward this legislation.

Of course, we fully support it. We think that it could be more expansive. We would love to see an encouragement of, for example, bilateral trade agreements.

We would love to see the provision of reflagging foreign-flag LNG carriers into the U.S. flag be eased so, if they meet international standards, they could export American cargoes.

We have numerous things in mind. But, in my mind, when you look at the vast fortunes being made in this industry, there is no reason why some sort of bilateral trade agreement couldn't be part of any kind of export strategy.

Thank you.

Mr. GARAMENDI. Mr. Johnsen.

Mr. JOHNSEN. USA Maritime is still reviewing the bill. But speaking on behalf of our companies, we always support anything that increases the utilization of U.S.-flag vessels.

Mr. GARAMENDI. Thank you.

Mr. Tabbutt.

Mr. TABBUTT. Thank you.

We are also very supportive of all efforts to promote our industry. And specifically to our narrow focus of the domestic operation, we would be very interested in building Jones Act LNG tankers and have had discussions with both Puerto Rico and Hawaii in that effort.

Mr. GARAMENDI. Thank you.

The next question is—the emergence of the LNG export market is an economic phenomena that virtually no one anticipated as recently as 3 to 4 years ago.

The bill, 5270, intends to utilize the emerging trade to revitalize the U.S.-flag fleet because analysis of the global LNG market indicate favorable conditions for the development of a long-term sustainable LNG export trade and trade that could sustain a resurgence of the U.S.-flag fleet.

In general—my question: In general, does each of you agree that—with the analysis projections finding that a U.S. LNG export trade will be sustainable and a viable export market that could provide a future new trade for the U.S. foreign trade fleet?

And, secondly, what initiatives has the maritime community made to reach out to the LNG energy industry to identify opportunities to take advantage of this emerging LNG export market to the benefit of the maritime operators?

I think you have answered this, in part, Mr. Tabbutt. If you would like to expand and just take it from there.

Mr. TABBUTT. It makes sense for any place that is off the grid to participate in the LNG to go from heavy oil to burning LNG, and we stand ready. And if we find the right customer, then that—we will build and be part of that.

And we are working very closely with industry and supply of our vessels for liquid natural gas both in the Pacific Northwest for the Alaska operation and the supply down in Florida for our Puerto Rican operation.

Mr. GARAMENDI. Thank you.

Any comments from the flag ship—Captain?

Captain MARCUS. Yes, Mr. Garamendi. With Masters, Mates and Pilots and I think every other union in this room, we have all made various efforts to reach out and place some of our members aboard LNGs.

I know there are a handful of American officers working aboard foreign-flag LNGs, and certainly it is the interest of the U.S. Merchant marine to build a pool of American mariners working on U.S.-flag vessels. We believe that it is sustainable.

In the case of Masters, Mates and Pilots, we have worked closely with the marine engineers on some projects, and we know the other unions have as well. So we are enthusiastic about it. We see a future for it. And we hope to continue to get the support of this subcommittee.

Thank you.

Mr. GARAMENDI. Mr. Paxton.

Mr. PAXTON. Yes, sir. The SCA participated in the American Gas Association Policy Summit where we were really highlighting the growing use of LNG as a marine fuel. And so we have been talking to the—to a lot of the industry that is going to be producing this and the fact that we are—we will be a sector that will be using it. And that is for domestic use, of course.

But per your legislation, any—any signals of the Government that Congress can send to industry that they are serious about this new energy being a national security imperative, being something that is so crucial to our industry that they are going to require some level of U.S. manning or U.S. building, those signals are absolutely wonderful for purposes of establishing the market and the cargoes. So we appreciate that.

Mr. GARAMENDI. Mr. Chairman, I am significantly over my time. I have two other questions, one of which I will just ask for the record and written response from the witnesses.

But one, I would, with your acquiescence, put before the witnesses.

Mr. HUNTER. Sure.

Mr. GARAMENDI. Thank you.

Mr. HUNTER. We will probably have time, if you want, to go to Ms. Hahn and then back to you again.

Mr. GARAMENDI. Let's do that.

Mr. HUNTER. OK. Ms. Hahn, you are recognized.

Ms. HAHN. Thank you, Mr. Chairman, Ranking Member Garamendi.

I have really enjoyed listening to all of our witnesses this morning sharing their expertise as it relates to our merchant marines. I am a big supporter of our merchant mariners.

Every May 22nd, National Maritime Day, if I am not here, I am attending the memorial service in San Pedro, where we are one of the few communities that has a merchant marine veterans memorial right along Harbor Boulevard. So I am a big supporter.

Unfortunately, it's still true that our merchant mariners who served this country in World War II were not considered veterans and, therefore, have never received veteran benefits.

Last year I introduced H.R. 1936, the Honoring Our World War II Merchant Mariners Act of 2013. This bill, which has been introduced a couple of times, would provide a modest $1,000 monthly benefit to the nearly 10,000 surviving World War II mariners.

I know that this bill is not in the jurisdiction of this committee, but the Committee on Veterans' Affairs is currently not considering it. And I would like to see our subcommittee encourage them to

take this bill up. We don't have much time left in Congress, and we don't have much time left with our merchant mariners. Many of them are in their 80s. We are losing them every single day.

I think it would be fitting and proper and an honor for this country to finally honor the World War II merchant mariners. More merchant mariners were lost in World War II than any other branch of the military.

So I think it is time at that we honor them. I think it is a meager amount, and I would hope this Congress or maybe next Congress would finally honor them. So I appreciate this hearing.

I think, just listening to you, we have already, I think, realized more and more how important our merchant mariners are to this country and what they mean to the fabric of industry and commerce as well as internationally through the help that we give through Food for Peace.

Mr. Paxton, I appreciate you bringing up General Dynamics. I was able to tour General Dynamics in San Diego, and I learned a lot about the shipbuilding industry in southern California. And much more needs to be done, I think, in this industry.

And you are absolutely right. Shipbuilding, that is a great career. I mean, those are great skills; ironworkers and electricians have great skills. These are skills to pay bills that a lot of our young people could really benefit from. And I would love to see this start in our high schools and our community colleges. These are the kind of vocational classes that are so important. What a great career, to be building ships in this country.

Captain Marcus, you talked, as well as Mr. Johnsen, about Food for Peace, and I would like to focus on that a little bit.

This great program, since 1954, has played such a critical role in times of crisis by providing emergency food assistance as well as money. It is critical to supporting employment among our U.S. farmers and our merchant mariners.

After the typhoon in the Philippines in 2013, Food for Peace was right there. It was able to provide $20 million in food aid, such as rice, emergency food bars to the devastated region, and helped to connect both our U.N. and private aid to the devastated islands.

I worked hard to support this program. I wrote a letter to the House appropriators, requesting that they fully fund Food for Peace by adding $800 million to the program.

In addition, last year, I worked really hard on the House floor to defeat an amendment that was on the floor that would reduce its funding. Unfortunately, this year the President proposed reducing the budget for Food for Peace by cutting 26 percent from the 2015 budget.

Can you talk again to us on what you think the impact of reducing funding for this program or changing how it operates would be on your industry. How would such a cut affect the amount of food that would be able to be transported in times of emergency?

Mr. JOHNSEN. Just a brief comment first. The action that was taken in reducing the percentage participation that I mentioned in my remarks has already resulted in a cargo loss that exceeds the 25-percent reduction, and it just shows you, if that continues to happen, the cargo base will go away for a very important constituency of the U.S.-flag fleet. So it has to be maintained. Otherwise,

we lose more vessels and, as Captain Marcus was talking about, we lose—we lose jobs for—for the mariners.

Captain MARCUS. Yes, Ms. Hahn. I would just reiterate that, in order for companies like Waterman/Central Gulf and the major carriers—the American carriers to have faith in maintaining their ships in U.S. flag, they need to have a reliable stream of cargo, and this provides a reliable stream of cargo and—not only on bulk carriers, but also aboard containerized vessels.

And it is critical that, in times when we have a drawdown such as now where the military cargo is less because of the withdrawals in Afghanistan and Iraq, we have got a reliable stream of cargo to help keep our ships afloat.

If they are not carrying cargo, they are not making money and the carriers will lay up ships or they will reflag ships to foreign flag. It is as simple as that.

So thank you.

Ms. HAHN. Thank you.

I know my time is up, but I want to point out that there is a thought process out there that asserts we would do better to give our money, our foreign aid, directly to the country and help support their agriculture and their farmers.

And, yet, when you look at the Philippines typhoon, the place was destroyed and it wouldn't have made any sense to try to give money to use their own agriculture and their farms. The place was destroyed. And if it had not been for Food for Peace bringing that emergency money and agriculture in, many more lives would have been lost.

Captain MARCUS. If I might just add one thing, I mean, on that particular point, in our belief, there has been a lot of cynicism and mistruth spread around.

There was something put out by USAID that the cost differential was some $78 million when, in fact, it is closer to about $7 million, and the differential—in our view, this—this debate has taken on a life of its own and there is more mistruth than fact in it.

But the baseline is, it seems, if you want a constituency that supports foreign aid, you need to have some kind of secondary benefit for American workers and American agriculture and you need a transparent system where the food is actually delivered.

Having been aboard a ship that delivered 25,000 tons of grain to India, you physically see it there. You see bags with the U.S. flag on it, you see the handshake cargo, and you know it is there. It is not just some invisible cash that has changed hands.

And, of course, it is somewhat absurd to think that you would be buying local produce. If that was the case, people wouldn't be starving in the first place. So there seems to be kind of a logical and a factual disconnect in this whole argument.

Thank you.

Ms. HAHN. Thank you very much.

Mr. Chairman, I yield back.

Mr. HUNTER. I thank the gentlelady.

A quick question about Coast Guard.

Mr. Johnsen, you talked—you mentioned a few times that the Coast Guard is increasing your cost, as an operator, through different rules and regulations and that MSP vessels have different

standards—the Coast Guard has different standards for MSP vessels than they have for similarly—for similar foreign-flag vessels.

Could you just give us some examples—some specific examples?

Mr. JOHNSEN. When we first started reflagging some vessels from international flag to U.S. flag back in the mid-1980s, the Coast Guard had a series of regulations in place that required us to replace equipment on board those vessels, which were perfectly suitable for their purposes, which were approved by the Safety of Life at Sea, SOLAS, regulations, and it was—in my mind, it was a ridiculous waste of money.

And I remember on those first reflags we spent millions of dollars to reflag the vessels. We subsequently continued an initiative to talk to the Coast Guard and see if there was some way to resolve this disconnect between what the Coast Guard wanted and what was internationally acceptable.

And we came up with a program, working together with the Coast Guard, which we called a gap analysis, and we analyzed, for example, the piping systems. We analyzed the life rafts that were on board, and the different components of the vessel.

And I hasten to say that—and our friends in labor know this—our culture is all about safety. So we never do anything that would jeopardize the safety of the mariners on our vessels. So we have been very, very studious about that in working with the Coast Guard.

Going through this process eventually produced a situation where we could bring a ship under U.S. flag, do some modifications to the ship, approximately $400,000 or $500,000, rather than millions of dollars, to complete a reflag. And that was simply because we weren't throwing away perfectly good equipment.

What we are concerned about with this new NVIC is that it is regressing back, and our sense is, as we review it—and there is a lot of technicalities in it relating to the life rafts, relating to the firefighting systems, relating to the controls between the bridge and the engine room, that are perfectly OK, but we need to get back to this cooperative attitude of doing a gap analysis.

So I hope that the Coast Guard is going to come around and understand that that is what ought to be done because all they are doing is layering on expense—hundreds of thousands of dollars of expense that is totally unnecessary.

Mr. HUNTER. Thank you.

Does anybody else have any specific examples?

Captain MARCUS. Well, this is less a specific example than just sort of an observation.

Having a delegation from labor that participates in IMO proceedings and knowing full well that the U.S. Coast Guard has full voice with the U.S. delegation at all of these IMO Maritime Safety Committee meetings and setting the standards—the international standards, the whole purpose of these international conventions is to have some kind of uniformity and to be part of the rulemaking process internationally.

And then to come back when we had the understanding that the international requirements would be what is necessary to reflag a vessel and then those international agreements and impose your

own agreements that do not enhance safety, but increase cost, in our view, it just doesn't make sense.

Thank you.

Mr. HUNTER. Thank you.

Mr. Garamendi is recognized again.

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

Let me find my place here. I was anxiously listening to what was being said about the Coast Guard and the rulemaking and the like.

The next questions really deal with the capacity of the American shipbuilding industry to produce LNG tankers. We have heard that a lot of things are going on. There is a resurgence in—there is a boom in the industry. State-of-the-art vessels are being made.

I know, Mr. Tabbutt, you and I were talking about the vessels that you currently are having made in San Diego at the NASSCO yard.

So this question arises, "Well, we can't build them here." I would just note one of the things I put in the record, but didn't mention, is that India requires that the LNG ships be built and available within 2.5 years; however, 6 years for the ships built in India. So there is a waiver.

My question really goes to this issue of the ability of the American shipyards to build LNG tankers. So for the record, does the U.S. shipbuilding industry retain the technology and industrial capacity to build LNG tankers should the U.S. LNG export trade take off and we require that at least some, if not all, of those tankers be American-built and American-flagged?

Mr. Paxton, if you would like to get at this, and then we will go down the line.

Mr. PAXTON. Thank you, Congressman Garamendi.

The answer is yes. The U.S. shipyard industry built LNG carriers for a long time. Unfortunately, we stopped building those carriers in the 1980s. So the answer is yes. If this market was there, we would be building for it.

I am sure Mark will have some comments about the domestic moves of LNG if we moved it around the United States. We can do that, too. That is a different size of an LNG carrier. If we are talking international trade, that is a larger LNG vessel. But the fact of the matter is we built them.

The other fact is we have three of them that just got waived back in—or would be waived back into the Jones Act if there was actually the infrastructure there to start moving LNG around domestically. We can do that, too. We built those ships also in the 1980s. So the answer is yes.

As you know—because we have had many meetings on this—if we had that market right now, it would probably be a 5-year process to get that LNG carrier built and ready to go. I have been told that by our shipyards to that effect. But we do have the capability and we have the capacity. Our shipyards are seeing red.

And the other example of that is, when this new market came up to move petroleum and crude around domestically, we are building for that market and we are answering that demand. So our shipyards stand by to do that, sir.

And, also, a last point on this, our shipyards also work with international partners, NASSCO with Daewoo. We don't stand idly

by just looking inward. We look outward. We want to see what best practices are, benchmark ourselves against those, and build as competitively as we can.

So I think some aspect of this would probably look at, "Hey, what are the best things internationally that are being done? And can we partner with those guys and get it done right?"

Mr. GARAMENDI. Thank you.

Mr. Tabbutt, I know that you and I discussed this, if you would like to comment.

Mr. TABBUTT. Sure.

Through NASSCO, General Dynamics, we have actually engaged in conversations with them about building domestic LNG carriers. They have supplied us several different models that would be different capacities that are being made internationally.

And we would have all the confidence in the world to sign with them and to build them. We don't see any issue about our domestic capability—or the yard's domestic capability to build them.

Mr. GARAMENDI. Mr. Johnsen, Captain, if you would like to comment on this or if it is in your territory or out of your territory. Good.

I think that, as I understand this—this is my comment; the expert I am not—but, in discussions, is that there is a phase-in, we can't build these things this year or next year.

But if there is a market out there, that is, if the United States policy drives towards the development of a market, it can be done, but it would be phased in over a period of time.

India is giving its shipbuilding industry 6 years to build the ships. Mr. Paxton, if we gave the American shipbuilding industry 6 years to build ships for the trade, could we do it?

Mr. PAXTON. And just to be clear, we are talking international trade, not just domestic trade?

Mr. GARAMENDI. Correct.

Mr. PAXTON. And, with that, as we discussed in the past, any international requirements would have to just make sure we get by any treaty obligations we have, GATT implications, and we would be very careful of that because we don't want to take down the build requirement that is exempt in the—under GATT.

But if that was all done through some type of national security imperative, my shipbuilders have told me it would be a 5-year process by which they could—from contract to delivery to do it. But there is many steps in that process to make sure we do it legally and we do it under our trade obligations, sir.

Mr. GARAMENDI. A very, very good point.

The final comment that I will make on this is that India is going to buy American gas, LNG. India is requiring that that gas be shipped—at least one-third of the ships be Indian-built.

It seems to me that we could have a trade agreement with India that would say, "Terrific. How about the second third being American ships?" Now we have an agreement. We are not violating any trade agreement. We are not writing any law. We are simply good negotiators. I think we can get at that issue in this way without the trade laws.

The second point is the Trans-Pacific Partnership trade agreement is in discussion. We need to be very, very careful and very

watchful that we are not giving away—negotiating away a strategic American asset, LNG, and the shipbuilding that could go with that.

I think we have covered my issues, Mr. Chairman. I have two questions that I would present to the witnesses in writing. And that will complete my time, with a final comment, since I don't see another round coming down.

I appreciate the testimony of the witnesses and particularly the opportunity that presents all of America to rebuild our manufacturing base one ship at a time or maybe 100 ships at a time.

It is imperative that this sector of the American economy rally around the potential that exists, maintenance of the Jones Act, Food for Peace, all of the things that have been discussed here.

Each one of these are pieces of a large puzzle of economic development, and we need to be mindful of each piece of that puzzle as we promote this extraordinary opportunity, in this case, the Jones Act, but it is also Food for Peace, and it is the other elements, the military cargo and the like.

One thing I would ask all of the participants—the witnesses and anybody else that is participating in this hearing is that we may not know where the next waiver is.

But if we knew where the next waiver of the Jones Act occurs, we might be able to do something about it. So let us know if you hear something or are aware of something. Assume that we don't know.

But I know that the chairman and I are more than willing—at least I and the chairman, from his past record on this—more than willing to jump on one of our administrative agencies that is waivering the Jones Act unnecessarily. So help us understand that.

Final point. We have a new employment training law in place. It is a rewrite of the old law and it is done in such a way as to encourage the Labor Department, Education Department, and other Federal agencies that are involved in employment training to work with the industries in developing training programs.

And so the money flows in a different way rather than to the—rather than for the benefit of the organizations that are doing the training, rather to the benefit of the employers that need trained workers.

And so for this industry, wherever you happen to be, keep that in mind. And it should help address some of the concerns that were expressed here in the committee hearing.

Mr. Chairman, thank you very, very much for conducting this hearing.

Mr. HUNTER. I thank the ranking member for his points and discussion here.

And thanks to all of you, too.

This is a great industry, and I think we are doing God's work in this committee by, like Mr. Garamendi said, strengthening our industrial base, our ability to build ships, our ability to work with steel, and not become one of these bygone countries that used to rule the oceans 50 years ago and that can't even build an aircraft carrier anymore. I think we know what country we are talking about.

Mr. GARAMENDI. Name names. Go ahead. Name names.

Mr. HUNTER. For Great Britain, it is not going to be so great anymore. It is going to be "Little Britain" if the Scots get their way.

But this is important. This is as important as anything else that this whole committee does, the Committee on Transportation and Infrastructure. And we will keep working. We will keep growing.

And we need to make sure that we have these seats filled with other Members that need to, at least—at the least, learn about your industry, about what you do, about what is important, and how we can make it grow and make you stronger, not just for yourselves, but for the American people, and our strength.

Oh. We have—I almost gavelled.

Does this mean I can't go now?

Mr. CUMMINGS. Sorry.

Mr. HUNTER. The gentleman is recognized.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I apologize. I was in a full committee hearing.

Mr. Johnsen, you wrote in your testimony that, "In order to achieve a robust U.S.-flagged merchant marine sufficient in size and capabilities to support our national and economic security, the Federal Government must act quickly and decisively to preserve the long-term health and viability of this industry. Absent aggressive action to develop and implement a comprehensive national maritime strategy, we fear that the decline of our industry will only accelerate." That was your testimony.

Do you believe that vessels in the U.S. flag—would that include any vessels participating in the MSP program?—are currently poised to leave the flag? And, if so, do you have a sense of how many that might be?

Mr. JOHNSEN. My sense is that, if we do not aggressively pursue a reorganization and a reevaluation of the current MSP stipend, that we will force vessels to leave.

I cannot put a number on that, but I can assure you that it will happen, because that, combined with the cargo—military cargo base dwindling and the pressure that we talked about on the food aid programs, it is just sucking business away from U.S.-flag vessels. And vessels need cargoes to pay the bills and they just won't be able to do it.

Mr. CUMMINGS. Well, what do you believe should be the essential components of a national maritime strategy?

Mr. JOHNSEN. I believe the—as I said in my oral testimony, that the—we talk about it as a three-legged stool. We need the MSP program, we need a military cargo program, and we need a food aid program.

And the food aid program—I am lumping together with that the Ex-Im Bank requirements and the other cargo generation that the Maritime Administration should be policing and ensuring compliance.

And that—that is part of their job, and they have got to continue to be aggressive and require U.S. flag when it is required by the statutes.

Mr. CUMMINGS. Well, Mr. Johnsen, you also wrote—and I quote—"It is critically important that the level of support for MSP vessels be adjusted to achieve commercial viability and a more

level playing field for MSP vessels when competing against foreign-flag vessels."

And, similarly, Mr. Marcus, you wrote, "Looking forward, we believe it is critically important that the per vessel support level authorized for the MSP as part of defense authorizations legislation enacted in 2012 be reviewed and adjusted as appropriate."

Let me ask both of you: What level of support do you think needs to be provided through MSP to ensure that vessels participating in the program remain commercially viable?

Captain MARCUS. Thank you, Congressman Cummings.

First—on your first question, I would just like to add that we were just informed about 2 weeks ago by one of our employers that one ship will be leaving the MSP program. So we have been formally informed that one ship will be going before the end of the year.

With response to the——

Mr. CUMMINGS. I guess they don't come back.

Captain MARCUS. Well, we expect to meet with that company. But as far as we have been signaled, that—they do not intend to take this particular slot back. At least that is what they have told us at this point.

Mr. CUMMINGS. All right. Go ahead.

Captain MARCUS. But we believe that, because of the level of support and the cost disadvantage that we have relative to foreign-flag and flag-of-convenience vessels, that the authorization level called for in 2012, as soon as it is politically practical, that there be some kind of an escalation so that, as time goes on, there will be appropriate escalation just to keep in tune with the usual inflationary escalation of costs.

So we don't have a particular number, but we believe that, at some point, that the total number needs to be addressed if we are going to be competitive.

Thank you, sir.

Mr. CUMMINGS. Mr. Johnsen, you have 12—9 seconds.

Mr. JOHNSEN. The stipend needs to be increased. There have been a number of independent studies done to try to determine the differential between international-flag cost and U.S.-flag cost.

According to the Maritime Administration and these studies, that differential, that delta, is something between $5 million and $7 million. That has to be kept in mind when the MSP stipend is being looked at.

It is important that there be a coordinated approach to the stipend, including discussions—ongoing discussions that we have with USTRANSCOM and the Department of Defense and the Maritime Administration. But there does need to be an increase to some degree.

Mr. CUMMINGS. Thank you, Mr. Chairman.

Mr. HUNTER. I thank the gentleman.

And, with that, I thank the witnesses for their testimony and Members for their participation.

The subcommittee stands adjourned.

[Whereupon, at 10:56 a.m., the subcommittee was adjourned.]

TESTIMONY OF MARK TABBUTT,
CHAIRMAN, SALTCHUK,
ON BEHALF OF THE AMERICAN MARITIME PARTNERSHIP
BEFORE THE HOUSE TRANSPORTATION COMMITTEE'S
COAST GUARD AND MARITIME TRANSPORTATION SUBCOMMITTEE

"The Status of the Merchant Marine"
September 10, 2014

Introduction

Good morning Chairman Hunter, Ranking Member Garamendi, and members of this Subcommittee. Thank you for the opportunity to testify today on the subject of "The Status of the Merchant Marine." My name is Mark Tabbutt, and I am here today on behalf of the American Maritime Partnership, or "AMP," the broadest, deepest coalition ever assembled to represent the American domestic maritime industry. AMP represents all segments of the American domestic maritime industry—shipping companies, ship construction and repair yards, and our industry's skilled workforce. Collectively, we represent an industry that annually creates nearly $100 billion in economic impact and supports nearly 500,000 jobs. We are the safest, most energy-efficient, and lowest-cost domestic mode of freight transportation. We appreciate the invitation to be with you today.

I am pleased to be with you today as AMP's representative. I am the Chairman of the Board of Saltchuk, which is a family of transportation companies. We employ 7,500 people and have operations in the United States, stretching from the U.S. Virgin Islands to Barrow, Alaska. We provide critical transportation services to communities. In our domestic shipping operation, we currently move one-third of all general cargo that moves to Alaska and about 30 percent of all general cargo that moves to Puerto Rico. In Hawaii, we provide a lifeline to the islands by moving all general cargo moving on the water. We are a privately owned, second-generation family business.

Short Summary

My testimony today comes on behalf of the American domestic maritime industry—that is, the shipping industry that operates exclusively within the United States. Of the total U.S.-flag fleet, a significant percentage operates within the Jones Act—the business of transporting cargo by water from one U.S. port to another. I want to thank this Subcommittee for its consistent support. Certainty in government policy is the principal and critical ingredient that allows for success of the domestic maritime industry. Without it, the investment picture and growth profile I am about to describe could not take place. I am happy to report that this industry is experiencing an extraordinary renaissance.

The largest sector of our domestic marine transportation industry supports our energy infrastructure with the movement of crude, refined petroleum products, and chemicals. This sector has seen dramatic growth as a result of the shale oil revolution. This is driving record levels of new vessel construction orders and deliveries, and the order books at major American shipyards are filling fast.

Our industry is building state-of-the-art vessels with cutting-edge technologies that are breaking new ground not only in the United States but are also the first of their kind in the world. In fact, our industry is growing so fast that at times it has been difficult to hire all the skilled personnel that we need. To help address that situation, AMP and the American domestic maritime industry recently launched a major initiative to hire veterans for jobs in the domestic maritime industry.

It is a very good time to be part of the American domestic maritime industry. Our industry's contributions to America's economic, national, and homeland security have never been more important and are expanding every day.

An Industry Renaissance

The remainder of my testimony will focus on these four elements of our industry's renaissance: 1) the growth in domestic vessel construction; 2) the state-of-the-art vessels that are being built; 3) new markets from the shale oil revolution; and 4) our industry's program to reach out to military veterans to meet our staffing needs. I also highlight the benefits that consistent law and public policy provide to the steady growth of the American maritime industry.

1) There is a Renaissance of Domestic Vessel Construction in the U.S.

U.S. shipyards have a long history building commercial vessels, large and small, to meet domestic waterborne freight demands. But today, the American shipyard sector is seeing a significant resurgence of vessel construction. Attached to my testimony is a list of some of the large vessels that are under construction today at shipyards across the United States. As you can see from this chart, the new vessels are of different sizes, ordered by different companies, and being built in different yards throughout the nation. The vessels run the gamut in terms of service: containerships, roll-on/roll-off vessels, dredges, offshore supply vessels, large articulated tug-barges, and tankers.

And while this list focused on some of the biggest American vessels, the same positive message is true for smaller vessels. Consider this:

- The Gulf is back. Demand for offshore supply vessels is growing in the Gulf as the offshore oil rig count grew in 2013 and is projected to grow even more in 2014 and 2015. The health of the Gulf offshore supply vessel industry is a particularly important bellwether for our industry because states like Louisiana, Texas, and Florida produce among the highest number of American domestic maritime jobs in this country.
- We are building and retrofitting modern containerships and roll-on/roll-off vessels for the non-contiguous areas of the U.S., serving Puerto Rico, Hawaii, and Alaska. The vessels serving these American states and territories will be among the most efficient in the world. American shipping companies are very focused on providing reliable service to the non-contiguous areas.

- There has been a huge spike in the number of tank barges constructed or ordered over the past several years, tied of course, to the need to move far larger quantities of domestic crude oil and refined petroleum products.
- We have inland shipyards in this country that are building and launching an average of a new barge every single day of the year. New tugs and towing vessels are also being built to handle that increased demand.
- American vessels have been built and will be used to install offshore wind turbines, a potentially growing market in the U.S. A new major contract for the installation of wind turbines using domestic vessels was announced within the last month.

In short, the happy news is that America's maritime industry is growing, modernizing, and adjusting to new, exciting opportunities.

One footnote is especially important. This spike in commercial vessel construction is coming at a time when military ship construction is sharply declining due to deep federal budget cuts. As such, the expansion in commercial work helps keep shipyards operating and the technical expertise fully subscribed. We all know that the technical skills necessary to build vessels takes years to develop. If these highly skilled shipyard workers leave the shipbuilding industry for other industries, getting them back will be extremely difficult. Shipbuilding is critical to our nation's defense industrial base, and commercial vessel construction has helped fill the gaps caused by the cutbacks in military ship construction.

2) The New Vessels are State-of-the-Art, Modern Vessels.

As I said earlier, we are not just building vessels. We are building state-of-the-art vessels. The phrase "state-of-the-art" translates into many tangible benefits. For example, the vessels are safer, more productive, energy-efficient, and environmentally friendly.

There are many examples of cutting-edge technologies used to build and retrofit the American domestic fleet, but let me talk about the vessels I know about best—those that TOTE, Saltchuk's domestic shipping operation, are building at General Dynamics/NASSCO, in San Diego. These are two very large containerships—more than 750-feet long and more than 100-

feet wide called the Marlin Class. These will be the first containerships constructed in the world capable of running on natural gas fuel. Our family company's investment in this project is close to $350 million.

TOTE's new Marlin Class vessels will use the world's first slow-speed, dual-fuel engines able to run on liquefied natural gas ("LNG") as well as heavy fuel oil, if needed. The use of these engines will virtually eliminate SOx and particulate matter emissions, drastically reduce NOx emissions, and reduce carbon dioxide emissions by more than 70 percent. In addition to the environmental benefits, these new ships will mean a safer working environment. LNG is non-toxic, non-corrosive, non-flammable, and non-explosive, which reduces potential threats to the health and well-being of our employees and the communities we serve.

Saltchuk is not alone. Other companies in our domestic industry are also investing and utilizing similar cutting-edge technology. Harvey Gulf is building offshore supply vessels capable of burning natural gas, Crowley has two general cargo vessels under construction in the Gulf capable of burning natural gas, and Matson recently announced it has signed for the two largest containerships ever to be built in the United States, also to be capable of burning natural gas. Our company has also committed to retrofitting our Alaska general cargo vessels to be capable of burning natural gas. The Jones Act, including the reliable trade routes it sustains in Alaska, Puerto Rico, and Hawaii, is the primary reason operators are capable of making investments to shift to natural gas fuel. In addition, vessels use natural gas fuel at U.S. ports on a scale that solves the supply problems for other transportation modes switching to natural gas fuel, like truck and rail.

3) The Shale Oil Revolution has Triggered new Domestic Shipping Activity and a Surge of Tanker and Tank Vessel Construction.

Rich Kinder, the chief executive officer of Kinder Morgan, recently said, "What has happened in shale plays across the country has stood the transportation network on its ear." That would be an understatement when considering that the Energy Information Administration estimates that crude oil production in the U.S. will have nearly doubled from 2008 levels. The development of new domestic energy has set the nation on a path to becoming energy independent and has fundamentally changed the energy transportation industry.

The impacts can be felt in every part of global energy markets, including the transportation supply chain. Crude oil and petroleum products move primarily by pipeline, rail and vessel, and each of those three transportation modes is adjusting and rightsizing to highly dynamic energy markets.

The American domestic maritime industry is doing its part to help address the transportation changes. Referring back to the chart attached to this testimony, there are 22 new large tankers and articulated tug-barges under contract, not including options for future construction. These vessels will add approximately 6.4 million barrels of new capacity to domestic fleet.

Additionally, the construction of inland tank barges last year reached an all-time high with 336 new vessels delivered, totaling more than 8.2 million barrels of capacity. These inland tank barges are a critical component to helping the nation's oil sector get its crude products to market, often working in conjunction with other sectors of the transportation industry, such as pipeline and rail, to provide multi-modal solutions to transportation needs.

4) The Domestic Maritime Industry has Launched a Veterans Hiring Initiative.

Finally, we want to make you aware of an initiative within the maritime industry to address one of the consequences of our growth and expansion—we need more people to staff our growing industry. The six State Maritime Academies, which produce more than 70 percent of the newly licensed officers in the American fleet each year, have a nearly 100 percent placement rate. For those without a college education, the maritime industry offers excellent career paths, too. Our industry needs steady, qualified workers and officers.

With that in mind, AMP has turned to the veterans community through an initiative that we call "Military2Maritime." It is a truly symbiotic relationship. Veterans need jobs, and we need good, reliable workers. Those two "needs" come together in the domestic maritime industry. As you know, veterans make great employees—they tend to be more physically fit, hard-working, well-trained, reliable, and drug-free.

Our industry has always relied heavily on veterans, including those veterans whose military careers were aboard ships. But we have taken our outreach to a whole new level.

On June 5, AMP, Crowley Maritime, the Transportation Institute, TOTE, and many others in the domestic maritime industry sponsored a Military2Maritime job fair at the Port of Jacksonville in Florida that attracted more than 200 veterans. Dozens of employers and education/training institutions attended, and the feedback we received was exceptionally positive. A human resources official from one of the largest domestic shipping companies said he was struck by the number and quality of outstanding candidates that he met during the seminar.

On September 3, just one week ago today, we held another Military2Maritime event at the Port of Houston in Texas, sponsored by AMP, Kirby Corporation, the Transportation

Institute, and many others. The response was similarly overwhelming. So many potential employers signed up to recruit veterans that we simply ran out of booth space. The response from veterans was even greater in Texas, with more than 300 veterans signing up and attending.

We are already planning more Military2Maritime events. First, it is the right thing to do—to provide private sector career opportunities for the men and women who have honorably served our nation, often in harm's way. Second, it is good for our industry. It is a total "win-win" situation.

Conclusion

Thank you for the opportunity to bring you up-to-speed on the current health of the American domestic maritime industry. We are deeply grateful for this Subcommittee's support of the industry over the years. Although this Subcommittee is an exception, few people fully appreciate the importance of the American domestic maritime industry, which is sometimes called "the invisible mode of transportation" because so few people actually come directly in contact with it. And even fewer people realize that domestic maritime transportation is the cheapest, safest, and most energy-efficient mode of freight transportation in the nation.

As I said at the start of my testimony, in the domestic maritime business, our primary "ask" is for certainty. When companies like Saltchuk make extremely large investment decisions, as we have with our recent fleet revitalization effort, the last thing we want is proposals to alter fundamental laws like the Jones Act—proposals that would undermine our American domestic maritime industry renaissance. This Subcommittee's continuous and ongoing support for certainty in the policy structure governing our industry is highly valued and one of the key reasons that our industry is growing and thriving today.

Thank you.

Appendix—Select Recent Domestic Shipbuilding Announcements

Carrier	Shipyard	Order	Est. Delivery
Pasha Hawaii	VT Halter Marine, Inc.	One 692 ft. combo container/ Ro-Ro vessel	2014
SeaRiver Maritime, Inc.	Aker Philadelphia	Two 115,000 DWT product tankers	2014
Weeks Marine, Inc.	BAE Systems Southeast	One 8,500 cubic yard capacity trailing-suction hopper dredge	2014
Island Ventures II LLC	Edison Chouest affiliated yard	One 478 ft. OCV with a 400-ton crane, 3 independent engine rooms, and multiple moon pools and ROVs	2014
Moran Towing Corp.	Bay Shipbuilding Co.	One 150,000 barrel capacity articulated tug barge	2015
TOTE, Inc.	General Dynamics NASSCO	Two 3,100 TEU LNG-powered containerships	2015
American Petroleum Tankers	General Dynamics NASSCO	Five 50,000 DWT LNG-conversion-ready product tankers with 330,000 barrel capacity	2015/2017
Crowley Maritime Corp.	Aker Philadelphia	Four 50,000 DWT product tankers with 330,000 barrel capacity	2015
Seabulk Tankers, Inc.	General Dynamics NASSCO	Three 50,000 DWT product tankers with 330,000 barrel capacity	2015
Bouchard Transportation Co., Inc.	VT Halter Marine, Inc.	Two 250,000 barrel capacity articulated tug barges	2015
Kirby Offshore Marine	Gunderson Marine	Two 185,000 barrel capacity articulated oceangoing oil and chemical tank barge	2015
Seabulk Tankers, Inc.	Donjon Shipbuilding	185,000 barrel capacity articulated tug barge	2016
Crowley Maritime Corp.	VT Halter Marine, Inc.	Two 720-ft. LNG-powered combo container /Ro-Ro vessels	2017
Philly Tankers	Aker Philadelphia	Two 50,000 DWT LNG-conversion- ready product tankers	2016/2017
Matson Navigation, Inc.	Aker Philadelphia	Two 3,600 TEU LNG-conversion-ready containerships	2018

The Honorable John Garamendi
Subcommittee on Coast Guard and Maritime Transportation
Hearing on the Status of the U.S. Merchant Marine
Wednesday, September 10, 2014

Questions for the Record

Mr. Mark Tabbutt, Chairman, Saltchuk Resources

1. Support for H.R. 5270

Thank you for stating your qualified support and that of the American Maritime Partnership (AMP) for H.R. 5270, the Growing American Shipping Act, to promote the use of U.S. flag vessels in the looming U.S. export trade of Liquefied Natural Gas, or LNG.

- ***Are there any changes that you recommend to improve the bill going forward?***

AMP appreciates Congressional efforts to enhance the national security, maintain a domestic shipbuilding industrial base, sustain a pool of qualified American mariners, and ensure a vibrant U.S.-flag domestic maritime sector. Ranking Member Garamendi's support for the American domestic maritime sector and the Jones Act is fundamental to meeting those goals. Since AMP's sole mission is to protect the integrity of the domestic coastwise laws—the movement of cargoes from one U.S. port to another U.S. port—it does not have any further input on Ranking Member Garamendi's legislation to enhance U.S.-flag opportunities in the international energy trades.

- ***Are there any amendments that could help to improve the administration's future implementation of the bill should it become law?***

AMP is greatly appreciative of Ranking Member Garamendi's efforts to enhance the U.S.-flag fleet. Since AMP's sole mission is to protect the integrity of the domestic coastwise laws, governing domestic movements of LNG, *e.g.*, from a U.S. port to another U.S. port, the organization does not have any suggested changes to H.R. 5270.

2. Viability of U.S. LNG Exports to Grow the U.S. Flag Fleet

The emergence of an imminent U.S. LNG export trade is an economic phenomenon that virtually no one anticipated as recently as three or four years ago.

- ***In general, does AMP agree with analysts' projections that a sustainable and viable U.S. LNG export trade could provide a new opportunity to diversify and grow the U.S. flag fleet?***

With respect to the coastwise trades, LNG exports from the United States to non-contiguous states and territories like Hawaii and Puerto Rico (or from Alaska to Hawaii) could present opportunities to diversify and grow the domestic U.S. flag fleet. AMP believes that LNG exports to/from these areas could create opportunities to build LNG vessels in United States shipyards and create new employment opportunities for American seafarers.

3. <u>Outreach to Domestic LNG Regulators and Producers</u>

The Department of Energy (DOE) and Federal Energy Regulatory Commission (FERC) are in the process of approving numerous applications concerning the export of LNG from the United States.

- ***Has AMP, or have AMP members, reached out to either DOE or FERC to discuss and identify opportunities to utilize the U.S. Merchant Marine and U.S. flagged vessels in the coastwise and export trade of this strategic energy resource? If so, what has been the reaction of each agency?***

AMP has not reached out to either DOE or FERC to discuss the use of the U.S. Merchant Marine and U.S. flagged vessels in the coastwise and export trade of LNG.

- ***Has AMP, or have AMP members, reached out to domestic LNG producers to identify opportunities to utilize the U.S. Merchant Marine and U.S. flagged vessels in the coastwise and export trades of this strategic energy resource? What has been the reaction of U.S. domestic LNG producers?***

AMP has not reached out to LNG producers to discuss the use of the U.S. Merchant Marine and U.S. flagged vessels in the coastwise and export trade of LNG. AMP members may have individually reached out to LNG producers regarding the same, but AMP is not privy to potentially business confidential information of its members.

4. <u>H.R. 5270 as Sufficient Signal to U.S. Maritime Industries</u>

A primary goal of H.R. 5270 is to provide a clear signal to U.S. maritime industries that the Federal Government supports the LNG export trade as an opportunity to reinvigorate the U.S. Merchant Marine and domestic shipbuilding industry, and to promote greater capital investment in each sector.

- ***Does H.R. 5270, as introduced, send a strong enough signal to AMP members and other maritime stakeholders to spur the necessary capital investments? How might the bill be amended to clarify or strengthen that signal?***

The American domestic maritime industry has demonstrated a willingness to make investments where demand exists for new tonnage. A prime example of that willingness is the billions of dollars being invested in new tankers, large articulated-tug barges, and other tank vessels to meet the growing demand for domestic movements of crude oil products. In the LNG export area, the most critical element to capital investment for AMP's members is Congress's continued support for the coastwise laws. Ranking Member Garamendi has been a strong proponent of the U.S. Merchant Marine, and H.R. 5270 signals his continued support for that sector.

- ***Additionally, are there other policies that the Congress should consider reinforcing to ensure that the U.S. market for LNG as a maritime fuel does not become dislocated or uncertain?***

A critical component to LNG's viability as a marine fuel is development of the infrastructure to support the distribution of the LNG fuel supply. The market should dictate the most efficient means to development that infrastructure; however, vocal Congressional support for LNG as a marine fuel will help stimulate those investments.

5. Merchant Marine LNG Training and Licensing

Very few, if any, U.S. mariners are presently licensed to operate or work on an LNG tanker. This creates a potential future conundrum of having U.S. flag LNG vessels, but not having available qualified U.S. licensed officers, engineers, and seafarers to operate the vessels?

- ***How do we avoid such a conundrum? What should we be doing know at Kings Point, at our State merchant marine academies, and at other maritime training institutions to ensure that AMP members have a sufficient number of mariners with the requisite endorsements to work on LNG tankers?***

While AMP does not have sufficient information to opine on this matter in connection with specific endorsements to work on LNG tankers, AMP is tangentially aware, through its members, of requirements that may put State Maritime Academy cadets, for example, at a disadvantage by imposing redundant requirements. AMP is also aware of Ranking Member Garamendi's leadership role in attempting to address this issue. For example, the International Convention for Standards of Training, Certification and Watchkeeping for Seafarers (STCW) requires testing of specific skills that are tested again, redundantly, during the Coast Guard license exam. Such redundancies in licensure may indirectly contribute to the conundrum described above.

- ***Is there any need to amend H.R. 5270 to address this potential constraint or does the Administration have ample authority?***

At this time, AMP does not have sufficient information to opine on whether H.R. 5270 should be amended to address this potential scenario.

- ***Are there opportunities available on foreign flagged LNG ships for U.S. licensed and unlicensed mariners to get training and ship hours necessary to qualify for an LNG license endorsement?***

At this time, AMP does not have sufficient information to opine on the opportunities available for U.S. mariners aboard foreign flagged LNG ships.

Statement of

USA MARITIME

By

Niels M. Johnsen
Chairman of the Board
Central Gulf Lines, Inc.
and
Waterman Steamship Corporation

Before the
Coast Guard and Maritime Transportation Subcommittee
of the
Transportation and Infrastructure Committee
United States House of Representatives

****

THE STATUS OF THE MERCHANT MARINE

September 10, 2014

Introduction

I appreciate the opportunity to testify today on the status of the United States merchant marine on behalf of USA Maritime and its member companies, a coalition that directly or indirectly represents virtually every one of the privately-owned United States flag oceangoing vessels operating regularly in the United States foreign trade. As the Chairman of Central Gulf Lines, Inc. (Central Gulf) and Waterman Steamship Corporation (Waterman), both members of USA Maritime, I confront the many challenges facing the United States flag shipping industry on a daily basis. My testimony will highlight the most pressing of these challenges and suggest concrete ways in which Congress and the Administration can provide much-needed support to our industry.

By way of background, Central Gulf and Waterman are both American-owned companies that, together with affiliates, currently operate 16 United States flag commercial vessels in the international and domestic trades that provide a wide-range of oceangoing commercial freight transportation services, including pure car/truck carriers and domestic coastwise services. We have been operating United States flag vessels for over 60 years, carrying significant amounts of United States military cargoes and other United States government-impelled cargoes during that time period. Our United States flag vessels have provided critical sealift support to the Department of Defense in every military conflict that has arisen over the past six decades.

The Challenge

Mr. Chairman, the Congress and the Administration have to answer a simple question: Do we want to have a robust United States flag merchant marine sufficient in size and capability to support our national and economic security for the rest of this century and beyond? USA Maritime strongly believes that the only answer to this question is 'YES'. In order to achieve this objective, however, the Federal government must act quickly and decisively to preserve the long-term health and viability of this industry. Absent aggressive action to develop and implement a comprehensive National Maritime Strategy, we fear that the decline of our industry will only accelerate and the valuable contributions that we make to the national and economic security of this country will be lost.

Mr. Chairman, you and your colleagues on this Subcommittee have been sounding the alarm for some time. You have held numerous hearings. You have introduced and passed meaningful legislation. And, you have urged the Departments of Transportation and Defense to be more aggressive in their efforts to preserve and enhance the sealift capabilities of our industry. Recently, Congressman Cummings brought together representatives of our industry with the senior leadership of the Department of Transportation and the Maritime Administration to commence an urgent dialogue that we hope will soon result in the release of a comprehensive National Maritime Strategy. USA Maritime is deeply appreciative of the bipartisan spirit that this Subcommittee has brought to this issue and together we must do even more.

Decline of the United States Merchant Marine

In late July of this year, Paul "Chip" Jaenichen, the head of the Department of Transportation's Maritime Administration (MarAd), stated in testimony before the House Armed Services Committee that:

> The size of the U.S.-flag international trading fleet of privately-owned, self-propelled vessels decreased from the five-year average between 2008 and 2013 of 101 to 84 vessels as of July 2014, and is expected to decrease further in the years to come.

This 18% decline in a few short years has caused great concern within the Department of Defense (DOD) which depends so heavily on the United States flag commercial fleet in times of war and national emergency to provide strategic sealift support to our troops throughout the world. This reduction in the fleet has been caused by a sharp decline in United States military, food aid and other government-impelled cargoes moving on United States flag vessels; a multitude of United States government-imposed rules and tax obligations that are not applicable to our foreign flag competition; the proliferation of income tax and other economic incentives available to foreign flag vessel owners and foreign crews that are not available to United States ship owners and mariners; and the resulting higher operating costs of United States flag vessels. In order to reverse this negative trend, USA Maritime urges Congress to work with the Administration and our industry to take immediate and bold action to promote the restoration of the United States merchant marine.

The Merchant Marine is Critical to National Defense

Mr. Chairman, from its inception the United States merchant marine has provided sealift support to DOD for its global military operations. History has proven that the United States needs a strong, active, competitive and militarily-useful United States flag commercial merchant marine to protect and strengthen our Nation's military and economic security. Privately-owned United States flag commercial vessels and their United States citizen crews have always responded effectively to our Nation's call, providing the commercial sealift sustainment capability and civilian maritime manpower base needed by DOD to support America's military and political objectives around the world.

More than 200,000 United States merchant mariners performed the greatest sealift in history while more than 5,600 civilian mariners tragically died and thousands of others were wounded in support of Allied troops in World War II. Since that time, our U.S.-flag vessels and the dedicated American crews who served on those vessels proudly, willingly, and without hesitation, have delivered vital military equipment, supplies and other materiel into war zones and other hostile areas in direct support of DOD operations during the Korean War, the Vietnam War, Operation Desert Shield/Storm, Operation Enduring Freedom in Afghanistan, and Operation Iraqi Freedom. In fact, United States flag vessels participating in the Maritime Security Program (MSP) carried more than 90% of the war materiel to the forward-operating bases during the recent Afghanistan and Iraq conflicts. Moreover, United States flag carriers led development of essential multi-modal services into Afghanistan through the Northern Distribution Network, providing a critical alternative route to resupply and support United States military forces.

In 2002, General John W. Handy, then-Commander of the United States Transportation Command (TRANSCOM), said of the United States flag merchant marine:

> We simply cannot as a Nation fight the fight without the partnership of the commercial maritime industry.

Earlier this year, General Paul J. Selva, the current Commander of TRANSCOM, echoed those sentiments when he said:

> TRANSCOM's unrivaled ability to perform its global mobility mission supporting the other eight Combatant Commanders has been achieved due to the efficient and effective operations of the U.S. Navy Military Sealift Command and America's maritime industry, critical TEAM TRANSCOM partners.

And, in testimony delivered to the House Armed Services Committee in late July of this year, General Selva's Deputy Commander, Vice Admiral William A. Brown, emphasized the critical role that America's merchant marine plays in the national security of this country when he stated:

> During large scale operations, sealift is the primary means for deploying the majority of equipment and sustainment for ground forces, and is essential to

> building up combat power to meet Geographic Combatant Commander (GCC) requirements. In a typical combat operation, over 90 percent of all cargo is delivered by a combination of organic and U.S.-flagged commercial vessels, crewed by U.S. Merchant Mariners. USTRANSCOM could not accomplish its global mission without the capabilities provided by the U.S. strategic sealift fleets and our steadfast merchant mariners. As [DOD] postures its forces for the future, sealift will continue to be a key component in ensuring strategic agility and dynamic presence for our nation's military forces…
>
> Currently, there is downward pressure on the number of qualified U.S. mariners because the [U.S.] flag fleet is shrinking. We remain concerned with the loss in the number of U.S.-flagged vessels in the international trading sector, specifically ocean going vessels in excess of 1,000 tons. Since 1990, the size of this segment of the U.S.-flag fleet has been reduced from 193 to 85 as U.S.-flag companies struggle to remain competitive with companies operating under foreign flags at lower operating costs. Although operations in Iraq and Afghanistan temporarily slowed this decline, the Nation's transition out of Afghanistan and current economic conditions may exacerbate the decline…
>
> We are engaged with MARAD in its development of a National Maritime Strategy that is intended to grow the U.S. flag fleet and ensure the ability of the U.S. Merchant Marine to meet national security needs. We must ensure the continued support of the U.S.-flag fleet and retention of critical merchant mariner skills.

Mr. Chairman, while the United States flag fleet is declining, political and military challenges on the world stage are multiplying in rapid fashion. In the past few months alone, we have witnessed the emergence of the Islamic State of Iraq and Syria (ISIS) and the corresponding turmoil in Iraq; the escalation of hostilities and atrocities in Syria; unrest in Libya; renewed conflict between Israel and its Palestinian neighbors; a newly-aggressive Russia; and several provocative actions by China. We cannot predict when or if the American military will be called upon to respond to any of these or other conflicts that may arise. But, we must all ensure that our military is ready to answer the call when it inevitably comes and that our United States flag merchant marine is able to provide the essential sealift support that is critical to any successful military campaign. With all of the global challenges confronting the United States, this is certainly not the time to allow the sealift capability of the American maritime industry to decline any further.

Urgent Need for a National Maritime Strategy

USA Maritime believes that it is essential that the United States urgently develop a comprehensive maritime policy to reclaim its rightful stature on the high seas. We are pleased to recommend several specific initiatives that can lay the foundation for a new maritime strategy and enhance the military and economic benefits provided by the United States flag merchant marine.

Maritime Security Program. At the outset, I would like to address a program that has and is currently serving its intended purpose, the Maritime Security Program. A strong, fully-funded MSP must be a key component of any future maritime policy. MSP is the most cost-effective means to ensure that DOD has the access it needs to commercial U.S.-flag shipping and U.S. citizen merchant mariners for the Nation's military and economic security.

MSP provides an active, privately-owned, United States flag fleet of militarily-useful commercial vessels which are available to support the sustainment of the United States armed forces in a contingency. The MSP was established by the Maritime Security Act of 1996 and originally provided for the participation of 47 United States flag commercial vessels. Subsequently, due to the success of this program and the strong support of Congress and our partners at the Departments of Transportation and Defense, the program was reauthorized and expanded to 60 ships in 2005. Most recently, in 2012, the Congress reaffirmed its strong support for the MSP by reauthorizing and extending the MSP and its maritime security fleet of 60 vessels through 2025. Under the MSP, United States flag carriers also commit their global logistics networks of ports, rail, trucking, systems and infrastructure to support and supply American troops and to maintain America's readiness.

MarAd has stated that "if DOD needed to replicate the…capacity of the MSP fleet, the capital cost alone would be $13 billion." MarAd also noted that TRANSCOM has estimated that "it would cost the U.S. government $52 billion to replicate the intermodal system that has been developed, maintained, and continuously upgraded by MSP participants." Clearly, the MSP is a cost-effective means of providing sealift to DOD.

When the recent government-wide sequester was implemented, MarAd and TRANSCOM were very concerned that, due to funding constraints, the MSP fleet may be reduced. In a letter to the House Armed Services Committee, General William M. Fraser, then-Commander of TRANSCOM, expressed his concerns over the possible loss of any MSP vessels:

> USTRANSCOM agrees with [MarAd's] assessment of potential losses to MSP. In addition to specific vessel capacity lost, the loss of mariner jobs, access to related intermodal logistics networks these companies provide, and potential loss of competition in certain trade routes may degrade our current support to forces deployed overseas and likely increase transportation costs to the government.
>
> Additionally, the loss of commercial capability, combined with potential reductions to our organic sealift fleet due to fiscal cuts, heightens my readiness concerns. I understand the challenging and difficult decisions being made during fiscally-constrained times. However, concurrent degradation to both commercial and organic fleets may hinder our future ability to timely deploy and sustain our forces and project national power when required.

In his Fiscal Year 2015 budget, President Obama requested the fully authorized annual amount of $186 million for the MSP. While the Senate recommended funding of MSP at that level, the House version of the Fiscal Year 2015 Transportation/HUD Appropriations bill unfortunately recommends only $166 million, a $20 million cut that, if enacted, would

undoubtedly result in the reduction in the size of the MSP fleet and a further decline in the United States merchant marine.

Mr. Chairman, USA Maritime was therefore gratified by your statement on the House floor in early June, when you said:

> I know a lot of difficult decisions had to be made but I wanted to express my concern over a $20 million reduction in funding for [MSP].
>
> The U.S. flag fleet is critical to our military in delivering cargo overseas to our military to ensure proper readiness and sustainment. [DOD] for well over a decade has relied on MSP-enrolled vessels for sealift of necessary cargo into conflicts in Iraq and Afghanistan as well as other troubled areas in the world, all at a fraction of the cost of what it would cost DOD to replicate that sealift if it had to build its own vessels. These militarily-sensitive cargoes are handled by U.S.-flag ship operators and mariners that must meet DOD and homeland security standards. They have a demonstrated record of delivering these cargoes efficiently and safely.
>
> I would like to encourage the bill's managers to bring the program's funding level to $186 million in conference with the Senate.

So, Mr. Chairman, our first and most immediate request is for Congress to fully fund the MSP in Fiscal Year 2015 at the authorized level of $186 million. Once that is accomplished, we will need to address the appropriate level of funding required to sustain the MSP fleet in future years. It is critically important that the level of support for MSP vessels be adjusted to achieve commercial viability and a more level playing field for MSP vessels when competing against foreign flag vessels. By so doing, the Congress and the Administration will ensure that the essential sealift capability of United States flag vessels and the associated American mariner jobs are preserved.

As a complement to MSP, DOD must continue to abide by its long-standing "commercial first" policy to provide military cargo to privately-owned United States flag vessels when available in lieu of government-owned or controlled vessels. This policy has resulted in military cargo support for the United States flag fleet, and we strongly urge Congress to ensure that DOD continues its unwavering adherence to this essential policy.

Cargo Preference. Mr. Chairman, while the MSP is critical to the continued existence of the United States flag merchant marine, it is only one of the elements necessary for the long-term health of our industry. It is equally important for United States flag ships to have access to a broad array of commercial and government cargo. USA Maritime therefore strongly supports cargo preference requirements for government-impelled cargo.

There are three cargo preference laws which must be preserved and, where possible, enhanced. First, the Cargo Preference Act of 1904 requires that all United States military cargo must be transported on United States flag vessels. Second, under "Public Resolution 17," cargoes

generated by the Export-Import Bank must be shipped on United States flag vessels. And, third, the Cargo Preference Act of 1954 requires that at least 50 percent of all government-generated cargoes must be transported on United States flag vessels available at fair and reasonable rates. The Food Security Act of 1985 increased that percentage to 75 percent for carriage of agricultural cargoes under certain foreign assistance programs of the Department of Agriculture and the Agency for International Development. Unfortunately, that percentage was reduced in 2012 from 75 percent to 50 percent – with very negative impacts on the United States flag commercial fleet.

Mr. Chairman, USA Maritime strongly supports the legislative provision that you and the Ranking Member, Congressman John Garamendi, included in H.R. 4005, the Coast Guard and Maritime Transportation Act of 2014 (the Coast Guard bill), that would restore the United States flag share of food aid cargoes to the 75 percent level. We look forward to continuing to work with you and your colleagues towards enactment of this vitally important legislation.

The cargo preference provisions that I just reviewed are a necessary and cost-efficient way to help sustain the privately-owned United States flag commercial fleet. Unfortunately, the amount of preference cargoes (particularly United States military and food aid cargoes) have declined precipitously in recent years. This dwindling cargo base has put additional pressure on MSP carriers and will lead to additional shrinkage of the United States flag fleet unless action is taken by Congress to address insufficient MSP funding levels and otherwise assist in increasing the available pool of government-impelled cargoes for United States flag vessels.

USA Maritime urges MarAd to redouble its efforts to rigorously enforce the existing cargo preference laws and ensure that all relevant Federal agencies and their contracting officers fully comply with the letter and spirit of the cargo preference requirements. In 2008, Congress plainly placed the responsibility for vigorous enforcement of the cargo preference laws on MarAd when it amended the Cargo Preference Act of 1954 to provide:

> Each department or agency that has responsibility for a program under this section shall administer that program with respect to this section under regulations and guidance issued by the Secretary of Transportation. The Secretary, after consulting with the department or agency or organization or person involved, shall have the sole responsibility for determining if a program is subject to the requirements of this section.

The accompanying conference report noted that the Congress placed these duties on MarAd to ensure (1) uniform administration of cargo preference throughout the Federal government, and (2) that the purpose of promoting the United States merchant marine under the cargo preference laws was achieved.

Mr. Chairman, USA Maritime supports the additional cargo preference enforcement language that your Subcommittee included in the Coast Guard bill that passed the House earlier this year. Your language again makes it clear that MarAd has the responsibility to determine if a Federal program is subject to cargo preference and that it must exercise its broad authority to enforce those requirements. Congress should compel MarAd to report to Congress on a regular

basis and to document its actions and efforts, specifying the programs, Departments and agencies it has reviewed and the actions taken to ensure full compliance with cargo preference requirements. We urge MarAd to fully and aggressively use this authority to maximize the amount of United States government cargo moving on United States flag vessels.

Cooperation of the United States Coast Guard. When the Maritime Security Program was first enacted, Congress made it clear that one of its objectives was to incentivize ship owners to document new, modern vessels under the United States flag and to enroll those vessels, as appropriate, in the MSP. In order to carry out that mission, the full cooperation of the United States Coast Guard (USCG), the Federal agency with the responsibility to inspect and document vessels under the United States flag, was required. For many years, the USCG adhered to the original intent of Congress by working closely with MSP carriers, MarAd and TRANSCOM to expedite at little or no cost the documentation under United States flag of dozens of modern vessels. During that time, the USCG complied with the provisions of the Maritime Security Act that permit vessels to be inspected in accordance with international standards in order to enter the United States flag and enroll in the MSP fleet. Unfortunately, the USCG recently issued Navigation and Vessel Inspection Circular 01-13 (NVIC 01-13) that, if fully implemented, would dramatically alter its long-standing cooperative approach to the documentation of MSP vessels under the United States flag and impose yet another obstacle to the continued success of the MSP program. NVIC 01-13 proposes to require vessels entering the MSP to comply with more costly standards that exceed international standards routinely accepted by the USCG. This NVIC, if allowed to stand, will add millions of dollars in costs to United States flag vessel owners – and will be yet another impediment to a healthy United States flag merchant marine. USA Maritime urges this Subcommittee to request that the Coast Guard revoke NVIC 01-13 and return to the prior practice that has worked effectively since the inception of the MSP.

Removal of International Trade Barriers. Mr. Chairman, another challenge for United States flag carriers is that numerous countries around the world continue to erect trade barriers in foreign commerce that exclude or limit the ability of United States flag shipping companies to have access to those markets. As you know, the United States has one of the most open markets in the world. Yet, regrettably, many of our trading partners do not reciprocate our "open door" policy. Over the last 20 years, we have, on a limited basis, with the help of Congress, MarAd, the Federal Maritime Commission, the Department of Commerce, and the U.S. Trade Representative gained access to certain previously-closed markets for our vessels. As we work with the Congress and the Administration to develop a new maritime policy, we should include provisions designed to promote the use of United States flag vessels and eliminate unfair and anti-competitive trade practices throughout the world. The members of USA Maritime are prepared to compete effectively in the world market, but we must have access to markets which are currently not fully open to us. We stand ready to work in a collaborative fashion with all facets of the Federal government, particularly the United States Trade Representative, in a sustained effort to eliminate trade barriers wherever they exist around the world.

Conclusion

In conclusion, Mr. Chairman, as my testimony makes abundantly clear, the state of the United States merchant marine is precarious. Our industry is in the midst of a "perfect storm" – dwindling United States military cargoes, a precipitous drop in food aid cargoes, escalating costs and regulations from the USCG and other Federal agencies, and intense low-cost foreign competition. A National Maritime Strategy that addresses these issues in a comprehensive and thoughtful way must be developed and implemented immediately. Any such National Maritime Strategy must preserve and enhance the Maritime Security Program; reinforce and expand existing United States flag cargo preference requirements, while ensuring strict compliance with those requirements by all Federal agencies and Departments; and include immediate efforts to expand trading opportunities for United States flag vessels with the key trading partners of the United States. USA Maritime is fully prepared to work with this Subcommittee on these initiatives so that we can rebuild the United States flag fleet and reestablish a strong American presence on the oceans of the world.

Mr. Chairman, we look forward to working closely with you on this matter of vital importance to our national and economic security. Thank you for allowing me to appear before you today.

The Honorable John Garamendi
Subcommittee on Coast Guard and Maritime Transportation
Hearing on the Status of the Merchant Marine
Wednesday, September 10, 2014

Questions for the Record

Mr. Niels M. Johnsen, Chairman/CEO, International Shipholding Corporation

1. Support for H.R. 5270

Thank you for stating your qualified support and that of USA Maritime for H.R. 5270, the Growing American Shipping Act, to promote the use of U.S. flag vessels in the looming U.S. export trade of Liquefied Natural Gas, or LNG.

- *Are there any changes that you recommend to improve the bill going forward?*
- *Are there any amendments that could help to improve the Administration's future implementation of the bill should it become law?*

Answer

USA Maritime and the companies that I manage wholeheartedly support the specific provisions contained within H.R. 5270 and its underlying principles. We urge the Secretary of Transportation and his counterparts in the executive branch to develop and implement a program to promote the participation of U.S.-flag ships crewed by U.S. citizen mariners within any broader initiative to export U.S. sourced liquefied natural gas. Hopefully, a U.S.-flag LNG export program will be included as a fundamental element of Maritime Administrator Jaenichen's promised national maritime strategy which is currently under development.

A reasonably crafted program related to the export of U.S. sourced liquefied natural gas could serve to reinvigorate the U.S. Merchant Marine and internationally trading U.S.-flag vessels. As you and Chairman Hunter stressed during the hearing, the number of vessels operating in the U.S. foreign trade fleet has declined to an unacceptable level, and it is essential that we fully leverage opportunities in any market. The potential for the U.S. maritime industry to support and benefit from America's energy revolution is both a challenge and a necessity.

The mandate and potential benefits to be achieved by H.R. 5270 would be most timely given recent and projected reductions in civilian and defense related preference cargoes. As I was careful to emphasize in my testimony, U.S.-flag ships have long relied on Government impelled cargoes which are diminishing. With respect to civilian cargoes, Food for Peace funding in FY 2014 was 35% below the FY 2008 funding level and the preference percentage of food aid cargo reserved for U.S. flag was reduced in 2012 from 75% to 50%. On the military side, the withdrawal over the past decade of forces deployed overseas in Asia and Europe has translated to a permanent reduction in peacetime cargoes that have been relied upon by U.S.-flag operators for many years. Of course, any initiative to compensate for the gap in cargo opportunities will be welcomed.

Many studies have concluded that the United States would experience a net economic gain from a policy of increased LNG exports. The participation of U.S.-flag ships and U.S. citizen crews to transport LNG exports would enhance national security and safety interests as well. Aside from providing business opportunities for U.S.-flag operators, a properly developed program would grow the pool of qualified citizen mariners on which the nation relies to provide sealift during emergencies on both privately owned commercial ships and government-owned surge assets. Though LNG has been safely transported on ships for decades, the employment of American mariners in the trade would add an element of safety assuredness given the quality of education and training brought to bear in the development and retention of U.S. licensed officers and crews and the accompanying oversight by the U.S. Coast Guard.

With respect to improving the bill, we strongly recommend a system of accountability and regular reporting by the Administration to monitor program implementation and effectiveness. We also believe that U.S.-flag participation could be enhanced through effective use of bilateral agreements. Accordingly, Congress should grant clear authority to the Administration to use this tool where appropriate and necessary with trading partners. Lastly, to enhance our ability to "grow the fleet", we recommend that H.R. 5270 be amended to allow existing LNG vessels documented under foreign registries to be re-documented without a need for construction related upgrades -- provided that existing registry standards comply with International Maritime Organization requirements and that the foreign-flag vessel to be re-documented is eligible to hold a valid Coast Guard Certificate of Compliance to enter U.S. waters.

2. Viability of U.S. LNG Exports to Grow the U.S. Flag Fleet

The emergence of an imminent U.S. LNG export trade is an economic phenomenon that virtually no one anticipated as recently as three or four years ago.

- *In general, does USA Maritime agree with analysts' projections that a sustainable and viable U.S. LNG export trade could provide a new opportunity to diversify and grow the U.S.-flag fleet?*

Answer

Yes. Energy industry developments have led to a dramatic increase in recoverable shale gas resources, and the Department of Energy estimates a total U.S. consumption of only about 25% of its natural gas resource estimates over the next 20 years. Given the potential market and the fact that there are no U.S.-flag LNG vessels currently in operation, there exists a substantial opportunity to expand and diversify the U.S.-flag foreign trade fleet.

It is important to note a point made above in the response to QFR #1. Regardless of vessel type, any addition to the number of U.S.-flag vessels -- especially in the deep water trades -- benefits national security and the nation's strategic sealift capability because of the related positive impact on the pool of qualified U.S. citizen mariners.

3. Outreach to Domestic LNG Regulators and Producers

The Department of Energy (DOE) and Federal Energy Regulatory Commission (FERC) are in the process of approving numerous applications concerning the export of LNG from the United States.

- *Has USA Maritime, or have USA Maritime members, reached out to either DOE or FERC to discuss and identify opportunities to utilize the U.S. Merchant Marine and U.S. flagged vessels in the coastwise and export trade of this strategic energy resource? If so, what has been the reaction of each agency?*
- *Has USA Maritime, or have USA Maritime members, reached out to domestic LNG producers to identify opportunities to utilize the U.S. Merchant Marine and U.S. flagged vessels in the coastwise and export trades of this strategic energy resource? What has been the reaction of U.S. domestic LNG producers?*

Answer

USA Maritime has not been directly involved with federal agencies and LNG producers on this issue. Thus far among our members the maritime unions have been active, and it should be noted that USA Maritime company members are predominantly involved in the container and RO/RO dry cargo trades. Nevertheless the development and growth of business opportunities in the energy sector interests everyone in our industry, and we would expect that entrepreneurial engagement will heighten as the LNG export initiative continues forward.

As we understand it, virtually all contact to date with the Administration has been with and through Maritime Administrator Jaenichen and his staff. MARAD's jurisdiction over offshore export licensing is a fundamental component of federal responsibility, and MARAD strongly supports participation by U.S.-flag ships and U.S. citizen mariners to transport LNG exports. Unfortunately, our impression to date has been that there is little interest in this concept elsewhere among federal agencies.

4. H.R. 5270 as Sufficient Signal to U.S. Maritime Industries

A primary goal of H.R. 5270 is to provide a clear signal to U.S. maritime industries that the Federal Government supports the LNG export trade as an opportunity to reinvigorate the U.S. Merchant Marine and domestic shipbuilding industry, and to promote greater capital investment in each sector.

- *Does H.R. 5270, as introduced, send a strong enough signal to USA Maritime members and other maritime stakeholders to spur the necessary capital investments? How might the bill be amended to clarify or strengthen that signal?*
- *Additionally, are there other policies that the Congress should consider reinforcing to ensure that the U.S. market for LNG as a maritime fuel does not become dislocated or uncertain?*

Answer

USA Maritime and its members are grateful to you, Chairman Hunter, and H.R. 5270 cosponsors for your effort and persistence to promote growth of the U.S. maritime industry through its involvement in an LNG export program. Reasonable access to cargoes within a competitive international market is an

enduring solution to develop and maintain a U.S.-flag presence in U.S.-foreign trade, consistent with national policy and objectives. The conceptual design contained within H.R. 5270 is a sound approach to reach that goal. Beyond that, serious collaboration between Congress, the Administration, and the industry to promote American jobs, security, safety and environmental protection by supporting the objectives of H.R. 5270 would strengthen the likelihood for the bill to be successful.

Listed below are alternatives for consideration to promote a U.S. market for LNG as a marine fuel:

- a reaffirmation of limitations on sulfur emissions and related timelines
- direct assistance or tax incentives to encourage ship owners to install new propulsion systems
- direct assistance or tax incentives to enhance port infrastructure necessary to liquefy, transport, store, and distribute natural gas

5. Merchant Marine LNG Training and Licensing

Very few, if any, U.S. mariners presently are licensed to operate or work on an LNG tanker. This creates a potential future conundrum of having U.S. flag LNG vessels, but not having available qualified U.S. licensed officers, engineers and seafarers to operate the vessels.

- *How do we avoid such a conundrum? What should we be doing now at Kings Point, at our State merchant marine academies, and at other maritime training institutions to ensure that USA Maritime members have a sufficient number of mariners with the requisite endorsements to work on LNG tankers?*
- *Is there any need to amend H.R. 5270 to address this potential constraint or does the Administration have ample authority?*
- *Are these opportunities available on foreign flagged LNG ships for U.S. licensed and unlicensed mariners to get training and ship hours necessary to qualify for an LNG license endorsement?*

Answer

USA Maritime defers to the views of Captain Don Marcus and maritime labor on QFR #5.

STATEMENT SUBMITTED BY THE

AMERICAN MARITIME OFFICERS,

INTERNATIONAL ORGANIZATION OF MASTERS, MATES & PILOTS,

MARINE ENGINEERS' BENEFICIAL ASSOCIATION,

MARINE FIREMEN'S UNION,

SAILORS' UNION OF THE PACIFIC

AND THE

SEAFARERS INTERNATIONAL UNION

TO THE

SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION

OF THE

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

ON

THE STATE OF THE UNITED STATES MARITIME INDUSTRY

SEPTEMBER 10, 2014

CHAIRMAN HUNTER, RANKING MEMBER GARAMENDI, AND MEMBERS OF THE SUBCOMMITTEE:

Good morning.

My name is Don Marcus. I am the President of the International Organization of Masters, Mates & Pilots (MM&P). I am presenting this statement on behalf of the MM&P as well as the American Maritime Officers (AMO), the Marine Engineers' Beneficial Association (MEBA), the Marine Firemen's Union (MFOW), the Sailors' Union of the Pacific (SUP) and the Seafarers International Union (SIU).

Our maritime labor organizations represent ships' masters, licensed deck officers and licensed marine engineers, and unlicensed merchant mariners working aboard U.S.-flag commercial vessels operating in our nation's foreign commerce and domestic trades. The development, implementation and funding of programs and policies that support this fleet, enhance its economic viability and increase its ability to compete for a larger share of America's foreign trade are extremely important to the jobs of the men and women our labor organizations represent. Consequently, we are very grateful that this hearing is being held and that we have been given the opportunity to present our views on the "Status of the Merchant Marine."

Out the outset, we would like to express our deep appreciation for the support that you, Mr. Chairman, Ranking Member Garamendi, and the Members of this Subcommittee and the Transportation and Infrastructure Committee have given to our industry. Your leadership in the ongoing fight to protect and enhance the programs and policies important to the operation of United States-flag vessels and your commitment to the growth of our industry have been and will continue to be critically important as we go forward. I can assure you that the American maritime labor organizations I have the privilege of representing today share this commitment and look forward to working with you and your colleagues to achieve the goal of a stronger, more competitive U.S.-flag merchant marine.

From the founding days of our nation to the conflicts in Iraq and Afghanistan to the ongoing War on Terror, it is clear that the United States needs and relies upon the militarily-useful privately-owned U.S.-flag merchant marine to protect, strengthen and enhance our nation's economic and military security. In times of war or other

international emergency, U.S.-flag commercial vessels and their United States citizen crews respond quickly, efficiently and effectively to our nation's call, providing the commercial sealift capability and civilian maritime manpower necessary to support American forces overseas. Significantly, privately-owned U.S.-flag commercial vessels participating in the Maritime Security Program and their civilian U.S. citizen crews who, I am proud to say, are represented by America's maritime labor organizations, have carried more than 90 percent of the war material to the forward operating bases during the Afghanistan and Iraq conflicts.

In 1992, General Colin Powell, then-Chairman of the Joint Chiefs of Staff, told the graduating class of the United States Merchant Marine Academy at Kings Point that:

> "Since I became Chairman of the Joint Chiefs of Staff, I have come to appreciate first-hand why our merchant marine has long been called the nation's fourth arm of defense.
>
> "Fifty years ago, U.S. merchant vessels . . . were battling the frigid seas of the North Atlantic to provide the lifeline to our allies in Europe. The sacrifice of those mariners was essential to keeping us in the war until we could go on the offensive. . .
>
> "In war, merchant seamen have long served with valor and distinction by carrying critical supplies and equipment to our troops in far away lands. In peacetime, the merchant marine has another vital role – contributing to our economic security by linking us to trading partners around the world and providing the foundation for our ocean commerce."

It cannot be emphasized strongly enough: without the assured commercial seapower capability provided by the U.S.-flag merchant marine and its civilian manpower, American troops overseas will likely find themselves at the mercy of foreign vessels that may be owned and operated by foreign interests to deliver the material, supplies and equipment they need to do their job in our behalf. Our country should not increase the risk American troops already face by forcing them to rely on the whim of foreign shipping interests which do not share America's defense objectives to provide them with what they need when they need it. Rather,

our country owes it to the American servicemen and women stationed overseas and putting their lives on the line to protect America's interests to make sure that U.S.-flag vessels and U.S. citizen crews will be there to support them when they need it.

This sentiment was expressed in 2008 by Major General Kathleen Gainey, Commander, U.S. Military Surface Deployment and Distribution Command. She stated that *"The merchant marine has always been there beside us . . . You have been there and delivered for our service members around the world . . . I am here to tell you, having deployed twice, I know how critical it is that we get that equipment and supplies on time . . . You are the fourth arm of the Department of Defense and you are critical to this nation."*

More recently, on May 22, 2014, General Paul Selva, Commander, United States Transportation Command, echoed these comments, stating: *"America's merchant mariners are the backbone of USTRANSCOM's promise to deliver the strategic mobility and enabling capabilities needed to achieve our Nation's objectives. Our Command also serves as the foundation of America's defense, and our Country's seafarers keep its base rock solid and level.* ***Together, we deliver (emphasis added)."***

Unfortunately, and notwithstanding this indisputable need for a strong U.S.-flag maritime industry, the state of our industry in the foreign trades is in jeopardy. Today, U.S.-flag commercial vessels and their American citizen crews are subject to a variety of United States government imposed rules, regulations and tax obligations that are not applicable to their foreign flag competition. In fact, many of the world's maritime fleets, if not state-owned and controlled, operate in what is largely a tax-free environment, faced with little or no tax obligations from their flag nations. Equally important, we are today seeing significant reductions in the amounts of defense and non-defense government cargoes available to U.S.-flag vessels.

As a result, U.S.-flag vessel operators face significant economic and competitive disadvantages which have resulted in a decline in the share of U.S.-foreign trade carried by privately-owned U.S.-flag commercial vessels, a decrease in the number of vessels operating under the U.S.-flag in the foreign trades, and a loss of employment opportunities for American merchant mariners.

If the appropriate steps are not taken, additional vessels will likely be forced to leave the U.S.-flag, This will not only reduce the commercial sealift capability available to the Department of Defense but result in an outsourcing of critically important American maritime jobs causing a dangerous reduction in the number of American mariners available to crew the surge and sustainment vessels needed to support American troops overseas.

In fact, when we lose U.S.-flag vessels and the shipboard billets they provide, trained and experienced American mariners lose their jobs, their income, their health and other benefits, and their ability to provide for their families. When this happens they have no choice but to leave our industry and find employment someplace else. For our government and in particular the Department of Defense, this means that a sufficient number of American mariners will no longer be there – will no longer be working in our industry – the next time the need to support American troops and America's interests abroad arises.

It is also extremely important to emphasize that it takes many years for an individual to gain the sea-time necessary to obtain Coast Guard-issued licenses and endorsements. Simply put, it will take a long time for our country and our industry to recover from the further downsizing of our fleet and the outsourcing of American maritime jobs. Rather, Congress, the Administration and our industry need to work together to achieve the goals and objectives contained in the Declaration of Policy in the Merchant Marine Act, 1936: namely, that "It is necessary for the national defense and development of its foreign and domestic commerce that the United States shall have a merchant marine (a) sufficient to carry. . . a substantial portion of the water-borne export and import foreign commerce of the United States. . ."

If we do not, and our industry is left to try to respond on its own to constantly changing conditions in the international shipping arena, the stability necessary for the U.S.-flag shipping companies to attract the investments they need and for maritime labor to recruit and retain the mariners our country needs will not be there. Most importantly, the failure to act means that the Department of Defense will no longer have the certainty that the privately-owned U.S.-flag commercial industry will be there to provide the commercial sealift capability it needs; will no longer be able to undertake the long-term planning necessary for an effective

sealift strategy; and will be forced to dedicate a significant portion of its limited resources to the commercial sealift functions presently provided by the U.S.-flag merchant marine at a fraction of what it would cost the government to do it all itself.

To this end, we believe it is extremely important that our government, United States-flag shipping companies and America's maritime labor organizations look closely at all the factors that are contributing to the declining state of our industry. In so doing, we will be in a better position to respond to the factors affecting U.S.-flag shipping, by modifying where appropriate existing programs supporting or affecting the operation of U.S.-flag vessels, and by creating new programs and opportunities that would increase the number of vessels operating under the U.S.-flag, the amount of cargo carried by U.S.-flag vessels, and the shipboard employment opportunities for American licensed and unlicensed merchant mariners.

MARITIME SECURITY PROGRAM

For example, one of the key components of American maritime policy is the Maritime Security Program (MSP). Originally enacted as the Maritime Security Act of 1995 (Public Law 104-239), this statute allowed the Secretary of Transportation, in consultation with the Secretary of Defense, to establish and support a fleet of 47 privately-owned, militarily-useful U.S.-flag commercial vessels to meet the defense and economic requirements of our nation. This program was, by statute, scheduled to expire in ten years unless specifically reauthorized by the Congress.

In 2003, prior to the expiration of the Maritime Security Program, General John W. Handy, Commander in Chief, United States Transportation Command, told Congress that "as we look at operations on multiple fronts in support of the War on Terrorism, it is clear that our limited defense resources will increasingly rely on partnerships with industry to maintain the needed capability and capacity to meet our most demanding wartime scenarios. . . .MSP [Maritime Security Program] is a cost-effective program that assures guaranteed access to required commercial U.S.-flag shipping and U.S. merchant mariners when needed . . . MSP is a vital element of our military's strategic sealift and global response capability."

As a result, and with the support of the Department of Defense, legislation to extend, expand and enhance the Maritime Security Program was enacted in October 2003. As signed (Public Law 108-136), the MSP Program would now include a maritime security fleet of 60 militarily-useful privately-owned U.S.-flag commercial vessels and would run through September 30, 2015. Significantly, and as further evidence of the value of the Maritime Security Program to our nation, Congress passed and the President signed the National Defense Authorization Act of Fiscal Year 2011, which again extends the MSP, from fiscal year 2015 through fiscal year 2025.

This extension was intended to give the Department of Defense the opportunity to undertake long-term planning with the certainty that it can count on the commercial sealift capability provided by the 60-ship maritime security fleet, its associated civilian maritime manpower, and the worldwide intermodal and logistical resources that MSP carriers provide to the Department of Defense.

To ensure that this intent is fully realized, we believe it is imperative that Congress appropriate the authorized $186 million for the MSP for FY'15. Legislation pending in the Senate contains this amount; the legislation that passed the House of Representatives includes only $166 million. This reduced amount, if approved, threatens the continued operation of as many as seven U.S.-flag ships in the maritime security fleet and undercuts Department of Defense planning that is predicated on a sixty-ship maritime security fleet.

It is also important to understand that the weakening of the maritime security program will cost the American taxpayer far more than what it costs to fully fund the MSP. In fact, a 2006 report prepared for the National Defense Transportation Association – Military Sealift Committee concluded that "the likely cost to the government to replicate just the vessel capacity provided by the MSP dry cargo vessels would be $13 billion." In addition, the United States Transportation Command has estimated that it would cost the U.S. Government an additional $52 billion to replicate the "global intermodal system" that is made available to the Department of Defense by MSP participants who are continuously developing, maintaining and upgrading their systems. In contrast, the commercial maritime industry, through the MSP, will provide the Department of Defense with these

same vessels and global intermodal system at a cost to the taxpayer of $186 million, a fraction of what it would cost our government to do the job itself.

Looking forward, we believe it is critically important that the per vessel support levels authorized for the MSP as part of the defense authorizations legislation enacted in 2012 be reviewed and adjusted as appropriate. As we noted previously, significant reductions in the amounts of defense and non-defense government cargoes available to U.S.-flag vessels; the proliferation of income tax and other economic incentives available to foreign flag vessels and foreign crews but not to U.S.-flag vessels and their American crews; and the growing competition for cargoes from foreign flag of convenience vessel operations which fail to meet the operational and labor standards applicable to U.S.-flag vessels are all contributing to the differential between the cost of operating a U.S.-flag vessel and a foreign flag vessel.

By taking constructive and immediate action to update the funding levels authorized in the MSP, Congress and the Administration will be acting to ensure that this essential U.S.-flag commercial sealift capability continues operations under the U.S. flag and that the associated American mariner jobs are not lost and outsourced to the benefit of foreign maritime workers.

CARRIAGE OF U.S. GOVERNMENT GENERATED CARGOES

Another key component of U.S. maritime policy that promotes the use of U.S.-flag vessels and enhances the economic and security interests of the United States are the cargo preference statutes. Taken together, these statutes require that a percentage of U.S. government cargoes be transported on U.S.-flag vessels if such vessels are available at fair and reasonable rates. They provide U.S.-flag vessels with a critical base of cargo, giving U.S.-flag vessels the opportunity to stay active while they work to compete against lower-cost and oftentimes tax-free foreign flag vessels for the carriage of commercial cargoes in the U.S. foreign trades. This in turn helps to ensure that the U.S.-flag vessels and their American crews remain available to the Department of Defense in time of war or other international emergency.

Consequently, we believe:

- Congress should make clear to the Maritime Administration (MarAd) that MarAd has responsibility to determine if a Federal program is subject to U.S.-flag cargo preference shipping requirements and that it must exercise its authority to enforce U.S.-flag shipping requirements. We greatly appreciate your efforts Chairman Hunter, Ranking Member Garamendi and the Members of this Subcommittee for including language intended to achieve these objectives in the House-passed Coast Guard authorizations legislation for FY'15 and we urge that this language be included in the final version of this legislation.

  We further believe it is important that the Maritime Administration regularly exercise this responsibility, and that Congress ensure that this is in fact done. To this end, Congress should require that the Maritime Administration report to Congress on a regular basis and to document its actions and efforts, specifying the programs, departments and agencies it has reviewed as well as the actions taken to ensure full compliance with cargo preference requirements.

- Congress should restore the U.S.-flag share of PL 480 Food for Peace and other humanitarian food aid cargoes to the 75 percent level that was in place beginning in 1985 until reduced to 50 percent in 2012. Such language is included in the House-passed Coast Guard authorizations legislation for FY'15 and this language should be included in the final version of this legislation.

We believe it is also important to reiterate that maritime labor strongly opposes proposals to transform the existing PL 480 Food for Peace Program from a program predicated on the use of U.S. produced agricultural commodities shipped in part on U.S.-flag vessels to a program that instead gives away cash instead of food. While serving U.S. humanitarian and foreign aid objectives the Food for Peace program also provides a significant return to the American taxpayer by creating and maintaining American jobs, by generating income for American ports and the domestic agricultural and transportation industries, and by raising revenues for U.S. taxing authorities.

We believe the Food for Peace program is a program that should be emulated, not eliminated. American taxpayers and the Federal government should be proud that there is a Federal program that not only demonstrates the generosity of the

American people to help the world's neediest people, but which at the same time results in significant economic and strategic benefits for our country.

DEATH OR INJURY TO SEAMEN

Section 33 of the Merchant Marine Act of 1920 (46 App. 688) sets out the legal remedy available to merchant seamen and their estates in the event a seaman is injured or killed in the course of his employment. Specifically, in the event a seaman is injured or killed, the existing law allows the seaman or his personal representative to sue for damages in court.

It has been suggested that this legal course of action has a direct relationship on the cost of insurance paid by U.S.-flag vessel operators. It is further suggested that this cost adds to the differential between U.S. and foreign flag vessel operations and reduces the economic viability of the U.S.-flag fleet.

America's maritime labor unions have strongly and consistently supported the availability of this remedy to our seagoing workforce and we continue to support the existing law. Americans working aboard vessels are on the job 24 hours per day, seven days per week when their vessel is at sea. Consequently, ensuring that they have a safe workplace environment to do their jobs is an obligation we take very seriously, and the failure to provide such a workplace environment should have serious repercussions.

However, as we have stated, we recognize that in order to truly revitalize the U.S.-flag fleet and to stop the further loss of U.S.-flag vessels, maritime labor, the U.S.-flag shipping companies and the government need to examine all the factors that may affect the economic and competitive viability of our fleet. Consequently, we suggest that Congress work with maritime labor and management to determine the extent to which, if at all, the availability of this legal remedy affects the cost of operating a U.S.-flag vessel. Once such facts are available we will then be able to determine whether an alternative or additional remedy should be available in the case of death or injury in the course of a mariner's employment.

ENCOURAGING THE USE OF US-FLAG VESSELS FOR ENERGY EXPORTS

Our maritime labor unions strongly support legislation (HR 5270) introduced by Congressmen John Garamendi and Duncan Hunter to encourage the use of U.S.-flag liquefied natural gas (LNG) vessels. We agree that the export of LNG offers an opportunity for the United States merchant marine to expand and to create

significant new job opportunities for American mariners. This legislation, the *Growing American Shipping Act*, authorizes the Secretary of Transportation to develop and implement a program to promote the export of LNG on U.S.-flag vessels. The Secretary is further directed under this bill to give priority in the processing of LNG export applications for deepwater port terminals that include the utilization of U.S.-flag ships.

In order to build upon and to more fully realize the goals inherent in HR 5270, we suggest that this legislation be expanded and amended as follows:

- We suggest that the scope of HR 5270 should be expanded to encompass crude oil exports so that if the ban on such exports is lifted, U.S.-flag vessels would also have an opportunity to participate in this trade. We would note that existing law governing Alaskan crude oil exports reserves the export of oil transported over the TransAlaska Pipeline System (TAPS) to U.S.-flag vessels, including reflagged vessels, owned by a United States citizen.

- We suggest that Congress should require regular reports from the Secretary on the steps being taken to develop and implement the program called for in HR 5270 to promote the carriage of LNG exports on U.S.-flag LNG vessels.

- We suggest that Congress consider addressing one possible impediment to operating a U.S.-flag rather than a foreign flag LNG vessel by extending the provisions of section 911 of the Internal Revenue Code (the foreign source income exclusion) to American mariners working aboard LNG vessels engaged in the carriage of LNG exports from the United States. This action would have two extremely important benefits: First, extending section 911 to Americans working aboard vessels carrying LNG exports could encourage companies to employ American mariners for their foreign flag LNG vessel operations, thereby giving Americans the seatime and training they need to operate U.S.-flag vessels in this trade. Secondly, not only could this change in the tax law help develop the cadre of U.S. citizen mariners qualified to operate LNG vessels, but it could eliminate an economic disincentive to the operation of LNG vessels under the U.S.-flag, thereby

encouraging companies to develop U.S.-flag LNG vessel operations in these trades.

- We suggest that Congress allow foreign built, foreign flag LNG vessels to document under the U.S.-flag for operations in the U.S. foreign trades without the need for any vessel construction-related changes provided they meet commonly accepted international standards. In other words, foreign flag LNG vessels meeting International Maritime Organization (IMO) requirements and holding a valid United States Coast Guard Certificate of Compliance for foreign flag LNG vessels entering U.S. waters would be deemed in compliance with all U.S. standards required for documentation under the U.S. flag.

DEVELOPMENT OF A MARINE HIGHWAY SYSTEM

Our maritime labor organizations have been part of a large maritime industry coalition comprised of shipping companies, ports and other interests that strongly support the development of a U.S. marine highway system comprised of U.S.-built, U.S.-owned and U.S.-flag vessels. Increasing the operation of American vessels along the coasts of the United States, including within the Great Lakes, will provide numerous benefits to the United States.

As the Members of this Subcommittee are aware, one of the major impediments to the development of a marine highway system is the discriminatory application of the harbor maintenance tax (HMT) on the transportation of waterborne cargo between American ports, including ports on the Great Lakes. As applied today, the HMT is imposed on cargo entering the United States from an overseas market. If this cargo is then reloaded onto another vessel for transportation along our coasts to another U.S. port, it is taxed again upon its arrival at this second U.S. destination. This double taxation of waterborne cargo under the HMT discourages shippers from using vessels to supplement their rail and truck traffic, thereby increasing congestion on the roads and rails.

We ask that Congress enact legislation to eliminate the double taxation of waterborne commerce moving between American ports in order to eliminate this

serious tax-related impediment to the development of a marine highway system. Such a system has the potential to create significant new employment opportunities for American shipbuilding workers and workers in related service and supply industries as well as for those licensed and unlicensed merchant mariners who will crew these vessels. The shipment of imported cargo along our coasts will provide a significant opportunity for America's underutilized smaller and medium sized ports, creating important new employment opportunities for American longshoremen and other shoreside workers.

We would point out that in 2008 the National Association of Counties adopted a resolution that calls on Congress "to support the development of a robust short sea shipping [i.e. marine highway] system to aid in the reduction of greater freight congestion on our nation's highway systems, with an additional benefit of reducing air pollution." The Resolution went on to state that "water transportation, especially along our coasts and inland waterways, is a sensible, economical, and environmentally-sound solution to many of our congestion problems and the related issue of air pollution. Urban and rural counties would benefit from increased use of coastal and inland waterways to move freight . . ."

CONCLUSION

In conclusion, we would again emphasize that the economic and military security of the United States are best served if our country has a strong, competitive U.S.-flag shipping capability.

Our country cannot afford to lose any additional U.S.-flag commercial vessels, or see the further decline in our nation's ability to carry its commerce on U.S.-flag ships. The next generation of American mariners will not be available to serve the needs of our nation unless something is done. It is time for immediate, aggressive and innovative action to develop a stronger, more competitive U.S.-flag fleet, to increase the share of our trade carried by American ships, and to stop the outsourcing of American maritime jobs.

We stand ready to work with you, Mr. Chairman, with Ranking Member Garamendi, the Members of this Subcommittee and your colleagues to achieve these objectives.

The Honorable John Garamendi
Subcommittee on Coast Guard and Maritime Transportation
Hearing on the Status of the U.S. Merchant Marine
Wednesday, September 10, 2014

Questions for the Record

Captain Don Marcus, President, Masters, Mates & Pilots

1. **Support for H.R. 5270**

Thank you for stating your strong support and that of maritime labor for HR 5270, the Growing American Shipping Act, to promote the use of U.S.-flag vessels in the looming U.S. export trade of Liquefied Natural Gas, or LNG.

- *Are there any changes you recommend to improve the bill going forward?*
- *Are there any amendments that could help to improve the administration's future implementation of the bill should it become law?*

ANSWER

As we stated in our testimony on September 10th, maritime labor strongly supports the goals and objectives contained in HR 5270. We believe it is extremely important that the Secretary develop and implement a program to promote the export of LNG on U.S.-flag vessels and that priority be given to LNG export applications for deepwater port terminals that include the utilization of U.S.-flag ships.

We agree that it is in the interests of the United States that U.S.-flag LNG vessels and U.S. citizen mariners play a significant role in the carriage of LNG to overseas markets. While we understand that HR 5270 does not mandate the use of American vessels or the employment of American mariners, we believe that a properly developed program could, among other things, make recommendations that may encourage the use of U.S.-crewed and U.S.-flag ships. To this end, we would suggest that the sponsors and supporters of this legislation, including maritime labor, seize every opportunity to impress upon other Members of Congress, the Administration and the public that America's economic and security interests are advanced when U.S.-flag vessels are used. The LNG export market is growing; LNG export applications are being filed and processed; and domestic and foreign companies are putting their plans in place – and we must act now, even prior to the enactment of HR 5270, to encourage the Administration to consider the use of U.S.-flag vessels a priority and to begin now to make this priority a reality.

We believe one way to ensure the more effective implementation of HR 5270 when it becomes law is to require regular and periodic reports by the Administration as to the effectiveness of the program it has developed. Absent such regular review and analysis, it will be difficult to determine the degree to which, if at all, the program put in place by the Secretary is working, needs to be changed by the Secretary, or requires action by the Congress.

In addition, we believe Congress should ensure that the Administration has the clear authority to negotiate bilateral maritime agreements between the United States and a trading partner that allocates cargo shares of the waterborne LNG export trade for flag vessels of both nations. In this way, vessels from both nations will be entitled to at least a portion of the LNG exports between the United States and the recipient nation. It further means that those importing American LNG will not be able to exclusively use heavily subsidized, tax free and flag of convenience foreign flag and foreign crewed vessels for the carriage of this vital energy resource from the United States. We believe that the negotiation of such agreements covering, for example, the export of LNG from the Cove Point facility in Maryland to India as well as the export of LNG from the Cheniere facility in the U.S. Gulf to the United Kingdom can provide significant benefits to the U.S.-flag fleet and important new job opportunities for American mariners.

Another amendment that we believe could enhance the effective implementation of HR 5270 relates to the documentation of LNG vessels under the U.S.-flag. Specifically, we believe that HR 5270 should be amended to allow existing LNG vessels to document under the U.S.-flag for participation in the carriage of LNG exports in the foreign trade without the need for any vessel construction-related changes provided they meet commonly accepted international standards. In other words, the legislation should be amended to stipulate that foreign flag LNG vessels that meet International Maritime Organization requirements and which hold a valid Coast Guard Certificate of Compliance for foreign flag LNG vessels entering U.S. waters are in compliance with U.S. standards required for documentation under the U.S. flag for operation in the foreign trade.

2. **Viability of U.S. LNG Exports to Grow the U.S.-flag Fleet**

The emergence of an imminent U.S. LNG export trade is an economic phenomenon that virtually no one anticipated as recently as three or four years ago.

- *In general, does your organization and maritime labor in general agree with analysts' projections that a sustainable and viable U.S. LNG export trade could provide a new opportunity to diversify and grow the U.S.-flag fleet?*

ANSWER

Yes. The carriage of LNG exports from the United States to overseas markets is a new and potentially large business. At present, there are no U.S.-flag LNG vessels in operation in the worldwide LNG trade, and only a small number of U.S. citizen mariners working aboard foreign flag LNG ships. Consequently, were HR 5270 to be enacted and a realistic and meaningful program put in place as called for in HR 5270, the potential for growth in the U.S. maritime industry would be great.

In addition, it is important to understand that not only is the number of U.S.-flag LNG vessels participating in this trade important in and of itself, but that each vessel provides an extremely important base of employment for American mariners. Maintaining a sufficient number of American citizen mariners to meet the civilian manpower requirements of the Department of Defense is a critical component of our nation's commercial sealift policy. Each vessel operating under the U.S.-flag, regardless of type, contributes to this employment base.

3. **Outreach to Domestic LNG Regulators and Producers**

The Department of Energy (DOE) and Federal Energy Regulatory Commission (FERC) are in the process of approving numerous applications concerning the export of LNG from the United States.

- *Has your union or other maritime unions reached out to either DOE or FERC to discuss and identify opportunities to utilize the U.S. Merchant Marine and U.S.-flagged vessels in the coastwise and export trade of this strategic energy resource? If so, what has been the reaction of each agency?*

- *Has your union or other maritime unions reached out to domestic LNG producers to identify opportunities to utilize the U.S. Merchant Marine and U.S.-flagged vessels in the coastwise and export trades of this strategic energy resource? If so, what has been the reaction of U.S. domestic LNG producers?*

ANSWER

To date, most of maritime labor's discussions with the Administration have been with the U.S. Maritime Administration. The Maritime Administration, as you know, has jurisdiction over offshore LNG export applications and the U.S.-based exporter retains more control over the transportation of the LNG in such instances. Significantly, the Maritime Administration has expressed a strong desire to see U.S.-flag LNG vessels and U.S. mariners participate in the carriage of LNG exports and a willingness to discuss and explore opportunities to achieve this objective.

Numerous meetings and discussions have taken place between the maritime unions, individually and collectively, with LNG producers and potential exporters. For example, my union, the Masters, Mates & Pilots, and the Marine Engineers' Beneficial Association have entered into a Memorandum of Agreement with United LNG regarding the employment of our Members on vessels transporting LNG for their customers. We and the other maritime unions are working to secure similar agreements with other domestic LNG producers.

4. **H.R. 5270 as Sufficient Signal to U.S. Maritime Industries**

A primary goal of H.R. 5270 is to provide a clear signal to U.S. maritime industries that the Federal Government supports the LNG export trade as an opportunity to reinvigorate the U.S. Merchant Marine and domestic shipbuilding industry, and to promote greater capital investment in each sector.

- *Does H.R. 5270, as introduced, send a strong enough signal to maritime labor? How might the bill be amended to clarify or strengthen this signal?*

Maritime Labor greatly appreciates your efforts, those of Chairman Hunter, and the cosponsors of H.R. 5270 to promote the use of U.S.-flag LNG vessels and the employment of American mariners. We firmly believe that such support is a critical component in the ongoing effort to strengthen and grow our industry. We encourage all Members of Congress to join you in this support by adding their names as cosponsors of this important legislation and, in so doing, to help send an even stronger signal that our government believes it is in the national interest for U.S.-flag vessels to transport LNG exports.

5. **Merchant Marine LNG Training and Licensing**

Very few, if any, U.S. mariners presently are licensed to operate or work on an LNG tanker. This creates a potential future conundrum of having U.S.-flag LNG vessels, but not having available qualified U.S. licensed officers, engineers and seafarers to operate the vessels.

- *How do we avoid such a conundrum? What should we be doing now at Kings Point, at our State merchant marine academies, and at other maritime training institutions to ensure that U.S. licensed and unlicensed mariners have the requisite endorsements to work on LNG tankers?*

- *Is there any need to amend H.R. 5270 to address this potential constraint or does the Administration have ample authority to address this workforce need?*

- *Are there opportunities available on foreign flagged LNG ships for U.S. licensed and unlicensed mariners to get training and ship hours necessary to qualify for an LNG license endorsement?*

ANSWER

The maritime labor organizations have the courses, instructors and equipment to provide LNG training for American mariners at their respective privately-run and industry-financed schools. However, training in a classroom or with a simulator at a school or academy is not sufficient to secure the necessary licenses and endorsements for employment on an LNG vessel. Rather, the mariner must also obtain the actual seatime aboard a vessel needed in order to fully qualify.

Since there are not any U.S.-flag LNG vessels in operation, the only opportunity for an American mariner to obtain the requisite seatime is aboard a foreign flag LNG ship. The maritime unions have been pursuing any and all opportunities to place American officers and unlicensed personnel aboard foreign flag LNG ships and will continue to do so. We believe that as LNG producers, exporters and importers begin to fully understand that H.R. 5270 will be enacted, and that our government will more vigorously promote the use of U.S.-flag LNG vessels and the employment of American mariners, greater opportunities will exist for Americans to gain the seatime necessary for LNG vessel licenses and endorsements.

Testimony of Matthew Paxton
President, Shipbuilders Council of America

Before the Subcommittee on Coast Guard and Maritime Transportation
House Transportation and Infrastructure Committee

"Examining the State of the U.S. Merchant Marine"

9:30 a.m. on Wednesday, September 10, 2014
2167 Rayburn House Office Building

On behalf of the Shipbuilders Council of America (SCA), I would like to thank Chairman Duncan D. Hunter and Ranking Member John Garamendi for the opportunity to provide an overview and status report on the domestic commercial shipyard industry.

SCA is the national trade association representing the shipyard industry. Members constitute the shipyard industrial base that builds, repairs, maintains and modernizes U.S. Navy ships and craft, U.S. Coast Guard vessels of all sizes, as well as vessels for other U.S. government agencies. In addition, SCA members build, repair and service America's fleet of approximately 40,000 commercial vessels. Members also include those companies comprising the critical supplier base by providing good and services to shipyards.

The shipyard industry is a vital component of any robust merchant marine capability, and today I am pleased to inform the committee that the state of America's commercial shipyard industry is the strongest it has been in decades. Today, the American shipyard industry represents a strong manufacturing sector contributing hundreds of thousands of jobs and billions of dollars to the economy. According to a recent report by the U.S. Maritime Administration, the shipyard industry supports 402,010 jobs in all 50 states, represents $23.9 billion in labor income, and

contributes over $36 billion to the GDP. In 2012, U.S. shipbuilders delivered 1,260 vessels of all types. In fact, it is important to point out that on average over the past 4 years; American shipyards deliver approximately 1,300 vessels per year.

Moreover, shipyards have a big impact on their local communities and the country at large. With over 300 facilities located in 27 states, and a supplier base that can be found in all 435 Congressional Districts, each direct job leads to another 2.7 jobs nationally. Each dollar of direct labor income leads to another $2.03 in labor income in other parts of the economy, and each dollar of GDP leads to another $2.66 in other GDP. The men and woman who are employed by the shipyard industry are highly skilled, and in 2011 the average labor income per job was approximately $73,630 . That salary is 45% higher than the national average for the private sector economy ($50,786).[1]

Shipyards are busy, competitive and have innovated in several markets, including the offshore oil and gas industry, to the point that several companies are building their vessels here for export. In fact, exports have strengthened in recent years, rising to $539.1 million in 2012, and combined over the past ten years the industry has run a trade surplus of $410 million.

Much of the growth in the commercial shipyard sectors has been a response to the country's shale oil and natural gas revolution. Vast domestic abundance, coupled with new extraction methods, has had major impacts on supporting transportation infrastructure. The result has been a boom for shipyards, who are currently building out 19 (options included) large petroleum product carriers representing billions of barrels new capacity for coastwise

[1] *The Economic Importance of the U.S. Shipbuilding and Repairing Industry* Maritime Administration (MARAD) May 30, 2013

transportation. These vessels are both self-propelled and articulated tug/barge units; however the inland and coastal barge market is also strong, with 341 tank barges delivered in 2013, up over 250 in 2012. If this testimony were delivered just 3 short years ago, the picture would not be as rosy.

At the same time, due in large part to coming emissions control regulations, U.S. shipyards currently have seven (including options) containerships on order to serve the non-contiguous domestic trades. All of these vessels, and several of the petroleum product carriers, will be powered by liquefied natural gas (LNG) or will be LNG conversion ready. American shipyards are world leaders in this respect. The world's first LNG powered containerships (and thus the most environmentally friendly ships of this type) are currently constructed at General Dynamics NASSCO in San Diego, CA, with the first ship scheduled to be delivered early next year.

Both the construction affiliated with the domestic energy revolution and the recapitalization of the non-contiguous fleet are recent new markets. However, the continued boom of shipbuilding and ship repair associated with the offshore oil and gas sector in the Gulf of Mexico is equally important. With roughly 4,000 offshore oil and gas platforms in the Gulf of Mexico there has been steady shipbuilding and repair for all the supporting workboats. In 2013, shipyards entered into 111 contracts for offshore oil and gas support vessels. As a result of this strong order book, the U.S. is now a leader in innovative and complex dynamic positions workboat shipbuilding, so much so, we now build for international markets exporting these vessels to work worldwide. Additionally, the industry continues a steady stream of building

tugboats, ferries, patrol and fire boats, as well as other craft. All these vessels provide important merchant marine jobs which contribute the eyes and ears of the waterfront and waterways, a national security success.

Commercial vessel construction represents billions of dollars in investments each year, underscoring the importance of maintaining the Jones Act, a law SCA cares deeply about. The Jones Act ensures that vessels traveling from domestic point to point must be domestically built, as well as crewed and owned by Americans. Each dollar invested in new commercial vessel construction is done so with the understanding that the Jones Act is the law of the land, so it is absolutely critical that any attempts to undermine the law are not entertained, which includes unnecessary waivers.

The Navy and Defense Department strongly support the Jones Act because of its important national security benefit, and as recently as March, 2013, the GAO found that the Jones Act plays an important role in American national security, is a critical source of seafarers in times of crisis, and helps ensure an essential shipyard industrial base.[2] GAO said that the American fleet's contribution to maintaining a shipyard base is particularly important now because of budget reductions for military vessel construction. This point rings especially loud as many shipyards are highly diversified, building both commercially and for the government, utilizing a shared supplier base.

Providing the type of stability and certainty the Jones Act affords is important to an industry like shipbuilding and repair that is highly cyclical. While the current snapshot of the

[2] http://www.gao.gov/assets/660/653046.pdf

commercial sector is positive, government shipbuilding and repair faces budget uncertainty and the reality of sequestration. Nevertheless, shipyards that build for the Navy, Coast Guard, NOAA, Army and other agencies maintain a stable skilled workforce and supplier base when building commercially.

Before closing, I do want to mention another challenge. The shipbuilding industry, like so many other manufacturing sectors, faces an aging workforce. Attracting a younger generation towards a career path inside the shipyard is increasingly difficult as more and more a 4-year college degree is the norm. SCA has recently set up a workforce development committee to begin to address the issue, and we look forward to discussing workforce development in any future national maritime strategy.

Today, the state of commercial shipbuilding is strong relative to the past decades; however SCA is looking ahead for new market opportunities. In conclusion, SCA certainly appreciates this committee's support of the Jones Act and efforts to grow the industry. SCA also appreciates this committee's efforts to raise the visibility of the domestic maritime industry as a whole by advancing the conversation for a national maritime policy. We look forward to continuing to work with you in these discussions.

China Pushes to Build Its Own Ships to Deliver Gas

(Reuters) August 5, 2014

SINGAPORE — Chinese shipyards are seeking to take about $10 billion in orders for new liquefied natural gas tankers over the rest of the decade, part of a plan to restructure the country's ailing shipbuilding sector and secure China's energy supply chain.

China's push to build its own natural gas delivery vessels will increase its capability in high-tech shipbuilding and challenge South Korean and Japanese shipyards, which have been the main suppliers of large gas tankers for 30 years.

As many as 50 tankers, or more than 20 percent of the 225 liquefied natural gas vessels expected to be added worldwide by the end of 2020, are expected to be built in China to deliver gas to its ports, according to estimates from the American Bureau of Shipping, a ship safety society.

China's reliance on vessels built at home for gas deliveries — which China needs to serve new import terminals — would give it greater control over its supply chain and a bigger share of the high-value end of shipbuilding.

"Regardless of the availability in the market for L.N.G. carriers, China will ship the bulk of its cargoes through its own project-dedicated vessels," said Andrew Bridson, business development manager at the transport and energy consultant BMT Asia Pacific in Singapore.

The global shipping industry is emerging from a five-year downturn, the worst in 30 years, and China, the largest shipbuilding nation and long the leader in basic vessels, sees an opportunity in developing the skills and technology to build more sophisticated ships.

Beijing laid out a plan last year for domestic shipyards to seek a quarter of the global market for high-tech ships, including L.N.G. tankers.

"In future, our output is going to outstrip that of Japan and Korea," said Yang Baohe, principal naval architect at the Marine Design and Research Institute of China, a subsidiary of the China State Shipbuilding Corporation.

More than 70 percent of about 125 L.N.G. carriers and storage vessels on order have gone to South Korean shipyards like Daewoo Shipbuilding and Marine Engineering, and Samsung Heavy Industries.

But those orders represent only a little more than half of the total investment of nearly $50 billion needed to expand the global L.N.G. fleet of 394 vessels, based on an average gas tanker cost of $200 million and estimates by the American Bureau of Shipping.

As more L.N.G. plants start up in the United States, Australia and Russia to feed Asia's voracious gas demand, 100 more ships are expected to be ordered for delivery from 2017 to 2020, according to shipping analysts and consultants.

China, which is under pressure to switch from coal to cleaner fuels to cut carbon emissions and clean its polluted air, plans to more than double its total gas supply by 2020 and is seeking to triple its L.N.G. imports to about 60 million tons, or about 82 billion cubic meters.

This second wave of gas tanker orders will give relative newcomers, like Hudong-Zhonghua Shipbuilding of Shanghai and the Dalian Shipbuilding Industry Company, a chance to penetrate the L.N.G. sector further by building more vessels for China.

Last year, six tankers constructed by Hudong-Zhonghua accounted for half of China's L.N.G. imports, the rest coming on ships chartered to carry gas from producers including Qatar and Indonesia.

Hudong-Zhonghua, owned by C.S.S.C., has in hand contracts to build 14 ships to transport L.N.G. from Papua New Guinea and Australia to China. Dalian Shipbuilding, also part of the C.S.S.C., is negotiating to build four ships costing up to $230 million each.

China needs to put about $9 billion to $10 billion into expanding its fleet, said Bill Sember, vice president of global gas development at the American Bureau of Shipping.

Still, Chinese shipyards are not likely to start winning orders for projects outside China anytime soon, according to the South Korean rival Samsung Heavy, which says the companies lack the experience to win over international buyers.

"Chinese shipbuilders are winning L.N.G. carriers for only local import projects," said Choe Young-keun, an executive on the marketing planning team at Samsung Heavy. "That trend will not be changed, because Hudong-Zhonghua is the only Chinese shipbuilder which has a track record of L.N.G. carrier construction."

South Korea to support shipbuilding industry

By: Moyoun Jin

(IHS Maritime 360) August 18, 2014

The South Korean government has pledged to support the country's shipbuilding industry, in co-operation with related governmental agencies.

Yoon Sang Jik, South Korean minister of trade, industry and energy, made this pledge after meeting with the top players from the shipbuilding industry.

Approximately 20 people, including CEOs of Hyundai Heavy Industries, Samsung Heavy Industries, Daewoo Shipbuilding and Marine Engineering, Hanjin Heavy Industries and Dachan Shipbuilding, attended.

At the meeting, the minister said, "The ministry and related governmental agencies will do everything to make (South) Korea maintain its No.1 status in the shipbuilding market."

Then, Yoon revealed several plans to accomplish the purpose. First, Korea Gas Corporation (KOGAS) will award contracts for six or seven new LNG carriers.

The carriers will be deployed in 2017 and KOGAS will make an effort to install domestic equipments in the ship.

Korea National Oil Corporation will provide companies with a drilling hole as a test bed to activate the offshore plant service market.

Export-Import Bank of Korea and Korea Trade Insurance Corporation will provide proper ship financing programmes to support companies who receive offshore plants orders in the overseas market.

The South Korean Ministry of Trade, Industry and Energy and the Ministry of Oceans and Fisheries will discuss how to provide work to small- and medium-sized shipbuilding yards.

On top of that, the South Korean Ministry of Trade, Industry and Energy and the Ministry of Employment and Labor will jointly expand manpower-training programmes in design engineering and high-quality welding.

The CEOs who participated in the meeting suggested that the government needs to support next-generation technology development and to create a domestic market by awarding companies coastal ships building contracts.

GAIL to buy one-third of LNG ships from Indian shipbuilders

(The Economic Times) July 30, 2014

NEW DELHI: Faced with the prospect of a second Presidential directive, state gas utility GAIL India Ltd has decided to buy from Indian shipbuilders a third of the LNG ships for ferrying gas from the US.

GAIL wants 9 ships to ferry liquefied natural gas (LNG) it has contracted from US producers to India. The previous Oil Secretary Vivek Rae saw the GAIL's chunky contract as an opportunity to push the case for domestic LNG shipbuilding and pushed the company to include Indian shipbuilders, who currently don't have the technology, in the tender.

After Rae, the current Oil Secretary Saurabh Chandra nudged GAIL to reserve a part of the USD 7.6 billion contract for Indian shippers so that global majors transfer LNG shipbuilding technology to India.

Initially, GAIL resisted saying it will be a time consuming process, but when the ministry mulled issue a Presidential directive it backed down.

"Under the advice of Ministry of Petroleum & Natural gas, GAIL will shortly come out with a LNG ship charter hire tender specifying, inter-alia, that one ship out of every lot of three ships each would be built in India," GAIL said in a filing to the stock exchanges.

GAIL decided to give Indian shipbuilders six years to deliver the ships as opposed to two-and-half-year deadline for foreign firms.

"Quotes for three such lots of three ships each would be specified in the tender. It is proposed to allow 6 years delivery period for the Indian built ships as against about two and half years for the foreign built ships," it said.

GAIL had been for past 6-7 months resisting the inclusion of domestic ship makers in the tender on grounds that Indian shipyards would need at least six years and huge finances to develop the capability to build cryogenic LNG carriers.

The Ministry was of the view that GAIL should promote domestic industry and mulled issuing a Presidential directive - an order in the name of the President who is the owner of public sector companies.

In October 2004, a Presidential Directive was issued to GAIL following which it cancelled a Rs 1,400 crore tender for supply of pipes and issue a fresh one incorporating new terms that including more suppliers.

GAIL in the filing said it has signed long term agreements with the US based Cheniere Energy Partner and Dominion Resources for transportation of 5.8 million tonnes per annum of LNG from Sabine Pass and Cove Point terminals.

It plans to charter newly built ships to transport this gas to India.

Worldover, about 379 LNG ships are operating and another 105 ships are being built/ordered. The specialised carriers are mostly built in South Korea and Japan by companies such as Samsung and Daewoo. In recent years, China has also started making LNG ships.

The global LNG fleet needs to grow by 225 vessels by the end of 2020. How are foreign governments supporting their shipbuilding industries?

INDIA

The largest state-owned natural gas processing and distribution company in India, GAIL, plans to import 5.8 million tons per annum of LNG from Sabine Pass, Texas, and Cove Point, Maryland, beginning in 2017. Under strong pressure from the Modi government, which wants to promote domestic shipbuilding and the acquisition of new technology, the company clarified in its tender for nine newly-built LNG vessels that one-third must be built in India. GAIL will give Indian shipbuilders six years to develop the ships, as opposed to the 2.5-year deadline for foreign firms. Concurrently, India's shipping ministry has initiated discussions with financial institutions to establish a shipbuilding development fund to extend low-cost loans to shipbuilders.

SOUTH KOREA

As the unquestioned leader of the LNG carrier industry, South Korea has constructed well over half of the 382-ship global fleet. Yoon Sang Jik, the Minister of Trade, Industry, and Energy, unveiled new plans for government support of the country's shipbuilding industry in August of 2014. Korea Gas Corporation (KOGAS) will award contracts for six or seven new LNG carriers, aiming to install domestic equipment in the ships.

JAPAN

The Japanese government has, in recent years, initiated a number of policies designed to increase its presence in the LNG carrier construction industry. Restructuring of the Japanese shipping industry and a weak yen is increasing the number of successful bids by Japanese companies. From 2009 to 2011, Japanese government support for shipbuilding increased by 300% in the form of export credits, export credit insurance to provide coverage for borrowers, and R&D grants for technologically-advanced ships like LNG carriers. Then, in 2012, the JSIF (Japanese Ship Investment Facilitation Co. Ltd.) was established to increase ship export. The company facilitates domestic shipbuilding and financing by providing funding for shipyards to essentially purchase their own ships through the establishment of off-shore shell-companies. These ships are then chartered out to foreign groups on long-term contracts with a sale option.

CHINA

In early September 2014, China published a set of guidelines to support and develop its shipping industry. The guidelines include tax and other regulatory reforms while pushing shipping firms to upgrade and modernize their fleets to build an efficient, safe, and environmentally friendly shipping system by 2020. It also published a "white list" of 51 shipyards deemed worthy of policy support. China has indicated that, regardless of the availability in the market of LNG carriers, it will ship the bulk of its cargoes on its own project-dedicated vessels, giving it greater control over its supply chain. Up to 50 LNG tankers, or more than 20 percent of the 225 LNG vessels expected to be added worldwide by the end of 2020, are set to be built in China to deliver gas to its ports, according to estimates from the American Bureau of Shipping (ABS). A number of other policies support Chinese shipbuilding, including:

- Exemption from tariffs for importation of advanced technology is important for the construction of highly complex ships (such as LNG carriers, especially since China does not currently have the technology to manufacture the "moss" insulation used in these ships)
- The Chinese Export-Import Bank provides export credits of up to 80% of the value of commercial contracts.
- Protection of domestic market. The State Oceanic Administration purchases domestically-constructed ships, while imposing tariffs on imported ships from the Ministry of France. These tariffs vary in strength, but can reach 10.5%
- The government also has the ability and permission to introduce a number of other support mechanisms, including Export Tax rebates, investment funding reforms, massive provision of raw materials, and procurement of foreign partners.

China to Modernize Shipping Industry

By MarEx
(Reuters) September 3, 2014

China published a set of guidelines to support and develop its shipping industry on Wednesday, sending shares in shipping firms such as China COSCO and China Shipping higher.

The world's biggest trading nation is focusing on the shipping industry as it looks to secure its supply chains and grows more assertive over territorial disputes in the South China Sea, unnerving neighbors such as Vietnam and Japan.

China will introduce tax and other regulatory reforms while pushing shipping firms to upgrade and modernize their fleets to build an efficient, safe and environmentally friendly shipping system by 2020, the State Council, China's cabinet, said in a statement published on its website.

"Shipping is a key component in economic development and plays an important role in protecting a country's maritime rights and economy, in promoting exports and industrial development," it said.

The government would also encourage firms to retire vessels early, reducing supply, and develop shipping centers like Shanghai and Dalian to compete eventually with the likes of London in shipping services.

Shares in state-backed China Shipping were up 6.8 percent at 0440 GMT, while Hong Kong-listed shares in China COSCO were 1.2 percent higher. China International Marine Containers Group Ltd was trading 7.6 percent higher.

Barclays analyst Jon Windham said the sector - weighed down by over-capacity after too many ships were ordered before the global financial crisis - was sensitive to any good news even though the government's announcement lacked details.

"There's some potential that there's going to be some policy support, likely in the form of some tax policy," he said.

While foreign firms such as Denmark's A.P. Moller Maersk have managed to remain profitable by cutting back on costs, China COSCO and China Shipping have suffered heavy losses attributed to the poor trading environment.

China's shipping industry, comprised of more than 240 firms, carried only a quarter of the country's trade and lagged behind other nations in terms of services and crew size, deputy transport minister He Jianzhong told reporters at a briefing in Beijing.

He said shipping firms should improve their corporate structure and costs, and aim to achieve scale to boost their competitiveness.

China publishes first "white list" of 51 shipyards

(Reuters) Sept. 4 2014

China has released its first "white list" of 51 shipyards that it deems worthy of favourable policy support, as the world's largest shipbuilder strives to tackle over-capacity that has slammed the global shipping market.

The government said last year said shipbuilders that complied with its requirements in areas like ship emissions would be put on a white list for favourable policy support, such as export tax rebates and bank credit.

The list published on the Ministry of Industry and Information Technology's website on Wednesday included the Jiangsu shipyard of heavily indebted China Rongsheng, Singapore-listed Yangzijiang's New Yangzi shipyard and two of Sinopacific Shipbuilding yards.

Fifteen yards affiliated with state-owned China State Shipbuilding Corporation and China Shipbuilding Industry Corporation, four related to China Ocean Shipping (Group) Co., two controlled by Sinotrans & CSC Holdings and one owned by China Shipping Group Co were also listed.

A ministry official said it intended to publish two more lists, though no timetable had been set.

China has more than 1,600 shipyards and analysts predict that about a third will shut as the industry struggles to emerge out of a capacity glut that has hit freight rates. Rongsheng, the largest private shipbuilder, came close to insolvency last year before it agreed with banks to extend its debt payments.

Banks have tightened lending to the industry even as it grapples with a fall in orders and high debt, amid a wider push from the government to rein in support for industries plagued with over-capacity.

China last year laid out a detailed three-year plan to restructure its massive shipbuilding industry, urging local governments to halt approvals of new projects and firms to build higher quality vessels.

China published guidelines to modernise its shipping industry on Wednesday. (Reporting by Brenda Goh; Editing by Stephen Coates)

The Honorable John Garamendi
Subcommittee on Coast Guard and Maritime Transportation
Hearing on the Status of the Merchant Marine
Wednesday, September 10, 2014

Questions for the Record

Mr. Matt Paxton, President, Shipbuilders Council of America

1. Support for H.R. 5270
Thank you for stating your support and that of the Shipbuilders Council of America for H.R. 5270, the Growing American Shipping Act, to promote the use of U.S. flag vessels in the looming U.S. flag vessels in the looming U.S. export trade of Liquefied Natural Gas, or LNG.

- *Are there any changes that you recommend to improve the bill going forward?*
- *Are there any amendments that could help to improve the administration's future implementation of the bill should it become law?*

Answers: Responses were not received at the time of publication.

2. Viability of U.S. LNG Exports to Grow the U.S. Flag Fleet
The emergence of an imminent U.S. LNG export trade is an economic phenomenon that virtually no one anticipated as recently as three or four years ago.

- *In general, does your organization agree with analysts' projections that a sustainable and viable U.S. LNG export trade could provide a new opportunity to diversify and grow the U.S.-flag fleet?*

Answer: Response was not received at the time of publication.

3. Outreach to Domestic LNG Regulators and Producers
The Department of Energy (DOE) and Federal Energy Regulatory Commission (FERC) are in the process of approving numerous applications concerning the export of LNG from the United States.

- *Has your organization or any of its members reached out to either DOE or FERC to discuss and identify opportunities to utilize the U.S. Merchant Marine and U.S. flagged vessels in the coastwise and export trade of this strategic energy resource? If so, what has been the reaction of each agency?*
- *Has your organization or any of its members reached out to domestic LNG producers to identify opportunities to utilize the U.S. Merchant Marine and U.S. flagged vessels in the coastwise and export trades of this strategic energy resource? What has been the reaction of U.S. domestic LNG producers?*

Answers: Responses were not received at the time of publication.

4. Shipyard Capacity and Technological Capabilities

As we heard during the hearing our domestic shipyards are experiencing a recent resurgence in orders due to our nation's shale oil and natural gas boom. Shipyards are building vessels that are "state of the art", including new LNG-powered vessels.

- *For the record, does the U.S. shipbuilding industry retain the technological and industrial capacity to build LNG tankers?*
- *You stated that it would be a 5-year process to build an LNG carrier in the U.S. If an order were received today, which U.S. yards could build a 120,000 cubic meter LNG carrier for international trade by the end of 2019? What about a vessel of greater than 200,000 cubic meter capacity?*
- *Should the Maritime Administration look to utilize the Title XI Maritime Loan Guarantee Program to provide financial assistance to help shipyards expand capacity as needed?*
- *Does your organization support federal funding for the Assistance for Small Shipyard and Maritime Communities program (46 USC 54101) in the FY15 budget? Please explain your position.*

Answers: Responses were not received at the time of publication.

5. H.R. 5270 as Sufficient Signal to U.S. Maritime Industries

A primary goal of H.R. 5270 is to provide a clear signal to U.S. maritime industries that the Federal Government supports the LNG export trade as an opportunity to reinvigorate the U.S. Merchant Marine and domestic shipbuilding industry, and to promote greater capital investment in each sector.

- *Does H.R. 5270, as introduced, send a strong enough signal to your organization and its members to spur the necessary capital investments? How might the bill be amended to clarify or strengthen that signal?*
- *Additionally, are there other policies that the Congress should consider reinforcing to ensure that the U.S. market for LNG as a maritime fuel does not become dislocated or uncertain?*

Answers: Responses were not received at the time of publication.

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