AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

AUTHORIZATION OF COAST GUARD AND MARITIME TRANSPORTATION PROGRAMS

(115–9)

HEARING

BEFORE THE

SUBCOMMITTEE ON
COAST GUARD AND MARITIME TRANSPORTATION

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTEENTH CONGRESS

FIRST SESSION

APRIL 4, 2017

Printed for the use of the
Committee on Transportation and Infrastructure

Available online at: http://www.gpo.gov/fdsys/browse/
committee.action?chamber=house&committee=transportation

U.S. GOVERNMENT PUBLISHING OFFICE

24–911 PDF WASHINGTON : 2017

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

BILL SHUSTER, Pennsylvania, *Chairman*

DON YOUNG, Alaska
JOHN J. DUNCAN, JR., Tennessee, *Vice Chair*
FRANK A. LOBIONDO, New Jersey
SAM GRAVES, Missouri
DUNCAN HUNTER, California
ERIC A. "RICK" CRAWFORD, Arkansas
LOU BARLETTA, Pennsylvania
BLAKE FARENTHOLD, Texas
BOB GIBBS, Ohio
DANIEL WEBSTER, Florida
JEFF DENHAM, California
THOMAS MASSIE, Kentucky
MARK MEADOWS, North Carolina
SCOTT PERRY, Pennsylvania
RODNEY DAVIS, Illinois
MARK SANFORD, South Carolina
ROB WOODALL, Georgia
TODD ROKITA, Indiana
JOHN KATKO, New York
BRIAN BABIN, Texas
GARRET GRAVES, Louisiana
BARBARA COMSTOCK, Virginia
DAVID ROUZER, North Carolina
MIKE BOST, Illinois
RANDY K. WEBER, SR., Texas
DOUG LAMALFA, California
BRUCE WESTERMAN, Arkansas
LLOYD SMUCKER, Pennsylvania
PAUL MITCHELL, Michigan
JOHN J. FASO, New York
A. DREW FERGUSON IV, Georgia
BRIAN J. MAST, Florida
JASON LEWIS, Minnesota

PETER A. DEFAZIO, Oregon
ELEANOR HOLMES NORTON, District of Columbia
JERROLD NADLER, New York
EDDIE BERNICE JOHNSON, Texas
ELIJAH E. CUMMINGS, Maryland
RICK LARSEN, Washington
MICHAEL E. CAPUANO, Massachusetts
GRACE F. NAPOLITANO, California
DANIEL LIPINSKI, Illinois
STEVE COHEN, Tennessee
ALBIO SIRES, New Jersey
JOHN GARAMENDI, California
HENRY C. "HANK" JOHNSON, JR., Georgia
ANDRÉ CARSON, Indiana
RICHARD M. NOLAN, Minnesota
DINA TITUS, Nevada
SEAN PATRICK MALONEY, New York
ELIZABETH H. ESTY, Connecticut, Vice Ranking Member
LOIS FRANKEL, Florida
CHERI BUSTOS, Illinois
JARED HUFFMAN, California
JULIA BROWNLEY, California
FREDERICA S. WILSON, Florida
DONALD M. PAYNE, JR., New Jersey
ALAN S. LOWENTHAL, California
BRENDA L. LAWRENCE, Michigan
MARK DESAULNIER, California

SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION

DUNCAN HUNTER, California, *Chairman*

DON YOUNG, Alaska
FRANK A. LOBIONDO, New Jersey
GARRET GRAVES, Louisiana
DAVID ROUZER, North Carolina
RANDY K. WEBER, SR., Texas
BRIAN J. MAST, Florida
JASON LEWIS, Minnesota, *Vice Chair*
BILL SHUSTER, Pennsylvania *(Ex Officio)*

JOHN GARAMENDI, California
ELIJAH E. CUMMINGS, Maryland
RICK LARSEN, Washington
JARED HUFFMAN, California
ALAN S. LOWENTHAL, California
ELEANOR HOLMES NORTON, District of Columbia
PETER A. DEFAZIO, Oregon *(Ex Officio)*

CONTENTS

Page

Summary of Subject Matter iv

WITNESSES

Admiral Paul F. Zukunft, Commandant, U.S. Coast Guard, accompanied by Master Chief Steven W. Cantrell, Master Chief Petty Officer of the Coast Guard, U.S. Coast Guard:
- Testimony 5
- Prepared statement 41
- Responses to questions for the record from the following Representatives:
  - Hon. Duncan Hunter of California 45
  - Hon. Don Young of Alaska 49

Hon. Michael A. Khouri, Acting Chairman, Federal Maritime Commission:
- Testimony 5
- Prepared statement 57
- Responses to questions for the record from Hon. Duncan Hunter of California 63

Joel Szabat, Executive Director, Maritime Administration:
- Testimony 5
- Prepared statement 69
- Responses to questions for the record from Hon. Duncan Hunter of California 77

PREPARED STATEMENTS SUBMITTED BY MEMBERS OF CONGRESS

Hon. John Garamendi of California 37

SUBMISSIONS FOR THE RECORD

Hon. John Garamendi, a Representative in Congress from the State of California, submission of the following documents:
- Report from Hon. Garamendi's Maritime Advisory Committee, "Priorities of the Northern California Maritime Industry," April 25, 2016 78
- Written statement of General Darren W. McDew, U.S. Air Force and Commander, U.S. Transportation Command, from the March 30, 2017, hearing of the House Armed Services Committee 101

"Federal Maritime Commission 55th Annual Report for Fiscal Year 2016," submitted by Hon. Michael A. Khouri, Acting Chairman, Federal Maritime Commission [1]

[1] The 59-page "Federal Maritime Commission 55th Annual Report for Fiscal Year 2016" can be found online on the Federal Maritime Commission's website at http://www.fmc.gov/assets/1/Page/55AnnualReport.pdf.

Committee on Transportation and Infrastructure
U.S. House of Representatives
Washington DC 20515

Bill Shuster
Chairman
Mathew M. Sturges
Staff Director

Peter A. DeFazio
Ranking Member
Katherine W. Dedrick
Democratic Staff Director

March 31, 2017

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 "Authorization of Coast Guard and Maritime Transportation Programs"

PURPOSE

The Subcommittee on Coast Guard and Maritime Transportation will meet on Tuesday, April 4, 2017, at 2:00 p.m., in 2167 Rayburn House Office Building to examine the United States Coast Guard (Coast Guard or Service) and maritime transportation programs. The Subcommittee will hear from the Coast Guard, the Federal Maritime Commission (FMC), and the Maritime Administration (MARAD).

BACKGROUND

Each Congress the Subcommittee on Coast Guard and Maritime Transportation moves an authorization bill principally to authorize appropriations for the Coast Guard and also the FMC. The last reauthorization bill (the *Coast Guard Authorization Act of 2016*, P.L. 114-120), provided a two-year authorization of appropriations for fiscal years (FY) 2016 and 2017, with $9.1 billion authorized for each year. This Congress, we will need to move another authorization bill. Such bill may include: provisions suggested by the Coast Guard to improve its operations and programs; studies or reports to be conducted by the Government Accountability Office to review laws and regulations implemented by the Service; legislative changes to maritime laws; land conveyances; and miscellaneous maritime policy items. Historically, the Subcommittee works with the House Armed Services Committee to authorize appropriations for MARAD in the National Defense Authorization bill which is passed each session of Congress. The Subcommittee retains jurisdiction over non-national security aspects of the merchant marine and when appropriate addresses relevant issues in authorization bills.

United States Coast Guard

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

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

The Coast Guard is directed by a Commandant, who is appointed by the President with the advice and consent of the Senate to a four-year term. On May 30, 2014, President Obama appointed Admiral Paul F. Zukunft as Commandant of the Coast Guard.

The Coast Guard was appropriated $8.4 billion in FY 2015 and $9.2 billion in FY 2016 in discretionary funding. The Administration requested $8.4 billion for FY 2017 for the Service's discretionary programs. Under the FY 2017 Continuing Resolutions (P.L. 114-223 and P.L. 114-254), the Service was appropriated a total of $5.23 billion through April 28, 2017.

The Coast Guard is composed of approximately 40,000 active duty military members, 7,500 reservists, and 8,400 civilian employees. The Coast Guard's personnel operate a diverse fleet of surface and air assets. Vessels under 65 feet in length are classified as "boats" and usually operate near shore and on inland waterways. The Coast Guard operates roughly 1,000 boats, ranging in size from12 to 64 feet in length. A "cutter" is any Coast Guard vessel 65 feet in length or greater. The Coast Guard has 247 cutters, including harbor tugs, buoy tenders, construction tenders, patrol cutters, and three polar icebreakers (only two of which are operational). Additionally, the Coast Guard maintains an inventory of roughly 192 fixed and rotary wing aircraft.

For over two decades, the Coast Guard has been recapitalizing its fleets of offshore cutters, a multi-billion-dollar effort to procure eight National Security Cutters, 25 Offshore Patrol Cutters, and 58 Fast Response Cutters. These cutters will replace ninety cutters and patrol craft of advanced age: 12 high-endurance cutters; 29 medium-endurance cutters; and 49 110-foot patrol boats.

- National Security Cutter (NSC): the Service estimates the total acquisition cost for eight cutters at $5.559 billion, an average of about $695 million per ship. In FY 2016, the Service was appropriated $743 million, including funding for award and production costs associated with construction and delivery of a ninth NSC. The Administration requested $127 million for FY 2017 for NSC Post Delivery Activities. The FY 2017 Continuing Resolutions appropriated a total of $512.1 million for the NSC program.

- Offshore Patrol Cutter (OPC): the Service estimates the total acquisition cost of the 25 ships at $10.523 billion, averaging about $421 million per ship. FY 2016 appropriations included a total of $89 million for the OPC program, with $70.5 million to be used to exercise the option for Detail Design and to commence Phase II of the OPC acquisition. The Administration's FY 2017 request was $100 million for OPC Detail Design and award of Long Lead Time Materials. The Service received $4 million for the OPC in the FY 2017 Continuing Resolutions. The Service awarded the OPC contract to Eastern Shipbuilding Group on September 15, 2016.

- Fast Response Cutter (FRC): the Service estimates the total acquisition cost of the 58 cutters at $3.764 billion, averaging about $65 million per cutter. A total of 38 FRCs have been funded through FY 2016. FY 2016 appropriations included a total of $340 million for the acquisition of six additional cutters. The Administration's FRC request for FY 2017 was $240 million for four FRCs. The FY 2017 Continuing Resolutions provided to the Service a total of $219 million.

- Polar Icebreaker: the Coast Guard has one active heavy icebreaker, Coast Guard Cutter (CGC) POLAR STAR, and one active medium icebreaker, CGC HEALY. The Service estimates it will cost roughly $1 billion for a new heavy polar class icebreaker. In FY 2016, the Service was appropriated $6 million. For FY 2017 the Administration's request was $147.6 million and the Service received $6 million in the FY 2017 Continuing Resolutions. The Service initiated a reprogramming of $30 million from the OPC account in FY 2017 to support six different industry studies to decrease the timeframe for the completion of the first heavy polar icebreaker. The awards of these contracts will be issued in March, 2017.

Coast Guard assets are supported by the Service's shoreside infrastructure. In its annual budget request, Coast Guard shoreside infrastructure includes both major and minor shore projects and survey and design work. Survey and design work includes funding required for planning, environmental and engineering studies, and real property and land acquisitions for future year shoreside projects. For each FY 2015 and 2016, the Service was appropriated $500,000 for survey and design work; the Administration requested that same amount in FY 2017.

Minor shore construction projects usually require less advanced planning than major projects and generally fall under (1) emergency repair projects (with cost estimates of greater than 50 percent of the replacement value), or (2) minor facility improvements (costing more than $1 million) to adapt to changing or increased Coast Guard missions. For each FY 2015 and 2016, the Service was appropriated $5 million for minor shore projects. The Service requested that same amount in its FY 2017 budget. The FY 2017 Continuing Resolutions did not appropriate funds for minor shore projects.

Major Acquisition Systems Infrastructure (MASI) includes shore facility infrastructure modifications, upgrades, and new construction associated with homeporting new or modified cutters, boats, and/or aircraft. It also includes logistic, maintenance, and training support for new or modified assets. For FY 2015, MASI received $16 million in appropriations and in FY 2016,

the Service received $52 million for these activities. The Administration requested $28 million for MASI for FY 2017.

The FY 2017 Continuing Resolutions include a combined appropriation of $117.5 million for Coast Guard's Major Shore, Aids to Navigation (ATONS), and Survey and Design projects. The Service's spend plan for this appropriation is incomplete and will remain that way until the FY 2017 appropriations are finalized. The Service must also address repairs needed for damage caused along the Georgia and Carolina coasts by Hurricane Matthew, and the estimated cost for these 14 projects is $92.3 million.

In addition, the Coast Guard has a sizable backlog of unmet shoreside infrastructure projects. Its prioritized shore backlog includes 30 projects with a cost of $465 million. Its unprioritized shore backlog consists of 68 projects with a preliminary cost estimate of $1.08 billion. The Coast Guard's total shore infrastructure project backlog cost estimate is $1.55 billion.

Federal Maritime Commission(FMC)

The FMC was established in 1961 as an independent agency responsible for the regulation of oceanborne transportation in U.S. foreign commerce. The FMC administers a limited antitrust exemption for ocean carriers pursuant to agreements filed with the FMC to ensure competition among carriers. The FMC also enforces laws related to cruise vessel financial responsibility to ensure cruise vessel operators have sufficient resources to pay judgments to passengers for personal injury or death or for nonperformance of a voyage.

The FMC is composed of five Commissioners appointed for five-year terms by the President with the advice and consent of the Senate. The Commission is led by a Chairman designated by the President. The Acting Chairman is Michael Khouri who was appointed by President Trump on January 23, 2017.

In each FY, 2015 and 2016, the FMC received $25.7 million in appropriations, with 74 percent covering personnel expenses and 13 percent for rent accounts. The Administration requested $27.5 million for FY 2017. Under the FY 2017 Continuing Resolutions (P.L. 114-223 and P.L. 114-254), the FMC was appropriated a total of $14.7 million through April 28, 2017.

Maritime Administration (MARAD)

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

MARAD is led by an Administrator appointed by the President with the advice and consent of the Senate. The position is currently vacant. The Acting Maritime Administrator is MARAD Executive Director Joel Szabat.

In FY 2015, MARAD was appropriated $341 million and, in FY 2016, MARAD received $399 million. The Administration requested $403.1 million for FY 2017 to support MARAD programs. Under the FY 2017 Continuing Resolutions (P.L. 114-223 and P.L. 114-254), MARAD was appropriated a total of $223 million through April 28, 2017.

WITNESS LIST

Admiral Paul F. Zukunft
Commandant
United States Coast Guard
(*Accompanied by*: Master Chief Steven W. Cantrell
Master Chief Petty Officer of the Coast Guard, United States Coast Guard)

Mr. Michael A. Khouri
Acting Chairman
Federal Maritime Commission

Mr. Joel Szabat
Executive Director, in Lieu of the Administrator
Maritime Administration

AUTHORIZATION OF COAST GUARD AND MARITIME TRANSPORTATION PROGRAMS

TUESDAY, APRIL 4, 2017

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

The subcommittee met, pursuant to call, at 2:38 p.m., in room 2167, Rayburn House Office Building, Hon. Duncan Hunter (Chairman of the subcommittee) presiding.

Mr. HUNTER. The subcommittee will come to order. Welcome, everybody. Good afternoon and welcome to our first hearing in the 115th Congress. We would have had this earlier, but it snowed out here.

Today, we will review Coast Guard and maritime transportation programs. As we all know, the United States Coast Guard is a critical component of our Nation's defense and homeland security. It is an armed service; and of the five armed services, it is unique. It is the only one with law enforcement abilities. The Coast Guard has moved between different Federal departments over its history, with some departments being a better fit than others for the Service.

I have ongoing concerns with the Coast Guard being within the Department of Homeland Security. On its face, the Coast Guard should fit comfortably within the Department, due to its role in defense and homeland security. However, when it comes to budgetary support, it appears the Department—or more likely it is the Office of Management and Budget—ignores Coast Guard priorities for Department or other administration priorities.

The Coast Guard's budget has been determined to be nondefense discretionary, placing it in competition against all nonmilitary discretionary spending, despite the Coast Guard being a military service at its core. No other military service has experienced such a disadvantage and been denied budget clarity and foresight like the Coast Guard. This, without question, is a big risk to national security and should compel a more serious budget approach.

There are a number of us, including the ranking member and myself, that are members of both this committee and the Armed Services Committee, who understand the requirements of the Service. When the Service is active in a time of conflict, it works as part of the Navy, but every day its missions are critical to our national defense. I will repeat myself. Every day the Coast Guard's missions are critical to our Nation's defense.

We are nowhere near close to the budget numbers being final. And I look forward to working with the Coast Guard to provide the Service with the funding it needs to do its job.

We will also hear from the Federal Maritime Commission, the FMC. The FMC implements the Shipping Act of 1984 and other shipping-related legislation. The FMC administers a limited antitrust exemption for ocean carriers, to ensure fair competition among foreign and U.S. shipping interests.

The contraction of the ocean carrier industry over the last couple of years has many carriers operating within shipping alliances to reduce operating costs. The FMC oversees agreements that form these alliances, to ensure they adhere to the limited antitrust exemption. Recent action by the FMC has U.S. industry concerned that the limited exemption is being misused. The industry was also rocked by the Hanjin bankruptcy, which created turmoil in the supply chain. The subcommittee is interested in how the FMC assesses agreements and works with industry to prevent other supply chain disruptions and maintain fair shipping practices.

MARAD is also with us today. The subcommittee shares jurisdiction over MARAD with the Armed Services Committee, having jurisdiction over the nonnational security aspects of the merchant marine. The subcommittee understands the critical role U.S. mariners have in supporting domestic shipping operations as well as defense operations, including the Maritime Security Program and sealift. The subcommittee looks forward to working with MARAD on these important issues.

And I now yield to my ranking member, Mr. Garamendi; you are recognized.

Mr. GARAMENDI. I thank you very much, Mr. Chairman. I appreciate your interest in beginning the process of writing a new 2-year Coast Guard maritime transportation authorization bill. I look forward to working with you again and with the committee members in the same successful—that we have had in the past.

I would also like to welcome our witnesses, the U.S. Coast Guard, the Federal Maritime Commission, and the Maritime Administration. It is my expectation that this hearing will be but only the first of several exchanges as we work collaboratively to build and shape U.S. maritime policy to meet the many challenges and uncertainties in the world today. In fact, we are in a very, very turbulent and challenging time in the maritime world.

Foremost, I remain extremely concerned about the reported $1.3 billion, 14-percent cut to the Coast Guard budget. The new administration has floated it. If they are serious, it is a pretty good example about knowing the cost of everything, but the value of nothing.

There is little doubt that the administration heard the outcry from Members of Congress. Mr. Chairman, you were leading all of that. However, if the administration thought the release of its fiscal year 2018 skinny budget would somehow allay our concerns, no, it didn't happen. We remain deeply, deeply concerned about any cut to the Coast Guard.

If there is perhaps one thing we could do to respond to the uncertainties that we confront in the maritime domain, it would be to make certain that the Coast Guard is fully funded even at a higher level than last year.

Furthermore, if we are to be sincere in our commitments to protect our maritime borders as well as to ensure the reliability, safety, and security of the U.S. maritime supply chain, we will need to work tirelessly to prevent any shortsighted budget policy becoming a reality. I believe this is probably our first and foremost task ahead of us, but there are many, many others.

For one, the global oversupply of container ships and the bottoming out of shipping rates have created turmoil in the global container shipping market. Bankruptcies, mergers, acquisitions and on and on, and this going on at a dizzying pace. We need to know: how will this transformation affect robust competition, fair pricing for the maritime transportation services and foreign trade? In addition, what collateral effects on U.S. marine terminal operators, escort tugs, and other marine service providers will result from the alliances and all of the shifting that is going on in that sector?

The status and future of the U.S.-flag fleet in the international trade also remains a great concern, especially whether this fleet and its credentialed mariners that are on board will remain capable of providing the reliable, secure sealift capacity for our military. I bring our attention to last week's House Committee on Armed Services hearing with the U.S. Transportation Command and the concerns that they expressed about that.

In closing, Mr. Chairman, we must begin now to rebuild our merchant marine and the U.S.-flag presence in global shipping. The United States has been, remains, or should remain, a maritime nation. Our future, our prosperity, and our security depends upon it.

I am optimistic that the "build America, buy America" mantra of this administration applies equally to the U.S. maritime industry; and, assuming so, I extend my hand in cooperation to help that come to pass.

Thank you, Mr. Chairman.

I would like also to enter into the record a report from my Maritime Advisory Committee that met out in Vallejo, California, at the California State University Maritime Academy. If I could put that in the record for the edification of not only myself but the staff and anybody else that would like to access that.

Mr. HUNTER. Without objection.

[The report entitled "Priorities of the Northern California Maritime Industry" can be found on pages 78–100.]

Mr. GARAMENDI. Many different recommendations that they made, some of which I am sure will find its way into legislation.

With that, I yield back.

Mr. HUNTER. I thank the ranking member.

And out of sorts here, but we are joined by the ranking member of the full committee. And if Mr. DeFazio has anything to say, feel free, have an opening statement.

Mr. DEFAZIO. Thank you, Mr. Chairman. I appreciate you holding this hearing.

And I would echo the concerns of both the chairman and the ranking member as regards the neglect that we have seen of the Coast Guard's needs in the budget proposals. The rumored $1.3 billion cut to build a stupid wall that won't make our country any

safer would just be outrageous. You know, the French built the Maginot Line, the Germans went around it.

You know, even if the so-called beautiful wall is built across some very rugged terrain, obviously, they can tunnel under it, they can use catapults and send drugs over it. They can use drones to send drugs in, et cetera. It is not going to solve any national security problem but it would open up the same route the Germans used to invade France to drug smugglers, human smugglers, and potentially terrorists trying to get a tactical nuclear weapon into the United States, which is we would leave our vast coastal areas, 95,000 miles, and 28,000 miles of navigable inland waterways, it would be open season, because the Coast Guard wouldn't be able to provide the coverage we need. They are struggling now with their current budget to provide that coverage.

So if those cuts are a reality, it would be perhaps the most laughable thing, but serious, unfortunately, about the so-called budget proposals and the skinny budget, which doesn't mention the Coast Guard whatsoever.

And I also want to echo the concerns of Ranking Member Garamendi about U.S. flags. He showed tremendous leadership there. I mean, we can't be the greatest nation on earth and a great maritime nation without any maritime under our own control. And alliances are of tremendous concern. I think we should revisit the antitrust immunity that has been granted under law, limited as it is.

Apparently, it may be that the Box Club, you know, was even exceeding, shall we say, the limited antitrust immunity, but as they were all handed subpoenas, much to their surprise, the meeting at the Four Seasons. And hopefully, we can get to the bottom of what they are really up to.

But in terms of denying ports or marine terminal operators, you know, contracts, when you get down to three alliances or two alliances and alliances controlled substantially by foreign interests, I believe it presents national security issues, certainly economic issues, and it merits more attention by this committee.

With that, Mr. Chairman, thanks for the hearing and I yield back the balance of my time.

Mr. HUNTER. I thank the gentleman.

I am going to introduce the witnesses now, starting with the Commandant of the Coast Guard, Admiral Paul Zukunft; Master Chief Steven Cantrell, Master Chief Petty Officer of the Coast Guard; Mr. Michael Khouri, Acting Chairman for the Federal Maritime Commission; and Mr. Joel Szabat, executive director, in lieu of the Administrator, for the Maritime Administration.

Admiral, you are recognized.

TESTIMONY OF ADMIRAL PAUL F. ZUKUNFT, COMMANDANT, U.S. COAST GUARD, ACCOMPANIED BY MASTER CHIEF STEVEN W. CANTRELL, MASTER CHIEF PETTY OFFICER OF THE COAST GUARD, U.S. COAST GUARD; HON. MICHAEL A. KHOURI, ACTING CHAIRMAN, FEDERAL MARITIME COMMISSION; AND JOEL SZABAT, EXECUTIVE DIRECTOR, MARITIME ADMINISTRATION

Admiral ZUKUNFT. Good afternoon, Chairman Hunter and Ranking Member Garamendi and distinguished members of the subcommittee. Thank you.

I thank you, Chairman, especially for your unwavering support of the United States Coast Guard, and I ask that my written statement be entered into the record.

The Coast Guard is first and foremost an armed service that advances national security objectives in ways no other armed service can. It begins with our broad authorities. Over 60 bilateral agreements to enforce rule of law on the high seas and into the territorial waters of foreign nations, where transnational criminal organizations thrive, and they directly threaten our Nation's security.

We are witness to illicit trafficking destined for the United States, exploiting vulnerable transit nations in Central America, spawning violent crime and bringing corruption and sowing the seeds of illegal migration, people fleeing their countries of origin to seek safe refuge here in the United States.

In 2016, we removed a record 201 metric tons of cocaine, and we brought 585 smugglers to justice here in the United States, where we have a nearly 100-percent prosecution rate as compared to the less than 10-percent prosecution rate in their countries of origin.

Our greatest challenge in this campaign is one of capacity. And we must maintain our current pace in recapitalizing the Coast Guard fleet while advancing shore-based unmanned aerial systems to enhance our surveillance capacity. Also, in 2016, we awarded a contract to complete the build-out of our fleet of 58 Fast Response Cutters at an affordable price at Bollinger Shipyards, who delivered the most recent 4 ships with zero discrepancies.

We awarded the acquisition of 9 Offshore Patrol Cutters to Eastern Shipbuilding Group, a downpayment for a program of record of 25 of these capable platforms that meet requirements and, again, at an affordable price. And we are cutting steel at Huntington Ingalls Shipyard today on the ninth National Security Cutter. We stood up an integrated program office with the Navy and recently awarded industry studies to commence the build-out of a fleet of three heavy and three medium icebreakers, all meaningful steps to keep our Nation on an accelerated path to deliver the first heavy icebreaker in 2023.

And, again, thank you, Chairman and this committee, for your leadership and vision in helping us establish this collaborative approach.

We also received our fourth consecutive clean financial audit opinion, and have minimized acquisition growth and also eliminated timeline slippages in our major acquisitions. Yet readiness, modernization, and force structure challenges inhibit our ability to fully address the asymmetrical threats in our increasingly volatile world.

Like the other four armed services, the Coast Guard faces the menacing combination of increased mission demands, years of fiscal constraint, and lost purchasing power. The Budget Control Act has eroded our ability to simultaneously execute our daily missions, maintain our contributions to Combatant Commanders, and preserve our readiness for global contingencies.

The Coast Guard is the only armed service that has been funded below the BCA floor in our annualized operations and maintenance appropriation. Our Service Secretary, John Kelly, understands this issue and fully supports the President's call to rebuild all the armed services.

And I am working to rebuild our long overlooked fleet of 35 inland construction tenders with an average age of 52 years. Now, this is critical in sustaining our inland river system and overall maritime transportation system that generates $4.5 trillion of commerce on an annual basis. This fleet is critical to our economic and national security.

Finally, we need to grow the Coast Guard. We have had 5 consecutive years of funding offsets in our operations and maintenance account, and over the next 5 years we need to restore 1,100 Reserve billets and bring another 5,000 Active Duty members into our Service, while sustaining our more than 8,500 civil servants.

I appreciate the unwavering support of this subcommittee to address our most pressing needs. With the continued support of the administration and Congress, the Coast Guard will remain Semper Paratus—Always Ready.

Thank you for the opportunity to testify today, and I look forward to your questions.

Mr. HUNTER. Thank you, Commandant, and thanks for what you do for obviously the men and women that you represent right now in this room.

And Master Chief Cantrell, same to you. A happy Coastie is an effective Coastie. Thanks for what you do for looking out for the men and women and their families and their well-being. As you know, when you are on the water or in the air as much as you are, it is tough. So thank you.

Master Chief, you are recognized.

Master Chief CANTRELL. Thank you, sir. And good afternoon, Mr. Chairman and distinguished members of the committee.

It is a privilege to appear before you today to represent the nearly 41,000 Active Duty and 7,000 Reserve members of your United States Coast Guard, who stay on the watch every day protecting our Nation. As one of our Nation's armed services as well as a law enforcement agency, they represent the finest force we have ever had in our history.

In this era of record operational demands and uncertain budgets, these dedicated men and women are charged with maintaining operational excellence around the globe in our own Nation's ports and waterways. Performing our missions in a maritime environment is inherently dangerous. Our people operate in the harshest and many times the most unforgiving conditions imaginable, but they are proud to do so every day, with a devotion to duty that is something to marvel at.

Recent discussions surrounding proposed cuts to the Coast Guard budget have highlighted the importance of a strong relationship with our department. I am happy to say Secretary Kelly has shown an indepth appreciation for the hard work performed by Coast Guard men and women. His dedication to ensuring a predictable, supportive Coast Guard budget that reflects commitment to our members and their families is greatly appreciated.

And I want to personally thank all the congressional delegations that have visited Coast Guard units, whether within your constituency or elsewhere. Visiting our Coast Guard men and women and speaking with them face-to-face gives you the ground truth about the impacts your decisions are having on even our most junior personnel. It is also great for our units as members show you the pride they feel every day.

I also want to thank you for your continued support of our recapitalization efforts, which are making a tremendous impact on national security. Our new platforms are extremely capable and contribute to the efficient execution of our mission and our service to the Nation.

But we mustn't lose sight of the fact that many of our Coast Guard men and women continue to serve in ships and at stations that are older than their parents or in some cases their grandparents.

But the age and deteriorating state of our assets and infrastructure aren't the only challenges the members of our Service face. We continue to face quality of life concerns. With many of our workforce serving at remote units, far from bases or other military installations and in many cases high-cost coastal areas, access to adequate and affordable housing, medical care, and child care will always be a challenge. It is critically important we find ways to ensure access to these services in these remote areas, especially for the nearly 70 percent of our members who are married or have dependents.

Many times, in addition to paying benefits, the support programs we provide to members and their families determine how long they remain in our Service. I believe we can all attest that we would not be successful in our careers without the love and support of our families. The sacrifices our members and their families make throughout a typical career are tremendous, yet they continue to volunteer to serve and reenlist and not just as individuals but as a family.

Life in today's military presents unique challenges, and our leadership is deeply committed to providing every Coastie and their family with unparalleled quality of life as they serve this great country. I am pleased to have my wife, Janet, here with me today as a representative of our Coast Guard families and as someone who spends so much of her time devoted to meeting Coast Guard families throughout our Service to ensure their voices and concerns are always heard.

We will continue to work on improving these support programs and services to ensure our workforce, both married and single, remain Semper Paratus. We must invest in them.

It is very easy to look at shiny new ships and aircraft with modern capabilities and assume we have achieved some budget success.

However, we cannot forget those soft costs that are so critical to our people and their families.

Once again, we are grateful for your support as we address these challenges. I promise to remain steadfast in ensuring these and other quality of life programs are addressed in our budgets, as our current and future workforce depend on us to be their voice.

Mr. Chairman, members of the committee, on behalf of the men and women of your United States Coast Guard and their families, I thank you for your continued and very public support, and thank you for the opportunity to discuss some of the highlights and challenges Coast Guard women and men face today. Thank you.

Mr. HUNTER. Thanks, Master Chief. I also want to recognize your wife sitting right behind you. Would you like to say a few words? No, just kidding. OK. You can really attest to the quality of life stuff. She said she wants you gone more, though. That is all right, right?

Thanks, Master Chief.

Mr. Khouri, I know you have got to roll after your opening statement. You are recognized.

Mr. KHOURI. Thank you, Chairman Hunter, Ranking Member Garamendi and members of the subcommittee. Good afternoon, and thank you for the opportunity to present testimony.

And first I want to recognize my fellow Commissioners here today, Commissioner William Doyle and Daniel Maffei. Commissioners Dye and Cordero are traveling today.

With your permission, I will summarize the prepared remarks and I request the written testimony, together with a copy of our fiscal year 2016 annual report submitted today, be included in the record.

[The "Federal Maritime Commission 55th Annual Report for Fiscal Year 2016" can be found online at FMC's website at http://www.fmc.gov/assets/1/Page/55AnnualReport.pdf.]

Mr. KHOURI. We are now in the 100th year of operation under the Shipping Act. The FMC mission is to foster and facilitate open, free, and competitive transportation market activity, while protecting the shipping public from unlawful, unfair, and deceptive practices, with a minimum of Government intervention and regulatory cost.

Of recent note, on March 6, the Commission unanimously approved a new rule to reduce the complexity, burden, and cost for the 165 ocean carriers and the 6,200 ocean transportation intermediaries who file 53,000 contracts and over 730,000 contract amendments with the agency each year.

I intend for this deregulatory effort to continue as we take up other pending and proposed issues. After consulting with my fellow Commissioners, I have designated the FMC's managing director, Karen Gregory, as the regulatory reform officer. She is now standing up a task force to execute on the regulation review process.

Two thousand sixteen was, indeed, a full and challenging year for the ocean shipping industry. A series of mergers by vessel operators saw the top 20 carriers consolidated into 17 companies. These consolidations further led to a reshuffling of the four carrier alliances serving the U.S. trades.

By mid-2018, with all announced mergers, there will be 10 companies arranged into 3 operating alliances, as they carry 82 percent of containerized cargo across all U.S. trade lanes. Even with these developments, the vessel liner industry is still relatively unconcentrated.

The top three carriers in the U.S. trades have market shares of 12.42 percent, 12.39 percent, and 10.62 percent, respectively. These are far from market-dominant positions and, in fact, we are not close to a concentrated market in accepted economic regulatory terms.

Individual alliance members do not coordinate on marketing or pricing under their operational agreements. The Commission's ongoing monitoring of all alliance activity serves to ensure that the U.S. container trades remain open and competitive. The alliance operations do create vessel utilization efficiencies and lower cost structures that directly benefit U.S. exporters, importers, and our U.S. consumers.

All that being said, concerns about these trends have been expressed by U.S. cargo interests, our exporters and importers. All these new alliances have been filed at the Commission over the last year. We have strengthened all of our economic review processes and require tighter limits on the scope of each agreement's authority.

Seaport efficiency and port congestion received significant attention by the Commission over the last several years. The supply chain innovation team, led by Commissioner Rebecca Dye, has been developing information-sharing protocols that should prove extremely beneficial, and integrating the global supply chain, and provide a boost to the American economy.

Regarding our budget, the FMC is a small agency with a focused mission and a specialized workforce of 127 dedicated employees. Eighty-eight percent of our budget is rent and salaries. Much of the remainder is fixed overhead. I will focus our resources on the core statutory mission of the agency and, when necessary, I will reallocate resources to address mission-critical needs.

In summary, the maritime container supply chain is commercially and operationally complex. As international imports and exports grow, increased cargo volumes will continue to stretch this supply chain. The FMC's role is to ensure that the market for container shipping services remains open, competitive, free from unlawful, unfair, or deceptive practices, but, again, with a minimum of Government intervention and regulatory cost.

Thank you for your attention, and I will be pleased to answer any questions.

Mr. HUNTER. Thank you, Mr. Khouri.

Mr. Szabat, you are now recognized.

Mr. SZABAT. Good afternoon, Chairman Hunter, Ranking Member Garamendi, and distinguished members of the subcommittee. Thank you for inviting me to discuss the Maritime Administration's programs to foster and develop the maritime industry in the United States. Our military relies on U.S.-flag ships crewed by volunteer American civilian mariners to move our warfighters, equipment, and supplies whenever and wherever they need to go.

Three-quarters of MARAD's budget goes to national security and ensuring that America has a viable commercial merchant marine, one that employs enough qualified merchant mariners through three programs: The Jones Act, the Maritime Security Program, MSP, and Cargo Preference.

The Jones Act ensures a U.S.-flag fleet in domestic trade by requiring American-built, American-owned, and American-crewed vessels to transport passengers and cargo between U.S. ports. MSP and Cargo Preference guarantee a U.S.-flag fleet in international commercial trade. Combined, these 3 programs support 97 large commercial ships in the domestic trade and 81 large U.S.-flag commercial trade ships trading internationally.

There is also a federally owned surge fleet, the first cargo ships out of port in a mobilization or a crisis. MARAD has three-quarters of the ships in this surge fleet. When mobilized, MARAD's 46 ships are crewed by volunteer civilian mariners from the U.S.-flag commercial fleet. As the commercial fleet has shrunk in recent years, it no longer employs enough qualified available American mariners to sustain a full sealift.

MARAD is preparing a range of options to address the mariner shortfall, as Congress required by the House fiscal year 2017 Transportation, HUD appropriations report language. We are closely cooperating in this effort with our military partners and the U.S. Transportation Command and the Military Sealift Command.

MARAD holds another 50 ships in the National Defense Reserve Fleet. Some are held for spare parts, others are being prepared for recycling, and some can be activated if needed. These NDRF vessels include six training ships used by the State maritime academies. MARAD has worked on a common design to replace the old training ships as they age out. We are also investigating other potential alternatives.

The largest and oldest ship, SUNY Maritime's *Empire State*, is due to age out in 2019. Massachusetts Maritime's training vessel is 2 years behind. Texas Maritime also needs a large training vessel. No decision has been made about the Federal Government's role in replacing or overhauling these training ships.

The education component, representing 17 percent of our budget, is primarily for the U.S. Merchant Marine Academy, the Federal flagship of the maritime academies. Over 20 percent of the officers in the U.S. merchant marine and over 70 percent of the merchant mariners who have a military service obligation come from the Academy. In order to graduate, midshipman train for a year on American commercial and sometimes Federal ships. This unique partnership with industry is a core part of the USMMA training, known as Sea Year.

Last June, former Secretary Foxx made a decision to suspend Sea Year as part of an effort to combat sexual assault and sexual harassment at the Academy. Working with MARAD, industry and labor partners have developed new standards to address sexual assault and sexual harassment.

Companies representing 60 percent of our Sea Year commercial capacity have already met the standards and have resumed training midshipmen. By summer, we will roll out best training practices developed with the industry.

Last June, the Academy was put on warning for accreditation. Seven requirements have to be met to remove the warning. The Academy was required to do more to address sexual assault and sexual harassment on campus and at sea. The other five requirements are primarily about restoring authorities that were taken from the Academy's leadership after financial and operational shortcomings were uncovered in 2008 and 2009. The accreditors visited the campus last week. We anticipate that by July, we will know if our progress has been satisfactory.

Finally, MARAD's transportation programs comprise 8 percent of our budget. Since 2009, the DOT's discretionary grant programs have also provided valuable resources. Among these are TIGER and FASTLANE grants, helping shippers expand and improve ports and intermodal infrastructure. We are also working on programs like Deepwater Port Licensing to export oil and liquefied natural gas.

The Delfin LNG project will be the Nation's first deepwater port export facility to export billions of cubic feet of liquefied natural gas to foreign markets.

Our Marine Highways Program is also helping us to maximize our underutilized maritime assets, rivers, lakes and waterways, to transport more cargo and to reduce congestion on our roads, highways and rails.

That is a thumbnail view of MARAD. I ask that my written statement be entered into the record. Thank you for your time, and I am happy to answer your questions.

Mr. HUNTER. Thank you, sir.

We will start with questions. I am going to start with myself. I recognize myself here.

OK. Commandant, here is the opening, I guess my opening that kind of overstates and underscores what is happening in this administration and why you are here today.

Tomorrow, there is a meeting on our other committee, the Armed Services Committee. There is a meeting with all the Service Chiefs except for you. So every Service Chief will be there of the five military services, of which you said in your opening statement you are first and foremost a military service. You are not going to be in that hearing. Why is that? Why are you here and not in the Armed Services hearing tomorrow with your Service Chief peers? Instead, you are here with the FMC and MARAD. It seems incongruent.

Admiral ZUKUNFT. I will answer the question as frankly as possible. Four percent of my budget is funded by defense discretionary. Ninety-six percent of it is nondefense discretionary, which then comes under the oversight of these other committees.

So I typically testify with the other Service Chiefs when it comes to matters of personnel. And the last time we had a Commandant testify with the other Service Chiefs was with the repeal of "don't ask, don't tell." But on budgetary matters, we do not have a seat at that table.

Mr. HUNTER. Well, when it comes to national security, when it comes to the national security plus-up right now, which is not being called that, it is mostly national defense, meaning the other four services, I think which hearings you sit in and which table you sit at plays a role in how you are perceived by the military estab-

lishment, by the Department of Defense, and by the American people. So, I mean, I guess this: Would you want to be at that table tomorrow?

Admiral ZUKUNFT. Yes.

Mr. HUNTER. So let's take this to where—you talked about increasing personnel. You said increasing 5,000 personnel. Let me see. This NDAA, this Authorization Act, of which you are not included, only a very small part of it, because you are nondefense discretionary instead of defense discretionary.

Let me see. The bill increases the end strength of the Army. The Army was going to go down to 460,000. It keeps it at 476,000. So basically, it increases 16,000. The Air Force got an Active Duty increase to 321,000, of about 4,000; and the Marine Corps was authorized to bump up of an increase of 3,000. That is all happening now. Like that is happening for the next fiscal year. That is going to be included in this National Defense Authorization Act.

Have you requested to move to expand your numbers?

Admiral ZUKUNFT. When the original Executive order came out, I did send a letter to the chairman of the Joint Chiefs, and provided a list of plus-ups that we would need that meet defense requirements. And part of that is an increase to recapitalize the six patrol boats we have over the northern Arabian Gulf. So we have submitted a request. I have not received a reply.

Mr. HUNTER. You asked for six FRCs from CENTCOM? Is that what you were referring to?

Admiral ZUKUNFT. Yes.

Mr. HUNTER. To be included in OCO funding?

Admiral ZUKUNFT. Right. And any additional plus-ups, any supplemental funding.

Mr. HUNTER. And what have you seen to either of them saying yes or no to those six FRCs?

Admiral ZUKUNFT. I have not received a reply.

Mr. HUNTER. So you don't know yet whether that is going to be included in their OCO request?

Admiral ZUKUNFT. I do not.

Mr. HUNTER. OK. Going back to, there was an article a few days ago where Admiral Michel, the Vice Commandant, said that "there was only one skinny budget"—this is a quote—"that was delivered to Capitol Hill and when you look at that, that's a sustainment budget for the Coast Guard. That's something we can work with and that's what we're marching forward on."

The other four services are requesting a lot more than you are. They don't want a sustainment budget. And that goes in line with the President saying that we are going to build up the U.S. military. Yet your wise Commandant is saying that you are fine with a sustainment budget right now, that you are not asking for an increase. I guess my question is, which one is it?

Admiral ZUKUNFT. Well, a sustainment budget still funds us below the Budget Control Act. So I cannot take delight in a budget that continues to fall short of our annualized requirements and operations and maintenance, and also the critical need to continue the pace with which we are recapitalizing, our current level of service, our old ships, and underfunded and undermanned service.

Mr. HUNTER. So you say that Admiral Michel was not speaking on behalf of the Coast Guard, just his view?

Admiral ZUKUNFT. I would say part of that is taken out of context. It was looking at the potential of a 14-percent reduction and to remove that lodestone from around our neck, but it still leaves us stooped over with the other burdens that we have to carry.

Mr. HUNTER. So you want more than a sustainment budget?

Admiral ZUKUNFT. I do.

Mr. HUNTER. My last thing is something we have touched on a whole lot. Icebreakers. Let's talk icebreakers. You only have one U.S.-made Jones Act icebreaker in the United States, the *Aiviq*. And I know we have talked offline and online about this. I think Congress is prepared to support trials, longer term trials if Homeland Security is willing to support you by starting this process off to build the requirements and do the operational evaluation and R&D so you can build the requirements so you know exactly what you want in an icebreaker. Where are we in that?

Admiral ZUKUNFT. So we have written letters. The most recent was written on the 21st of February to the owners of the *Aiviq*. We have provided them with criteria of what sea trials would entail. And we would really like to sit down, you know, with the owners at the bargaining table to look at what all of this would entail.

More importantly, what are the costs? Because the cost is of great concern to me. And if we are going to go any further than this, we will need top-line relief to be able to move forward. So this is a funding availability as much as anything else, but we are ready to roll up our sleeves, work with the offeror, and then walk them through.

We have been in this business for going on 70 years of icebreaking. They are new to the business. We know a lot about it, and I think a lot of value can be made by us sitting with the owners with our experience in what this platform would need to be able to do to support our national security objectives.

Mr. HUNTER. What is preventing that, by the way? What is preventing the sit-down with the owners?

Admiral ZUKUNFT. We are waiting. I have written letters. We have received a few emails. But we are reaching out to the owners to have this discussion, which is really where I would like to have this discussion, at the bargaining table. And preferably, we can take some of that burden off your shoulders as well. But we have already committed ourselves in writing to have these discussions.

Mr. HUNTER. Have you gotten any reassurances from Homeland Security that the big Department is willing to find funding for this if it works?

Admiral ZUKUNFT. No, we have not had that level discussion yet. Until, again, we can sit down with the owner and look at—we haven't even talked dollar figures of what all is entailed. So we need to do our homework first before I can present a package to the department.

Mr. HUNTER. Very quickly, Mr. Khouri, if you don't mind, we will submit questions to you for the record. Is there anything else you want to say besides your opening statement?

Mr. KHOURI. I just want to say not only for the record, but commit to every member of the committee that I would be happy to

come and meet personally and answer any and all questions that they may have. And I have listened to every one of the opening statements. So, please, we will be available to answer every question. Thank you. I just have a hard stop and must leave to catch a flight.

Mr. HUNTER. I got you. And hopefully, for you and Mr. Szabat——

Mr. DEFAZIO. Is he departing, Mr. Chairman?

Mr. HUNTER. He is.

Mr. DEFAZIO. OK. That is unfortunate, because I do have some questions and very serious concerns about their actions regarding these alliances. So I would appreciate——

Mr. HUNTER. I would yield to Mr. DeFazio.

Mr. DEFAZIO. Do you have a couple of minutes? I can have at it fast.

Mr. HUNTER. He has got to leave at 3:30.

Mr. DEFAZIO. And you can give brief answers. Thank you. Thank you, Mr. Chairman.

So now we are going to have these foreign alliances controlling 90 percent of the container market to the Pacific States. You know, aren't you concerned about the potential for antitrust collusion here? Yes or no, maybe?

Mr. KHOURI. There is—we need to understand——

Mr. DEFAZIO. No, I understand the limitations of your authority, but you could have disapproved and had legal action.

So the question is, you let it go through, what are you going to do to mitigate it? You have told some of our operators—this is another question—that the tug people shouldn't worry about their inordinate influence, because you are going to review any jointly negotiated contract between the alliance and U.S. tugboat operators.

The FMC, I am not aware has the authority to do that. Do you have the authority to do that?

Mr. KHOURI. Can I answer the first question first and then second question?

Mr. DEFAZIO. It has got to be brief, so yeah.

Mr. KHOURI. One needs to understand the nature of these alliances. They are purely operational. They do not have any price-setting agreement or discussion in any shape, form, or fashion.

Mr. DEFAZIO. The Box Club who were just all subpoenaed, what were they doing?

Mr. KHOURI. Well, Congressman, with all due respect, you must know more about what the Department of Justice is doing than I do, because I have no idea what Department of Justice——

Mr. DEFAZIO. Well, they have these famously—I mean, there is no one in the industry who thinks these people aren't getting together in the room and colluding over pricing and who is going to get—who is going to control what harbors, what marine facilities, who they are going to—what they are going to do. I mean, it is Pollyannaish to think, oh, these alliances are just to help make the industry more efficient. Twenty years ago that might have been true. It is not true today, and they are foreign-controlled.

Mr. KHOURI. If I could just go through a few numbers very quickly for you without going into weeds and not to be argumentative, Congressman. And you and I have met earlier and I am more than

happy to come back to your office and spend as much time with you and staff as may be necessary.

But as we go down, there are 5,000 container vessels in the world. There are 2,600 vessels that operate, are owned by the companies in the alliances. The alliance activity itself is only 887 vessels, meaning all the rest of the vessels are not in alliance activities. There are only 578 vessels for all of the alliances together in the U.S. trades. That means that you have over 2,000 vessels.

Now, one of the core antitrust principles is, is the market contestable and is there entry that can come in, in case prices go up and become too remunerative. Are vessels going to come in and discipline that price. There are, again, 578 alliance vessels serving U.S. trades and there are 2,000 vessels to discipline the U.S. worldwide, there are 4,000 vessels available to come in and discipline the trades.

Mr. DEFAZIO. Can I just for a moment—if you want to keep talking. But can we focus on where these vessels are serving? I believe a large number of the alliances happen to be serving China, the alliance vessels, and Japan.

Doesn't that create some questions? I mean, when Chinese also have—you know, they are going to control who can come in and come out. So we now have a Chinese-controlled alliance, and they are going to want to favor that, you know, as they do famously.

And so, you know, I mean, there is this, oh, all these other people can come in, except, well, the Chinese probably aren't going to load their ships or let them into their harbors. You know, I just think that this is really going too far. I mean, at what point will we think we are too concentrated, when we get to two or one alliances——

Mr. KHOURI. Well, sir——

Mr. DEFAZIO [continuing]. That controls everything?

Anyway, Mr. Khouri, I realize you have got to go. We can perhaps have another meeting to discuss this. But I really think that we need to revisit the act. We need to revisit the assumptions that we are creating efficiency in market forces here. In these modern times where we know that, you know, State-owned enterprises and governments that are acting in a mercantilist way are not really interested in competition, and they are interested in driving down their costs and dominating our markets and putting our people at disadvantage. That is my opinion. You may have a totally different one.

Thank you, Mr. Chairman.

Mr. KHOURI. If I could, just one last comment, Mr. Chairman, and I will answer all of the questions in writing with much more specificity.

But in terms of concentration, it was in my written statement and my oral statement. The transpacific trades, China, all of Asia over to the U.S. west coast. The standard initial measurement that every regulator uses, the Department of Justice, Federal Trade Commission, and the Federal Maritime Commission is what is called the Herfindahl-Hirschman Index, and it measures concentrations in markets.

The transpacific—now, let me—where the standard is, anything from zero to 1,500 is deemed safe harbor, sufficiently

unconcentrated that it does not normally warrant scrutiny. From 1,500 to 2,500 is mildly concentrated, and then above.

Our Bureau of Trade Analysis says in 2016, the transpacific HHI was 647. Worldwide, the HHI is 849. This is saying that these markets are still unconcentrated. Now, that is only the beginning of a long series of questions that have to be answered in an antitrust review.

I would be more than happy to sit down with you. But I am not trying to be argumentative. I am just trying to say that there are traditional ways that whomever you may ask, Department of Justice, FDA or—excuse me, FTC or us, these are the principles that if we are to go now into court in front of a Federal judge and say, Your Honor, these are the economic indicators we have, and it is the judge, not us, who issues the injunction.

So I have to have a solid economic argument to go in front of a Federal district judge to convince him or her that we have an economic situation. These are the numbers that we are working with. Happy to engage in this to your satisfaction, sir.

Mr. DEFAZIO. Well, I have got to say just the marine terminal operators, the tug companies and others who are U.S. residents, U.S. citizens, and operating to the benefit of our country really don't share those views and think it is going to be much more of an antimarket force. So thank you.

Mr. KHOURI. Thank you, Mr. Chairman.

Mr. HUNTER. And it would be maybe strip out the limited antitrust exemption that FMC can grant these consortiums totally, so that they aren't allowed to join together to put pressure on the ports, collude on price, which you say they don't do, et cetera.

But that is it, Mr. Khouri. Thank you.

With that, I would like to recognize Mr. Graves.

Mr. GRAVES OF LOUISIANA. Thank you, Mr. Chairman. I want to thank all of you for being here today.

Admiral, I would love to talk to you a little bit about some of the acquisition efforts underway. Obviously, I think all of us up here have strong concerns that the men and women of the Coast Guard have the vessels and the equipment that they need to properly do their job in an increasingly challenging and demanding work environment that many of our Coasties are subjected to.

One thing I would love to talk to you about a little bit is the FRC. I know some folks just recently went down, including the ranking member of the subcommittee just went down to take a look at that. You mentioned in your testimony in the last four vessels that were delivered, there were no discrepancies. Is that correct?

Admiral ZUKUNFT. That is correct.

Mr. GRAVES OF LOUISIANA. Is that common?

Admiral ZUKUNFT. Rare.

Mr. GRAVES OF LOUISIANA. Cost per copy, how is that looking compared to estimates?

Admiral ZUKUNFT. So we renegotiated phase 2, and this came in at a very affordable range.

Mr. GRAVES OF LOUISIANA. So cost going down, no discrepancies. Do you see the—and you recently, as you know, awarded Eastern Shipbuilding Group to do the OPCs. Do you see benefits to the Jones Act in regard to the quality of vessels that you are getting?

Meaning because of these companies' efforts to build domestic vessels and just making sure we have a robust defense industrial base, do you see benefits to the Coast Guard, to the Government, and the American public as a result of that?

Admiral ZUKUNFT. Congressman, absolutely. I have been to Bollinger Shipyard as well. And even in this job market today, I wouldn't call it jobs, I would call it skills. And there are still certain skills that are lacking in this country if we ever found an opportunity where we need to increase our shipbuilding capacity, but it is imperative that we continue to retain these skills and, more importantly, continue to build these skills as a maritime nation.

Mr. GRAVES OF LOUISIANA. Thank you. I will move on a little bit, but stay in the shipbuilding realm. The Coast Guard authorization bills, the last few of them have included provisions that require that smaller fishing vessels now comply with the standards of different classification societies. As a result of that, in Louisiana, the second biggest commercial fishing industry in the United States, we have not seen new vessels being built, none, because in many cases they are telling us it is cost-prohibitive.

I have got concerns about two different things there:

One, whether those standards are appropriate for fishing vessels.

Number two, NIOSH, National Institute for Occupational Safety and Health, provides accidents per region for different incidents that happen on fishing vessels. However, it is not broken down by the type of fishing that is being done. And so I am a little bit concerned that this data is not properly conveying the information that we need. For example, you know, is it the "Deadliest Catch" folks that are truly running into the most accidents or problems, or is it "Swamp People" that actually don't really use vessels that are classified. But in any case, I was looking for another show.

But does that make sense? I mean, is it shrimp fishing, is it king crab fishing, and getting a better understanding of which type of vessels or industries are actually having the higher number of accidents where perhaps there should be some intervention or looking to try and reduce accident rates.

Admiral ZUKUNFT. First of all, before there is any intervention, we engage with all stakeholders. We have a fishery advisory committee that we consult with as well. And there are proposed regulations, but, you know, those are being held back right now under an alternative safety compliance plan and what the impact of that would be.

My only concern in all of this—and I have worked in both fleets—is when we have a gulf fleet vessel be reconfigured and now is operating up in the Bering Sea. And so that would be the only case. But, as you mentioned, the casualty rates speak for themselves. It is a safe fishery in the Gulf of Mexico. At the end of the day, you know, we want to not impede their livelihoods.

Mr. GRAVES OF LOUISIANA. Admiral, I would just appreciate if we could get a commitment out of you to work with us on finding the right solution there. I am not sure that some of the Coast Guard provisions that are in law today are necessarily as prescriptive as they should be, based upon the different fishing industries we have in different regions of the country. And I would appreciate it if we

could work together with you to try and take a fresh look at that and see if we can find the right solution there.

Admiral ZUKUNFT. Congressman, you have my commitment that we will work with the stakeholders and with the fleet owners as well.

Mr. GRAVES OF LOUISIANA. Thank you. In my last 10 minutes, I just wanted to cover the icebreaker. I know that the chairman noted icebreaking capabilities. You and I have discussed that as well. I think that there is just complete support among the members of this committee about our strong concerns about the lack of icebreaking capability in the United States compared to other Arctic nations.

We have talked at length about the idea of the Coast Guard obviously acquiring additional capabilities, new capabilities. And, again, I think everyone here fully supports that.

The problem that I think most of us see is that there is this interim gap where we simply don't have capabilities. If there were an incident up there, we have already seen Russian aggression up in the Arctic area. Their capabilities, if I remember right, are—what is it?—40 times more than we have in the United States. Extraordinary difference in capabilities.

Chairman Hunter noted the need to develop an interim strategy while we concurrently work on this long-term strategy for acquisition. And I once again would like to reiterate the chairman's comments and support for that, but I would like to hear a commitment from you that we are going to figure out how to work through this and develop an interim strategy.

And I am not going to dictate any type of a path forward on that, but we have got to get interim capabilities, because we simply have insufficient capabilities for this interim period while we concurrently work on long-term acquisition of an icebreaker.

Admiral ZUKUNFT. My reply to that is we are working with one and the only U.S. offeror right now that might be able to bridge this gap. But what if we can't meet that requirement, then where do we turn to? We may have to look at other sources as well if we are, in fact, looking at a lease option.

But, again, we are fully engaged, ready to sit down with the offeror, and put all the pieces on the table of what it would take to make sure that this vessel could meet our requirements in the high latitudes.

Mr. GRAVES OF LOUISIANA. Admiral, I think every time you have come before this committee, this issue has come up. There are strong concerns on both sides of the aisle here about this interim solution. I think all of us are willing to work with you on it.

But I just want to push again that we need to see some substantial progress on finding a path forward for the interim solution here. So thank you.

Admiral ZUKUNFT. Thank you.

Mr. HUNTER. I thank the gentleman.

The ranking member, Mr. Garamendi, is recognized.

Mr. GARAMENDI. Thank you, Mr. Chairman.

Mr. Graves, I almost was in your district at the shipyard.

Mr. GRAVES OF LOUISIANA. No, you were in the district. In between. That is right.

Mr. GARAMENDI. Your boosterism is appreciated and correct. It really was quite an experience.

Mr. GRAVES OF LOUISIANA. The nice area was ours, just to be clear.

Mr. GARAMENDI. Admiral, thank you. Your team did a great job on the codel that we did last weekend, the opportunity to see the Fast Response Cutter and then also over at Panama City, both of them moving along.

I would appreciate a report on the progress in both, particularly the latter, the Offshore Patrol Cutter, where it stands. I notice some of your testimony covered it, but if you could provide some detail on that in the days ahead, it would be much appreciated, or you can give us a quick rundown now.

Admiral ZUKUNFT. I would be pleased to provide that report. And the date to keep in mind is delivery of the first ship in the year 2021.

Mr. GARAMENDI. 2020 for the Offshore Patrol Cutter?

Admiral ZUKUNFT. 2021 for the first Offshore Patrol Cutter.

Mr. GARAMENDI. Very good. We would want to watch that closely and monitor it along and any hiccups or slowdowns. But it was impressive to see what was going on there.

Many, many questions. I want to just take a moment on the budget cuts, proposed, $1.3 billion. Please give me the top three problems that it would create for the Coast Guard.

Admiral ZUKUNFT. Well, I would begin with the acquisition of our ninth National Security Cutter, because that would be removed. We have already awarded long lead time materials.

Steel is already being cut. We would incur a contract penalty and probably would face a penalty in the amount of what this offset was designed to provide, half a billion dollars. So there is no net savings there.

It would cut our department's only counterterrorism capability. It has taken us the better part of 6 years, using Seal tactics training procedures, recruiting the best talent, to stand up these teams, and under this proposal we would lose that capability as well. And you don't lose these immediately. These are people, these are billets, and there are dollar figures assigned to them, and they don't leave overnight even if you do a reduction in force.

We enjoy the highest retention rate of any armed service, but our servicemembers look to me as though I have broken faith as their leader. They look to me as their leader, nobody else. That I have broken faith with them. And then what does that do, as we heard from the Master Chief, to the men and the women of the Coast Guard and to their families that their Commandant broke faith? And I will not break faith with our people. But it does have an impact.

Mr. GARAMENDI. I want to dwell on that for just a moment. Chief, you in a conversation indicated that it is important to have the men and women of the Coast Guard parallel, be equal to the benefits, pays, increases in pay, other benefits that the other four branches of the military has. Could you comment on that?

Master Chief CANTRELL. Yes, sir. And we do. We follow suit with DOD on all pay and benefits entitlements. We are eligible to go to

their military treatment facilities and all those benefits of being an armed service.

Where I get concerned is we are in a buildup of the military, and we are not included in that discussion. We have a young man or young woman that is considering joining the armed service. If they look to which service, if you would, is being invested in, and they don't see the United States Coast Guard then they choose not to come to our Service. And that is something that as we grow, want to grow over the next few years, that talent is out there.

And we are already in competition with our sister services on getting that right talent, and not just recruiting them but keeping them in our Service, which is why these other housing and medical and child care and those things that some folks just don't think about will make them leave our Service. And we certainly don't want that. But we want to be part of that buildup, sir.

Mr. GARAMENDI. I want to come back to that. And the chairman mentioned the hearing next week with the four other services. Perhaps, Admiral, you need to be invited. So maybe we can do some of that.

Admiral ZUKUNFT. And if I can, Ranking Member, right now our icebreaking program, to recapitalize that is being funded by the Department of Defense. The Coast Guard is at every COCOM. Every geographic Combatant Commander has Coast Guard forces chopped to it as well.

And so yes, we do need to be a part of these discussions if we are talking about building the force for the 21st century.

Mr. GARAMENDI. When Secretary Kelly was the commander of SOUTHCOM, he seemed to think that the Coast Guard was really important, but yet it is his budget that takes $1.3 billion out of your budget. I suspect he—well, let's hope he still thinks that the Coast Guard is important.

Didn't he say that the southwest border is not along the—is 1,500 miles south of the United States border?

Admiral ZUKUNFT. If we talk all borders, our maritime borders begin well south and well beyond and actually east and west as well, thousands of miles.

Mr. GARAMENDI. If you are interdicting drugs off the coast of Colombia, what impact does that have in the Guatemala, Honduras area with regard to immigration from those countries into the United States? Is there an impact?

Admiral ZUKUNFT. So it is insidious the way this works. Colombia, the number one producer of cocaine. I met with President Santos 3 weeks ago. Can they cut back coca production? Can they step up their efforts? It is moved in bulk to Central America. And as soon as it lands in bulk in Central America, corruption goes up, rule of law goes down, and those who can afford a human trafficker will put their young children in a human trafficker to get them into the United States, the number one consumer of cocaine.

So the irony is, it is our consumption that drives the shipment that creates this violent situation in Central America, and yet now people want to migrate to the United States. So this is a—you know, this is much about behavioral health as it is about law enforcement interdiction. It needs to be a campaign, and we need to tackle both of these.

Mr. GARAMENDI. We are going to need to make an argument that a wall on the Mexican border isn't going to stop immigration or the drug issue. It is going to have to be a multiple program, including the Coast Guard in that. We will make that argument a little later.

I do want to go to the maritime—excuse me, not the maritime. But, Mr. Szabat, last week we had a hearing on the Armed Services Committee with General McDew. I believe you are familiar with his testimony in which he spoke to the issue of the pending—not the pending, the real problem that exists today in the lack of mariners and the lack of ships, both the Ready Reserve as well as the MSP. You touched upon that. Is there a solution?

Mr. SZABAT. Congressman Garamendi, thank you for raising that important issue. Short answer is, yes, there is. And I would also say that there is no daylight between us and the U.S. Transportation Command on this issue. In many respects, the Maritime Administration serves as a component command of the USTRANSCOM in providing, you know, 46 of the 61 vessels that they need out of the surge fleet.

Mr. GARAMENDI. We are aging out both the ships, the Ready Reserve ships as well as the sailors on those ships. What do you suggest we do about that?

Mr. SZABAT. Well, Congressman, we have a—as I mention in my testimony, we are, the Maritime Administration is responsible to Congress to come back with a list of options, and we owe it to our new political leadership team as they come on board to vet those options to determine what the recommendations would be. So I cannot speak to our recommendations, but I can speak broadly to what the range of options are.

The policy that we have followed for years in the United States that we rely on the commercial U.S. merchant marine to employ and train enough mariners to serve in both those commercial vessels, but also to generate a surplus that we use on the Federal vessels to meet our sealift requirements.

The challenge that we have today is that the U.S. commercial fleet is no longer large enough to provide both of those needs. So the—one of the two ways forward is, logically, to increase the size of the U.S. commercial fleet. From my testimony, just by doing the numbers, we estimate we are short about 2,000 of these qualified mariners. We need about 40, 45 additional vessels to do that, so anything that would add those 45 vessels.

The two ways that we would do that, one, of course, is the expansion of an MSP or an MSP-like program where we include vessels not just for their military capability, but for their ability to serve in commerce, but also to employ enough mariners so that that pool is large enough to meet our national security needs.

The second way, which would not involve a direct subsidy or direct stipend to the vessels, would be trade policies. Trade policies that would require additional U.S.-flagged vessels, whether they are carrying exports, as the bill that you and Chairman Hunter have proposed, or bilateral agreements as, for example, with China would require a certain number of vessels to sail under the U.S. flag. If you take those approaches, you could also either reduce or eliminate the shortfall of U.S.-flagged vessels. And then—so that is one broad category of increasing the size of the U.S.-flagged fleet.

The second category would be to divorce the need for mariners from the requirement that U.S.-flagged fleet be large enough to employ them. And then the most direct and obvious approach towards that would be to have the United States Navy or the Maritime Administration employ the additional mariners that were needed.

So right now, we rely on the commercial fleet to provide a surplus of 1,300 mariners that we need to draw on within 4 days, within 96 hours of a full sealift activation. The way to divorce that is to say to the Navy or to MARAD: Here are the funds for you to employ 1,300 additional mariners plus the relief crews that you would need going forward in the sealift.

So there were many suboptions and variations within that, but broadly speaking, those are the options before us to address the mariner shortfall and still rely on the U.S.-flagged fleet and U.S. mariners to meet our national security needs.

Mr. GARAMENDI. Mr. Chairman, I am way over my time, so please excuse me. I am just going to wrap it up here very quickly. I would request that General McDew's statement from last week's hearing be entered into our hearing record as it pertains directly to this need for American mariners both for the Ready Reserve Fleet as well as for the MSP. So that would be helpful to understand it.

Also, I draw the attention of the committee to one of the solutions that Mr. Szabat spoke to, and that is, to increase the size of the American merchant marine fleet. And I have some ideas on that, and I have shared that with many of the Members already, and that has to do with cargo and it has to do with trade negotiations. And for example, if we are going to exploit a strategic American resource, such as natural gas and oil, it ought to be on American-built ships with American sailors, thus providing a solution to the overarching problem at hand here.

With that, Mr. Chairman, thank you for the additional time.

[The written statement of General Darren W. McDew, U.S. Air Force and Commander, U.S. Transportation Command, from the March 30, 2017, hearing of the House Armed Services Committee, can be found on pages 101–122.]

Mr. HUNTER. I thank the ranking member.

Let me throw in there too, what General McDew talked about, he said TRANSCOM has never looked at the attrition that would take place with a full sealift callup when you actually have ships sinking. Their numbers do not account for that, and I don't think yours do either.

So they are now modeling what would happen with Korea, what would happen with China, what would happen with Russia, or whoever, if you actually had to call up everybody to deliver gear during wartime, and they are finally using a model that brings actual wartime attrition into that. And I hope you guys are tied in and in sync with that so that your end numbers would come up the same, roughly.

Mr. SZABAT. Mr. Chairman, yes, we are very much in sync with them.

Mr. HUNTER. And by the way, I don't want to take—we are going to come back around to me. I just wanted to throw that out there so that you know what we are looking at.

With that, I would like to recognize Mr. Mast from Florida.

Mr. MAST. Thank you. I appreciate that. Hey, as the only enlisted man on this subcommittee, I just figured it was my duty to harass you for a little while, Master Chief, so I will let you have it here.

I want to get into a little bit into the minutia of your force. I suspect you feel that you feel the finest possible force out there.

Master Chief CANTRELL. Yes, sir, without a doubt.

Mr. MAST. Without a doubt. And as we know, no matter what happens with cuts, what is asked of you is not going to change. People are still going to expect that you step up and meet the mission. You would consider that to be accurate?

Master Chief CANTRELL. Yes, sir. We call it the curse of Semper Paratus. Our folks will find a way, despite budget issues or anything else that is going on. They will find a way to make mission. They know what their job is, and it is something to marvel at. So yes.

Mr. MAST. It is kind of a curse in that respect. You know, many that have never been a part of the force, they might take for granted that the mission gets accomplished because fine folks like yourself always do step up and they accomplish that mission. So like I said, I want to get into a little bit of the minutia of your force. About how many active you have?

Master Chief CANTRELL. Nearly 41,000 active, enlisted and officer.

Mr. MAST. How many cutters?

Master Chief CANTRELL. Oh, gee. Total?

Mr. MAST. Sure.

Master Chief CANTRELL. A couple hundred.

Mr. MAST. A couple hundred. How many boats?

Master Chief CANTRELL. Overall?

Mr. MAST. Yeah.

Master Chief CANTRELL. Several hundred boats.

Mr. MAST. Aircraft?

Master Chief CANTRELL. Again, several hundred aircraft, helicopters.

Mr. MAST. So what does it really look like to that force when you get cut? What does that literally look like to the operational ability of each one of those cutters, those boats? I suspect most of us can agree saltwater is not something that is usually that friendly to the equipment that we go out there and field. What actually gets cut? What actually happens to your force and your ability to go out there and conduct that cursed mission?

Master Chief CANTRELL. Well, maintenance always suffers when budget cuts happen, and personnel costs, I mean, those things are easy to cut, and they are very expensive. So when we scale back on our personnel and we scale back on the maintenance that they have to provide, those ships and airplanes and small boats get tied up and aren't able to go out and make mission. So we make do with what we have, and it adds extra burden on the folks that are still left around to maintain and do that mission. So they are just—it is added workload for them as they will continue to go out and do what we ask them to do.

Mr. MAST. Very good. What happens with your enlist—you know, we all know, it doesn't matter, Army, Navy, Marines, Air Force, Coast Guard, you got to balance enlistments and retirements. What is going to happen with your force if we get behind the eight ball in balancing that and your ability to go out there and meet the needs of the future?

Master Chief CANTRELL. Right now, we really enjoy a high retention rate in the upper 80s, and it is more than any other of our services. And I believe it is in large part to just people love our Coast Guard mission, they love the way we make effort to take care of them and their families, and they want to stick around.

And I will say personally, I joined the Coast Guard 34 years ago for 4 years, and I am still here, and it is because of the mission and the people and what we do that keep our people coming back. But we have things like blended retirement and things that are on the horizon we have got to pay really close attention to as far as retention as we move out over the next decade. But I think for today, our force is happy to be part of the Coast Guard and will remain happy and will continue to reenlist every time they have the opportunity to.

Mr. MAST. All right. Maybe I am just unique, you know, those of us, especially we come from the coastal communities, we see it in the port infrastructure, the ship traffic, you know, watercraft users, you know, we see your work every single day. I appreciate it, and I appreciate your comments.

I yield back.

Master Chief CANTRELL. Thank you, sir. Thank you for your service.

Mr. HUNTER. Mr. Larsen, you are recognized.

Mr. LARSEN. Thank you, Mr. Chairman. Thanks all for coming. Oh, there you are. Good. I can see now.

Admiral, can you—I don't want you to forget that there is a maritime border with Canada as well, especially in my district, and I want to emphasize that, and the Coast Guard has never forgotten that. I hopefully helped you not forget that as well.

Recent challenges we are facing there have to do more with Canadian efforts to move oil by pipeline to an expanded pipeline in Vancouver, and then it would be put on ships and come down through Haro Strait and out to Strait of Juan de Fuca, all on the Canadian side. But if something were to occur, result in a spill, obviously, the spill would not be limited to the Canadian side.

So I want to know—I would like to know how aware you particularly are to this challenge we are facing and what Coast Guard is doing about that.

Admiral ZUKUNFT. Thank you, Congressman. And we have regular engagements. We have been having these now for probably close to two decades now with Canada Coast Guard, with Transport Canada, with the RCMP. But to the specific concern that you raise, and especially if it involves tar sands and the like, and when that enters a maritime environment, as you well know, it sinks. And the oil spill technology is nascent, at best, in terms of the ability to remove a product that is heavier than water, and now it is spreading throughout the environment.

So it is a technical challenge for us. It is a technical challenge for Canada as well. And an oil spill does not respect any borders, and for the very reason that you mention. So it is a concern for me because of the technology it is lacking. We are putting a lot of effort into this oil spill technology, working with oil spill response organizations, whether it is Canada, U.S. it is a concern, though, in your region.

Mr. LARSEN. Are you doing this particularly to the proposed project in Vancouver and British Columbia?

Admiral ZUKUNFT. We need to—yeah, there needs to be an oil spill response plan. There needs to be a contingency plan that goes with that. There needs to be a responsible party. Some of these governance structures, we have the Clean Water Act, Canada does not. Who is going to pay for that removal? So these are a whole list of concerns. And then finally, the ability to remove it, because that is the—really, the biggest challenge that we face right now with these products.

Mr. LARSEN. OK.

Admiral ZUKUNFT. We are not there yet.

Mr. LARSEN. OK. I would like to do some followup with you and your team on that, if I could. I will just note it is April, boating season is starting, so your folks will be even busier in the Pacific Northwest, and I always appreciate the great work that they do both with education of the boating community, the kayaking community as well. But it is coming up, and I look forward to the Coast Guard working with the community up there to maintain the safety of folks out in the water.

Admiral ZUKUNFT. Yeah. Thank you, Congressman. I look forward to working with you as well.

Mr. LARSEN. Great. Thanks.

Is it—sorry, Szabat?

Mr. SZABAT. Yes, sir.

Mr. LARSEN. Great. Thanks. So can you give an update on how many outstanding either letters of commitment or loans, title XI program has right now?

Mr. SZABAT. When you say commitments for title XI, we have at the moment, there are—we have one loan that is in the approval—it has been approved and is in the process of final—of a letter of commitment for us to actually put the money out. And then we have three other interested parties that are applying for title XI loans.

Mr. LARSEN. OK. Then how about in the outstanding side?

Mr. SZABAT. I mean, that universe of four is our universe right now.

Mr. LARSEN. OK. OK. Great. Thanks. And then with regard to small shipyards, there has been $177 million over the last 8 years, 6 or 7 years, allocated for small shipyard grants, including some in my district, including some around the country. None of the shipyards in my area were able to get—meet the standard last—in the last go-round, but I think there was $9 million total, if I am not mistaken. Is that right?

Mr. SZABAT. That is correct, sir.

Mr. LARSEN. OK. And then the proposed budget proposes zero this particular program out. Is that correct? Do I understand that?

Mr. SZABAT. The administration has not submitted a full fiscal year 2018 budget proposal yet, sir.

Mr. LARSEN. All right. Well, if it is anything like the Obama administration, it will be zeroed out, and then we will have to put money back into it.

I think that if I got my numbers right as well on small shipyards, again, $4.9 million in 2016 funding nine projects. But I understand, was there nearly $100 million or so in requests in 2016?

Mr. SZABAT. Congressman, in your typical year, we are going to get somewhere between 10 and 15 times the request, you know, oversubscription.

Mr. LARSEN. In a dollar amount?

Mr. SZABAT. Yeah. So in a dollar amount from, you know, if it is a $10 million program, we will get $100 million or more in requests.

Mr. LARSEN. Yeah.

Mr. SZABAT. And part of that is limited by the fact that the recipients know the program, know that our awards are generally in the $1 million range, so that is what they are asking for. You know, if we had an unlimited amount, obviously they would be asking for more money.

Mr. LARSEN. Sure. And I am not going to assume all those requests are perfect or the best request, but certainly some of that—it is certainly more than what is usually allocated. I guess the point I want to make is that this is a program where there is not just a demand. Demand is infinite, as they say. There is a need, and it does exist and it continues to exist for smaller shipyards around the country and not just where I am from.

So as we move forward to the budget cycle, I certainly will be watching this particular program very closely.

Mr. SZABAT. Congressman, thank you for drawing attention to the program. Your interest is noted, and of course, I will be carrying that back to the Department of Transportation.

Mr. LARSEN. I am sure they are waiting with bated breath to hear. Thank you very much.

Mr. HUNTER. I thank the gentleman.

Mr. Weber for 5 minutes.

Mr. WEBER. Thank you, Mr. Chairman.

Mr. Szabat, is that how you say that?

Mr. SZABAT. Yes, sir.

Mr. WEBER. Pronounce it for me.

Mr. SZABAT. Szabat.

Mr. WEBER. Szabat. OK. You may know I represent the gulf coast of Texas over Louisiana, that other foreign country, and the Texas A&M Maritime Academy is on Galveston Island in my district. We are very proud of that academy and the work going on there, but we are challenged by the limits on their shipboard training capacity. I don't know how familiar you are with the ongoing program there. Do you know that program? You know about it?

Mr. SZABAT. Yes, sir.

Mr. WEBER. OK. Good. We appreciate the support MARAD gives us, provides to the academy. However, our training vessel, *General Rudder*, is just too small. In fact, we are forced to outsource the

shipboard training portion of our program to other, what I call the other lesser State maritime academies.

And while we appreciate that support that those academies provide to us, the cost to our academy and our cadets is pretty substantial. Our superintendent, new superintendent, Rear Admiral Mike Rodriguez, tells me that the cost to the academy of outsourcing that shipboard training is more than $2.7 million this year, and that doesn't even include travel cost for the cadets and the faculty or the staff.

So in your view—and I am glad to hear you say you are going to carry a message back to the DOT, but we want you to take it to the guys that are going to make America great again and see how much stroke you have. In your view, what are the next steps toward ensuring that—you are making a note of that. I see that, "take to Donald Trump." What are the next steps in ensuring that each State maritime academy, not just A&M in Texas, but that each maritime academy has shipboard training capacity to fill their missions? What does that take?

Mr. SZABAT. Congressman, you raise a very good and a very complicated issue. This is one that both the State maritime academies and the Maritime Administration have been wrestling with now for some years. I mention in my testimony, past practice has been for the Federal Government almost always to surplus vessels in the National Defense Reserve Fleet to provide vessels to the State maritime academies for training.

Nowadays, if we were to pursue that option, it would be very, very expensive to take an old T5 tanker, for example, and convert her into a vessel that would meet modern safety of life at sea standards, would be about as expensive as purchasing a newly built vessel in a U.S. shipyard. And both of them are—in a tight budget environment, they are both very costly.

Complicating that factor. So right now we have—putting aside Great Lakes Maritime Academy under freshwater, which has issues of its own, you have five State maritime academies essentially sharing four large ships, because as you note, the *General Rudder*——

Mr. WEBER. Say that last line again.

Mr. SZABAT. Five State maritime academies essentially sharing four large ships. As you note, the *General Rudder* is not a large ship.

Mr. WEBER. Yeah.

Mr. SZABAT. And Texas A&M is the fastest growing and will have a need for a large ship going forward.

What complicates this, from my perspective, is the two ships with the largest training capacity, the *Empire State* at SUNY Maritime and the *Kennedy* at Massachusetts Maritime, are the two oldest ships and the two ships that are slated to age out first, so that there is some—there is a time pressure on all of us to identify what the solution is, not just for Texas Maritime, but for all of the State maritime academies going forward.

Mr. WEBER. Well, I appreciate that. We want to know, are you—do you get to have any input with the Office of Management and Budget, OMB, at all?

Mr. SZABAT. It is correct to say, Congressman, that we have an input, but I would go back to Congressman Larsen's comment and say: I am sure they are waiting for my input with bated breath.

Mr. WEBER. Well, now, I gotcha.

Let me jump over to you, Admiral, if I may. My District 14 in Texas, starting in Louisiana and going down not—to Freeport, has five ports, more than any other Member of Congress. Sixty percent of the Nation's jet fuel is produced in our district. It is energy. It is just absolutely used.

The Port of Beaumont, as you may know, moves more military personnel and equipment than any other port in the United States, and that does not include the use of the ship channel in my five ports, by the way. We have the Sabine-Neches Waterway that feeds the Port of Port Arthur and Port of Beaumont. Are you familiar with that area?

Admiral ZUKUNFT. Congressman, I am, and in fact, I went out to Cheniere LNG 2 years ago——

Mr. WEBER. OK.

Admiral ZUKUNFT [continuing]. Before that facility came online. And we are starting to see an increase in shipping traffic at a brandnew facility as well.

Mr. WEBER. Sure. Well, we would love to see—we have got two Chiefs Reports, you know, on file, if you will, with the Army Corps. We would love to see both the Sabine-Neches Waterway dredged out and the Port of Freeport as well. So we have got channel improvements on the board.

Do those impact the Coast Guard's ability—when we can't get the Sabine-Neches Waterway dredged to the appropriate depth in Freeport, does that impact your ability to carry out your mission? You talked about it earlier.

Admiral ZUKUNFT. Precedent does not—we certainly have a responsibility to maintain aids to navigation in these waterways, mark where the good water is, where it isn't. But if it is dredged, then we can anticipate to see increasing shipping traffic.

Mr. WEBER. Absolutely.

Admiral ZUKUNFT. And then it becomes a traffic management concern for the Coast Guard.

Mr. WEBER. OK. Before I yield back, Mr. Chairman, I want to note that we have two LNG plants in our district. We are the 13th largest exporting district in the country out of 435 Members of Congress before our 2 LNG plants come online, which is just almost any day now. And we have a third LNG plant that has applied for permit and on the drawing board.

Mr. Chairman, thank you for the time. I yield back.

Mr. HUNTER. I thank the gentleman.

Master Chief, it is back to me now, and then we will go to Mr. Garamendi when he gets back. I have got—I just want to run this by you, because you are probably the most deeply in tune with the men and women of the Coast Guard, what they are doing, how they live, how their healthcare is, what they eat, how they go to school, so let me ask you this.

Would you say that the men and women of the Coast Guard, when it comes to operational tempo, housing, healthcare, and mission are more aligned, and I am going to use in this instance, the

Navy, and I am going to read off some comparisons. Do you think that your men and women of the Coast Guard are more aligned with the Navy or the United States Citizenship and Immigration Services?

Master Chief CANTRELL. Neither. I don't think we are aligned with the Navy or with——

Mr. HUNTER. Does the United States Citizenship and Immigration Services have base housing?

Master Chief CANTRELL. No.

Mr. HUNTER. Do you have base housing?

Master Chief CANTRELL. Yes, sir.

Mr. HUNTER. OK. Do you get BAH?

Master Chief CANTRELL. Yes, sir.

Mr. HUNTER. They don't. The Navy does. The Navy has base housing.

How about are you on TRICARE, or are you on some other kind of civil——

Master Chief CANTRELL. TRICARE.

Mr. HUNTER [continuing]. Healthcare? You are on TRICARE, as is the Navy.

How about CBP, Customs and Border Protection? Do you think that the way that your bases are set up, your operational tempo, your base housing, your healthcare, is it more in line with the military or is it more in line with CBP?

Master Chief CANTRELL. With the military.

Mr. HUNTER. So FEMA. Is it more in line with FEMA or the Department of Defense in the military?

Master Chief CANTRELL. Military.

Mr. HUNTER. We can go through this. Federal Law Enforcement Training Center, United States Immigration and Customs Enforcement, ICE.

TSA. Are you more in line with TSA or the military?

Master Chief CANTRELL. Military.

Mr. HUNTER. OK. I think you see my point here, Commandant, and I will switch to you. You—it seems like we are getting—what we are getting hung up in is would you rather be in the budget pocket of OMB that rules you with an iron fist and treats you as not like a military service to where the plus-up that is happening right now with this administration does not even mention you. All right.

You are talking about budgets, or where do you fit as an operational unit, basically, right? And I think we are getting those two things mixed up. Where would you best fit, if you had your druthers? And I understand you have the first Secretary of Homeland Security that knows, no joke, ran SOUTHCOM, who worked with Coast Guard every day, especially after the Navy left, Coast Guard became the Navy for him in Southern Command, and basically you were the assets for that combatant command in that area.

You have John Kelly right now as your Secretary. There is nobody better, could be than Homeland Security Secretary for the Coast Guard's budget and for just knowing what you all do, and you are still at a sustainment budget. That is with the best Secretary in the world in U.S. history for Homeland Security is in

there right now, and you are at a sustainment budget and not mentioned with the other services, right?

Where—explain to me the differences between where you want to sit budgetarily and where you think that you fit in when it comes to your mission, your tempo, your base housing, your men and women, and what you do for this country, national securitywise.

Admiral ZUKUNFT. I would just begin with an annually recurring $2 billion acquisition and construction budget, $2 billion. That is not a lot of money in the Pentagon. We need 5 percent growth in our annualized operation and maintenance, recurring 5 percent growth. We are bringing new assets on board, and it is great that our acquisition budget is being held up. We can't lose sight of the outyear sustainment cost of that.

As a Service Chief—and I sit with all the members of the Joint Chiefs and with the chairman and we help craft a national military strategy, the 4 plus 1 that addresses North Korea, Russia, China, Iran, the Mideast. It doesn't address the Arctic. It does not address the Western Hemisphere.

So I look at where the other services are and then where are they not and then where do our authorities resonate the most, and I have extreme agility. I don't have to go through an ops step, I don't have to go through a tank, I don't have to write a dep board. I just move our ships because I am also the operational commander for the Coast Guard.

I would lose all of that authority if I became a very small component within the Department of Defense. I would much rather be the largest component within the Department of Homeland Security. There will never be a perfect fit. With all of our other statutory authorities, there will never be a—we are a regulatory service. I doubt the Secretary of Defense wants to be dealing with boating safety. He has got higher priorities.

So we always have this regulatory—and a lot of other authorities as well. But our best fit today, Chairman, is with the Department of Homeland Security, but we have got to speak for what our needs are. Part of it is in our culture. We come from a culture of austerity and a culture of offsets, and we need to think of being in a culture of prosperity and growing and not offsetting the Coast Guard, and that is just as much a responsibility of mine as it is for our Service Secretary. And as you mentioned, we have a Service Secretary who gets it, and this is a time for us to come out swinging.

Mr. HUNTER. I mean, you are talking to a U.S. marine here, and they used to—the Marine Corps used to brag about doing more with less. You had 9/11 where operational tempo for everybody, including the Coast Guard, skyrocketed, and they finally realized we can't do as much with less.

They are now asking for the moon, and if they get a little bit less than that, then they are happy with it, and if they have to get what they had last year or just a very small plus-up, they can make do. But your funding requests and the President's funding request in OMB does not match your op tempo and does not match your acquisitions.

If you were in the Department of Defense, I think it would match that. You would be given what you needed to accomplish the mis-

sions that are statutory for the U.S. Coast Guard. I think you are kind of stuck somewhere in the middle right now. And I think, if you are going to stay in Homeland Security, then you should get more DOD funding and take on more of a DOD role.

If you go to DOD, you are not going to lose your other core competencies that are regulatory as opposed to warfighting, but if you stay out of DOD, then you will lose that warfighting edge. I think the best analogy that I have read from an article written by the U.S. Naval Institute is you would never send LAPD to Fallujah, but you can take National Guard from Fallujah and put them in L.A. If there is riots, same with Katrina. The military has the ability to come in and do a lot of the natural disasters and humanitarian work that the Coast Guard does. You would team nicely with the Navy as opposed to losing your warfighting capability but keeping those regulatory capabilities in Homeland Security.

I think this is something—I mean, this kind of—people have been talking about this forever, and I—once again, I think you are in the best position you can be in with the Secretary of Homeland Security and this President, and yet you are not seeing—you aren't seeing the rewards from that like other services are. So there has got to be a disconnect, and I think that that disconnect's name is OMB.

Would you like to comment on that?

Admiral ZUKUNFT. Well, how did we get to where we are today?

I will go back over the last 5 years, you know, since BCA came into effect, and we have been funded in our operations and maintenance budget below the BCA floor. So as we put our budget together, we are directed to identify a 5-percent excursion from what is already a minimalist budget, and now take 5 percent off of that as well. And we have done this iteratively for the last 5 years.

I am not aware of my Service Chiefs, as they are doing their budget bill, say, well, now whack everything off the top. In fact, they are getting supplemental funding through OCO.

Mr. HUNTER. In OCO funding.

Admiral ZUKUNFT. And so if we just stop with these offset drills that we do year in and year out, we have squeezed everything out of the Coast Guard. The last time we went through this, I am tying up ships and I am grounding airplanes, because I have already taken everything else out of it. I have shut down pharmacies, I have shut down clinics, I have shut down galleys that affect quality of life at our field units. And every year we go back to say we need 5 percent more, and I can't continue to operate that way.

So one, yeah, we need to change the rule set. This is vital to national security. We can't offset national security. Someone is going to pay the price for it, and I am not willing to pay the price. What has helped us, Chairman, is the work that you have done, and it has been Congress who has restored the Coast Guard, and we will continue to work these relationships.

We have an opportunity with this Service Secretary, who is already engaged at the highest levels, as we look at sustaining the Coast Guard in 2018, but we need to do more than just sustain. That keeps us on life support. Now we need to grow the Service and not continue to be in the ICU on life support.

Mr. HUNTER. Last question then. How then do you reconcile wanting a plus-up like the other services are now getting and knowing that you are not going to get it because of OMB? How do you reconcile those two things?

Admiral ZUKUNFT. Well, that is predecisional right now, and so we will see how this plays out.

Mr. HUNTER. OMB, first off, they weren't going to leave you sustained. They were going to cut you massively, right. So now they are back to sustainment. But if you were part of the Department of Defense, you wouldn't be seeing that. You would be seeing more money.

So how do you—so how do you say that we fit the best in the organization that keeps cutting us so we can't do our job? I just don't think it—it doesn't make sense to me. So how do you reconcile that?

Admiral ZUKUNFT. Again, we are an instrument of national security. We cannot see these iterative cuts from the top.

Mr. HUNTER. But you are not funded as an instrument of national security.

Admiral ZUKUNFT. And these are the dialogues that we are having right now, you know, with our department, and so we don't find ourselves surprised when we see a passback of this magnitude.

Mr. HUNTER. Is it possible to be included in defense discretionary funding and still be under Homeland Security?

Admiral ZUKUNFT. That is the option that we are exploring right now.

Mr. HUNTER. Say it again?

Admiral ZUKUNFT. We are exploring that option right now.

Mr. HUNTER. What would it take to be considered non—or defense discretionary?

Admiral ZUKUNFT. Defense discretionary. That, I don't know. I mean, it would probably take authorization language to be able to do that.

Mr. HUNTER. That is law?

Admiral ZUKUNFT. Law. To fence off our budget so it does not become subjected to nondefense discretionary offsets.

Mr. HUNTER. What if there were strings attached with that where if you are considered defense discretionary and you get extra money, that that money is put towards those capabilities, which are national security related? Would you have a problem with that?

Admiral ZUKUNFT. I would not. What we do today or every mission set that we do, all 11 of them touch upon national security.

Mr. HUNTER. All right. Thank you.

Mr. Garamendi, you are recognized.

Mr. GARAMENDI. Mr. Chairman, your discussion here is an extremely important one, and it seems to me the solution lies with us. OMB has done its thing, and that is fine. They can suggest, but we are the ones that are actually going to write the appropriation as well as the budgets. And you and I have, for the first time, I think, in a long, long time, you and I also sit on the Seapower and Projection Forces Subcommittee of the Armed Services Committee. And as members of that committee, I think we have an opportunity here to achieve what you said in your last couple of sentences, and that is to work with the Department of Defense budget so that

some portion of that plus-up, that additional money, is available to meet the needs of the Coast Guard, the national security issues of the Coast Guard, not degrading in any way the national security issues dealing with drug interdiction. But also, you are deeply engaged in what we might call specific defense issues in the Persian Gulf, for example, and other places.

So I think we have an opportunity in that—in our role on the House Armed Services Committee to see that there is a certain level of funding, if it is $54 billion or whatever the additional funding is, that it becomes available to the Coast Guard for a couple of things, and they are on my mind, that the men and women of the Coast Guard have the same benefit package that the men and women of the Department of Defense have so that those needs, and that is housing and all of the rest of it.

Secondly, that there is money for the ongoing development of the icebreakers, not one but three that we need to build in order to meet the needs that we have talked about so many times in the Arctic so that we have set in place in that Department of Defense, National Defense Authorization Act, and in the appropriations and money necessary to carry that out. And the other—and to provide specific money for those things that are specific for the military side of national defense, so that we can parcel out of the budget, whether it is 4 percent or 5 or 10 or 15 percent of your budget and say, OK, here is the OCO funding that you are doing in the Persian Gulf or wherever else that might be.

So I think we have the opportunity, perhaps unique at this particular period of time, because, Mr. Chairman, you and I are on that Seapower and Projection Forces Subcommittee, and we already have a relationship with the Navy with regard to the Coast Guard.

I have asked for some specific information, Commandant, for the scheduling of the money necessary to carry out the Coast Guard program year 1, 2, 3, 4, and so forth, and I want to collapse it into 3 years. You can do it, right, if you had the money?

Admiral ZUKUNFT. Big if. Yes, sir, I am all in.

Mr. GARAMENDI. We understand the difficulties, sir.

I want to move to what is, I guess, my—I don't know, it has become an obsession, how to build ships in the United States, I mean, oceangoing ships.

So, Mr. Szabat, if we could, I want to go through a series of questions with you. You have already spoken to the 78 vessels and probably going down. Has MARAD conducted a formal analysis of the needs and shortfalls it sees in the military sealift for both ships and seafarers?

Mr. SZABAT. Congressman, yes, we have.

Mr. GARAMENDI. Can you broadly describe it, what it is that you—what your analysis is?

Mr. SZABAT. Yes, sir. So just building off of my testimony, and thank you for raising this because from our perspective, this is the single biggest issue that the Maritime Administration and our counterparts in sealift and military side are facing.

So we have identified a shortfall, as I said of about 2,000 mariners, of qualified available mariners in the commercial sector, which equates to, roughly speaking, a shortfall of about 45 vessels

sailing under the U.S.-flagged fleet if we continue to rely, as our policy has been and as it makes sense to have a policy to do, to rely on the U.S.-flagged fleet to provide those mariners.

So the first answer to your question, sir, is, yes, we have done the analysis, we have identified the shortfall, and we identified how many vessels would have to be employed, would have to be added to eliminate that shortfall.

However, it does not address a point that Chairman Hunter had made. We are doing this all under the sealift requirements that are established by the Department of Defense, and those requirements, as the chairman mentioned, at the moment leave off two things. One is that they assume that all vessels would be available 100 percent of the time if they are sailing, you know, commercially or activated in wartime, and we know that even in peacetime, no vessel is available 100 percent of the time. There is down time, there is scheduled maintenance, and there is some percentage of breakdowns.

But the other important issue that the chairman identified for going forward for the next war plan is that up until this point, really since the end of World War II, we have always been able to assume no attrition with the merchant marine in our future conflicts, which is a bloodless way of saying that we have been able to assume that we would never have ships torpedoed or just bombed or destroyed by missiles and we would not have fleet merchant marines killed.

Mr. GARAMENDI. OK. I am going to move along here.

Mr. SZABAT. Yes, sir.

Mr. GARAMENDI. We are getting near the end of all of this. Can you provide us with both of those scenarios, that is, a peacetime scenario of what our needs are and then a wartime scenario?

Mr. SZABAT. Sir, I cannot provide you with the wartime scenario until we get that from the Department of Defense. I can certainly provide you with the information on the current scenarios that we plan for.

Mr. GARAMENDI. Very good. I would appreciate it if you could do that.

As you know, I have introduced a bill, H.R. 1240, which would expand the U.S.-flagged fleet by requiring a percentage of U.S. crude oil and LNG on American-flagged vessels. We talked to you about this. Would this make a difference?

Mr. SZABAT. Congressman, yes, it would.

Mr. GARAMENDI. How and why?

Mr. SZABAT. So the Government Accountability Office indicated that, looking at your proposal, that by around 2025, it would be adding about 100 ships sailing under the U.S. flag for exporting LNG. If I recall correctly, your proposal would be for 30 percent of that to be sailing on U.S. flag, so that would add the equivalent of 30 vessels to the U.S.-flagged fleet, which is a huge cut into our deficit of about 45 vessels that we have today.

Mr. GARAMENDI. Is that for the LNG?

Mr. SZABAT. That is just for the LNG side.

Mr. GARAMENDI. Crude oil, have you done an analysis of what it would mean for crude oil?

Mr. SZABAT. A crude analysis, if you will, Congressman.

Mr. GARAMENDI. Very good. I will take that.

Mr. SZABAT. So currently, we export the equivalent of about one large tanker a day of crude oil, and the challenge here is projecting with the volatility of prices. But if you assume that that stays roughly equal, you are looking at another, you know, 30 or so vessels being employed a year if they were all U.S. flagged. So again, 30 percent of that is another 9 or 10 vessels that would be added to the U.S.-flagged fleet.

Mr. GARAMENDI. So how many, once again, for LNG?

Mr. SZABAT. For LNG, you are looking at 30.

Mr. GARAMENDI. And crude?

Mr. SZABAT. And again, a crude estimate for crude is about another 10, as things stand today.

Mr. GARAMENDI. Another——

Mr. SZABAT. Ten.

Mr. GARAMENDI. Ten.

Mr. SZABAT. Yeah.

Mr. GARAMENDI. All right. So some 40 ships that could be built if we were to pursue such a policy?

Mr. SZABAT. That is what the numbers would say, yes, Congressman.

Mr. GARAMENDI. We heard from Mr. Khouri the issue of bilateral negotiations. I think he mentioned China as an example of a bilateral negotiation. They are set to require that all of the importation of LNG and oil be on Chinese ships. Some of that may be American crude oil and American LNG. I suppose since the President is so intent on bilateral negotiations and he is such a good dealmaker, maybe it could be done.

I think we have covered it here. You did talk about adding sailors with regard—on the military budget, so that is already covered here. I think we have covered those particular issues.

The Ready Reserve capitalization. General McDew said that he would look for ships that are in the worldwide fleet that might be able to replace the Ready Reserve. Would those be American-built ships?

Mr. SZABAT. The ships in the worldwide fleet, Congressman, no, sir. And the challenge with that is just the ships that we have that were built in American shipyards, I think the youngest ship that we have that is sailing currently under a foreign flag is about 34 years old.

So to General McDew's testimony, as I have heard him talk about, is a mix of having some new built in U.S. shipyards, coupled with purchasing foreign-built vessels that would—much younger vessels than the average age of our Ready Reserve force or surge fleet ships today, which are nearly 40 years old.

And I think just to underscore General McDew's point, there has never been a time like there is today in terms of if you want to purchase ships in the international market on the cheap, now is the time to do that. There is a huge surplus on those vessels right now.

Mr. GARAMENDI. We would be purchasing foreign-made ships for a tradition of American-built ships in the Ready Reserve? I think it has been more than the—is it also the law?

Mr. SZABAT. So, Congressman, yes and no. Yes in the sense that we would be building foreign-flagged ships, and yes in the sense

that the law currently requires us to have them built in U.S. shipyards. No in the sense that the vast majority of the ships that we have in the Ready Reserve force today were not built in U.S. shipyards. They were brought on board under exceptions or before the law was put in place.

Mr. GARAMENDI. So exception by exception and ship by ship not built in the United States.

Mr. SZABAT. So again, I don't want to speak for General McDew, but from what I have heard from his testimony, he is looking for a cost-effective mix, recognizing that it is hard to build—any proposal to replace, to recapitalize all 61 ships we have in the surge fleet, MSC has 15, we have 46, would be hard to justify for new construction for all 61 of those vessels, especially since all of those vessels, once built, would be going into reserve and would not be going into any sailing service.

So I believe, again, his proposal or his vision is to have that mix of having a good mix of vessels that are built in U.S. shipyards as well as vessels that could be purchased inexpensively overseas to recapitalize the fleet. One way or the other, the fleet does need to be recapitalized.

Mr. GARAMENDI. Well, I for one await his strategy. And I would appreciate your analysis of his strategy and what it means for lost jobs in American shipyards. Apparently, it would not mean for lost sailors on the ship or mariners on the ship, but it would be a problem.

Mr. Chairman, you have already dealt with the issue of the maritime academy ships, which is an ongoing issue that we have, so I won't go to that.

The training vessels. We have heard about the small shipyard grant program. I will say that I was pleased to see how well it operated in the Bollinger yard as well as in the—one of the other yards.

So with that, I think I have covered it. There may be some additional questions that I would like to put for the record at some time. And I thank—Chief, Admiral, Mr. Szabat, thank you so much.

Mr. HUNTER. I thank the gentleman.

I think we are moving forward. I think this is a great time for the Coast Guard. I think that the American people don't know how blessed they are to have leaders like you leading America's Coast Guard. And if we can get you in the right place with the right amount of money, you can do even greater things than you are doing now. So thank you very much for your service and leadership in being here.

Mr. Szabat, thanks for not leaving early. I appreciate it. Maybe and hopefully in the next couple of months we will have more than acting administrators and so forth there. So thanks for being here.

And with that, the subcommittee stands adjourned.

[Whereupon, at 4:28 p.m., the subcommittee was adjourned.]

STATEMENT OF
THE HONORABLE JOHN GARAMENDI
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION
HEARING ON
"COAST GUARD MISSION NEEDS AND RESOURCE ALLOCATION"
APRIL 4, 2017

Thank you, Mr. Chairman. I appreciate your interest in beginning the process of writing a new two-year Coast Guard and Maritime Transportation authorization bill. I very much look forward to working with you again in that endeavor.

I also would like to welcome our witnesses from the United States Coast Guard, the Maritime Administration, and the Federal Maritime Commission, and thank them for their participation this afternoon.

It is my expectation that this hearing will be but only the first of several exchanges as we work collaboratively to build and shape U.S. maritime policy to meet the many challenges and uncertainties we face today.

The fact of the matter is we are experiencing very, very turbulent and challenging times in the maritime world.

Foremost, I remain extremely concerned about the reported cuts of $1.3 billion – or fourteen percent – to the Coast Guard that the new administration has floated. If ever there was an example of someone "knowing the cost of everything, but the value of nothing", this is it!

There is little doubt that the administration heard the outcry from members of Congress. However, if the administration thought the release of its Fiscal Year 2018 "skinny" budget would allay concerns voiced by Chairman Hunter, me and other members, they were sorely mistaken as they failed to detail <u>any</u> funding for the Coast Guard.

If there is perhaps one thing we could do to respond to the present uncertainties we confront in the maritime domain, it would be to provide certainty in funding for the United States Coast Guard.

Furthermore, if we are to be sincere in our commitment to protect our maritime borders, and as well, to ensure the reliability, safety and security of the U.S. maritime supply chain, we will need to work tirelessly to prevent such a shortsighted budget policy from becoming a reality.

Beyond Coast Guard funding, several different issues are roiling the waters and deserve our attention.

For one, the global oversupply of container ships and the bottoming out of shipping rates have created turmoil in the global container shipping market. Resultant bankruptcies, mergers, acquisitions, and the recent formation of three new vessel-sharing alliances continue this transformation at a dizzying pace.

We need to know: how will this transformation affect robust competition and fair pricing for marine transportation services in the U.S. foreign trade? In addition, what collateral effects on U.S. marine terminal operators, escort tugs and other marine service providers will result from these alliances?

The status and future of the U.S. flag fleet in the international trade also remains a great concern, especially whether this fleet – and the credentialed mariners onboard – will remain capable of providing reliable and secure sealift transportation for our military.

In closing, Mr. Chairman, we must begin now to rebuild our merchant marine and the U.S. flag presence in global shipping. The United States has been, and remains, a maritime nation. Our future prosperity and security remains tethered to the sea.

I remain optimistic that the "Build America, Buy America" mantra of this administration applies equally to the U.S. maritime industry. Assuming so, I extend my hand in cooperation to help shape that new future and to reclaim our maritime heritage.

Thank you.

U. S. Department of Homeland Security

United States Coast Guard

Commandant
United States Coast Guard

2703 Martin Luther King Jr Ave SE
Washington, DC 20593-7000
Staff Symbol: CCG
Phone: (202) 372-4411
FAX: (202) 372-8302

TESTIMONY OF
ADMIRAL PAUL F. ZUKUNFT
COMMANDANT, U.S. COAST GUARD

ON
AUTHORIZATION OF COAST GUARD
AND MARITIME TRANSPORTATION PROGRAMS

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

APRIL 4, 2017

Good afternoon Mr. Chairman and distinguished members of the Subcommittee. I appreciate the opportunity to testify today and thank you for your enduring support of the United States Coast Guard.

As the world's premier, multi-mission, maritime service, the Coast Guard offers a unique and enduring value to the Nation. The only branch of the U.S. Armed Forces within the Department of Homeland Security (DHS), a federal law enforcement agency, a regulatory body, a first responder, and a member of the U.S. Intelligence Community – the Coast Guard is uniquely positioned to help secure the border, combat transnational criminal organizations (TCO), and safeguard America's economic prosperity.

Indeed, the Coast Guard's combination of broad authorities and complementary capabilities squarely align with the Administration's priorities, and I am proud of the return on investment your Coast Guard delivers on an annual basis.

I appreciate the unwavering support of this Subcommittee to address our most pressing needs. I will continue working with Secretary Kelly, the Administration, and this Congress to preserve momentum for our existing acquisition programs and employ risk-based decisions to balance readiness, modernization, and force structure with the evolving demands of the 21st century.

Appropriately positioned in DHS, the Coast Guard is a military Service and a branch of the Armed Forces of the United States at all times.[1] We are also an important part of the modern Joint Force,[2] and a force multiplier for the Department of Defense (DoD). I am proud of our enduring defense contributions to Combatant Commanders around the globe.

---

[1] 14 USC § 1.

[2] In addition to the Coast Guard's status as an Armed Force (10 U.S.C. § 101), see also Memorandum of Agreement Between the Department of Defense and the Department of Homeland Security on the Use of Coast Guard Capabilities and Resources in Support of the National Military Strategy, 02 May 2008, as amended 18 May 2010.

In addition to the six cutters operating as part of Patrol Forces Southwest Asia (PATFORSWA) since 2003, other defense operations include:

- Port Security Units (PSUs) support Combatant Commanders with 24-hour protection of vessels, waterways, and port facilities. These specialized teams have deployed almost continuously to strategic ports in Kuwait and in Guantanamo Bay, Cuba, since 2002.
- Deployable Specialized Forces Advanced Interdiction Teams support U. S. Central Command (CENTCOM) vessel board, search, and seizure operations.
- Aircrews perform rotary-wing air intercept operations in support of the North American Aerospace Defense Command (NORAD). Specially trained aviators intercept aircraft that enter restricted airspace in the National Capital Region and during National Security Special Events around the country.
- Assets and personnel deploy worldwide in support of defense operations and fully participate in major international exercises. As the Coast Guard is similar in size, composition, and missions to most of the world's navies, we are a frequent engagement partner of choice to support Combatant Commander goals.

Like the other military Services, the Coast Guard supports all efforts to rebuild the Armed Forces.

Secretary Kelly leads the Department's efforts to secure our borders, and the Administration's strategy "to deploy all lawful means to secure the Nation's southern border..."[3] relies on the Coast Guard supporting a comprehensive security strategy. The Coast Guard protects the maritime border – not just here at home, but also off the coast of South and Central America. As Secretary Kelly has stated, "...the defense of the southwest border really starts about 1,500 miles south..."[4]

We continue to face a significant threat from TCOs, and the Coast Guard is positioned to attack these criminal networks where they are most vulnerable, at sea. We leverage over 40 international maritime law enforcement bilateral agreements to enable partner nation interdictions and prosecutions, and employ a robust interdiction package to seize multi-ton loads of drugs at sea before they can be broken down into small quantities ashore.

In close collaboration with partner Nations and agencies, the Coast Guard works to engage threats as far from U.S. shores as possible. In 2016, Coast Guard and partner agencies interdicted more cocaine at sea than was removed at the land border and across the entire nation by all federal, state and local law enforcement agencies – combined. A service record 201.3 metric tons of cocaine (7.1% of estimated flow)[5] was removed from the western transit zone, 585 smugglers were detained, and 156 cases were referred for prosecution.

---

[3] Executive Order on Border Security and Immigration Enforcement Improvements, 25 January 2017.

[4] Secretary Kelly Hearing Testimony, "Ending the Crisis: America's Borders and the Path to Security" before the House Homeland Security Full Committee and Subcommittee on Border and Maritime Security Joint Hearing on America's Borders, Panel 1, 07 February 2017.

[5] [US Department of Homeland Security, Office of Inspector General, *Review of U.S. Coast Guard's Fiscal Year 2016 Drug Control Performance Summary,* OIG Report, OIG-17-33, February 1, 2017.]

Coast Guard readiness relies on the ability to simultaneously execute our full suite of missions and sustain support to Combatant Commanders, while also being ready to respond to contingencies. Your Coast Guard prides itself on being *Semper Paratus* – Always Ready, and predictable and sufficient funding is necessary to maintain this readiness in the future. Prudence also demands we continue investing in a modernized Coast Guard. Indeed, recapitalization remains my highest priority, and today's activities will shape our Coast Guard and impact national security for decades. Your support has helped us make tremendous progress, and it is critical we build upon our successes to field assets that meet cost, performance, and schedule milestones. I am encouraged by our progress to date.

In 2016, we awarded a contract to complete build out of our fleet of 58 Fast Response Cutters – at an affordable price – and the last four ships (numbers 19 through 22) were delivered by Bollinger Shipyards with zero discrepancies. In September, we achieved a monumental goal with the award of a contract for Detail Design and Construction of the Offshore Patrol Cutter (OPC). These cutters will eventually comprise 70 percent of Coast Guard surface presence in the offshore zone. OPCs will provide the tools to more effectively enforce federal laws, secure our maritime borders by interdicting threats before they arrive on our shores, disrupt TCOs, and respond to 21st century threats. With the continued support of the Administration and Congress, we anticipate ordering long lead time material for the first OPC later this year, and plan for its delivery in 2021.

We also generated momentum to build new polar icebreakers. In July of last year I sat before this subcommittee and made a commitment to partner with the Navy to establish an Integrated Program Office to acquire new heavy icebreakers. This approach leverages the expertise of both organizations and is delivering results. The recent award of multiple Industry Studies contracts – a concept the Navy has utilized in previous shipbuilding acquisitions to drive affordability and reduce schedule and technical risk – is an example of the positive results of this partnership. We will continue refining the system specification and prepare to release a request for proposal for Detail Design and Construction in FY 2018.

We are also making progress with unmanned aerial systems. A recent small Unmanned Aerial System (sUAS) proof of concept aboard a National Security Cutter (NSC) validated this capability and will enhance the effectiveness of these cutters. In its inaugural month underway, STRATTON's sUAS flew 191 flight hours, providing real-time surveillance and detection imagery for the cutter, and assisting the embarked helicopter and law enforcement teams with the interdiction or disruption of four go-fast vessels carrying more than 5,000 pounds of contraband. In addition, we are exploring options to build a land-based UAS program that will improve domain awareness and increase the cued intelligence our surface assets rely upon to close illicit pathways in the maritime transit zone. While long-term requirements are being finalized, I can fully employ a squadron of six platforms outfitted with marine-capable sensors now and am moving out to field this much-needed capability.

In addition to the focus on recapitalizing our surface and aviation fleets, we are also mindful of the condition of our shore infrastructure. Investments in shore infrastructure are also critical to modernizing the Coast Guard and equipping our workforce with the facilities they require to meet mission.

America's economic prosperity is reliant on the safe, secure, and efficient flow of cargo through the Maritime Transportation System (MTS), which sees $4.5 trillion of economic activity annually. The Nation's maritime industry and the MTS face many challenges, including growing demands, a global industry-driven need to reduce shipping's environmental footprint, and the ever-increasing complexity of systems and technology.

Coast Guard marine safety programs employ our unique capabilities to ensure a safe, secure, and environmentally sound MTS. We do this by developing risk-based standards, training and employing a specialized workforce, and conducting investigations into accidents and violations of laws so standards can be improved. We are mindful of the need to facilitate commerce, not impede it, and remain committed to our prevention missions.

While readiness and modernization investments will improve current mission performance, the right force is central to success. I am incredibly proud of our 88,000 active duty, reserve, civil service, and auxiliary members. I am working aggressively to validate a transparent and repeatable model to identify the appropriate force structure required for the Coast Guard to simultaneously respond to global, national, and regional events.

Funding 21st century Coast Guard platforms and people is a smart investment, even in this challenging fiscal environment. Modern assets bring exceptional capability, but our greatest strength will always be our people. Coast Guard operations require a capable, proficient, and resilient workforce that draws upon the broad range of skills, talents, and experiences found in the American population. Together, modern platforms and a strong, resilient workforce will maximize the Coast Guard's capacity to meet future challenges.

History has proven that a responsive, capable, and agile Coast Guard is an indispensable instrument of national security. With the continued support of the Administration and Congress, the Coast Guard will continue to live up to our motto. We will be *Semper Paratus – Always Ready*. Thank you for the opportunity to testify before you today and for all you do for the men and women of the Coast Guard. I look forward to your questions.

Question#:	1
Topic:	Marine Inspection Positions
Hearing:	Authorization of Coast Guard and Maritime Transportation Programs
Primary:	The Honorable Duncan D. Hunter
Committee:	TRANSPORTATION (HOUSE)

Question: The Coast Guard provided 500 new billets and increased funding for training between 2008 and 2012 to enhance the Coast Guard's capabilities to execute its statutory marine safety mission. Industry is concerned that the marine safety and vessel inspection function is degrading, with billets moving out through transfers or being left unfilled.

How many marine inspection positions does the Coast Guard anticipate for fiscal 2018? How many are military billets and how many are civilian billets?

Response: There are 670 marine inspections billets in FY18. Of those, 533 are military officers (including warrant officers) and 137 are civilian marine inspectors. Approximately 37% (250) of the total marine inspector billets are apprentice marine inspectors, and 63% (420) are journeyman and advanced marine inspectors.

Question: Can the Coast Guard provide, for the fiscal years 2013 to 2018, the total number of marine inspection positions, broken down between military and civilian workers?

Response: Between fiscal years 2013 and 2018, the total number of marine inspectors averaged 673 billets. The annual break-down of billets is included below.

Fiscal Year	Military	Civilian	Total
FY2013	536	135	671
FY2014	539	140	679
FY2015	540	136	676
FY2016	539	136	675
FY2017	532	137	669
FY2018	533	137	670

Question#:	2
Topic:	Billet Realocation
Hearing:	Authorization of Coast Guard and Maritime Transportation Programs
Primary:	The Honorable Duncan D. Hunter
Committee:	TRANSPORTATION (HOUSE)

Question: Can the Coast Guard provide a Sector-by-Sector Prevention billet reallocation under the Reprogramming and Optimization of Sector Enterprise (ROSE) initiative? Specifically break out marine inspector and marine investigator billets by sector. Is ROSE complete or are more Prevention billets moving in the future?

Response: Thank you for your interest in the ROSE initiative. The reallocation of billets across the Coast Guard's shore forces field units was a very complex endeavor, involving hundreds of billets across multiple career specialties. At your convenience, my shore forces staff can provide you a brief on the requested details.

Question#:	3
Topic:	Additional Billets
Hearing:	Authorization of Coast Guard and Maritime Transportation Programs
Primary:	The Honorable Duncan D. Hunter
Committee:	TRANSPORTATION (HOUSE)

Question: With the addition of nearly 6,000 towing vessels to the U.S. inspected fleet, is the Coast Guard seeking additional billets, both military and civilian, needed to carry out its marine safety mission?

Response: The addition of nearly 6,000 towing vessels to the domestic inspected fleet is an example of the growing capacity on our nation's waterways. The Coast Guard is examining a variety of means by which to meet the challenges posed by this growing capacity. While we evaluate any potential personnel needs, the Coast Guard will continue to adapt our standards and compliance processes, enhance our technical competency, and increase the productivity of our workforce to keep pace with advancements in the maritime industry.

Question#:	4
Topic:	International Maritime Organization's Convention of Standards
Hearing:	Authorization of Coast Guard and Maritime Transportation Programs
Primary:	The Honorable Duncan D. Hunter
Committee:	TRANSPORTATION (HOUSE)

Question: U.S. mariners were required to be up-to-date with their endorsements to comply with the International Maritime Organization's Convention of Standards of Training, Certification and Watchkeeping for Seafarers. Full implementation was required by December 31, 2016. However, the Coast Guard delayed implementation.

Why did Coast Guard delay implementation?

Response: The Coast Guard did not delay implementation.

Question: What impact, if any, does the delay of these international requirements have on U.S. mariners?

Response: The United States, in alignment with the global maritime community, voluntarily agreed to take a pragmatic approach to enforcement of certain provisions in the recent amendments to the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW), during the period between January 1 and July 1, 2017. The Coast Guard participated in a global effort at the International Maritime Organization to develop guidance for member states to recognize that many countries were facing the challenge of processing a large number of applications from mariners who waited until the final weeks before the January 1 implementation date to submit their applications. The relatively late submission of these applications caused backlogs in the credentialing evaluation processes of a number of countries, including the U.S. Factoring this information into enforcement action helped to reduce the chances of detention of U.S. vessels trading internationally and foreign flagged vessels visiting U.S. ports. The economic repercussions of wholesale detentions for STCW-related issues would have been significant to the maritime industry as well as U.S. consumers.

In advance of the implementation deadline, the Coast Guard published several documents, in which we encouraged mariners to continue their pursuit of compliance with the STCW requirements.

We believe there were no detrimental impacts to U.S. mariners, vessels, or safe commerce brought on by this pragmatic approach to enforcement.

Question#:	5
Topic:	WAK COTP Available Equipment
Hearing:	Authorization of Coast Guard and Maritime Transportation Programs
Primary:	The Honorable Don Young
Committee:	TRANSPORTATION (HOUSE)

Question: Does the current level of equipment available in the WAK COTP zone meet the needs of the Coast Guard?

Response: The standards for oil spill response capability and capacity are established in the National Planning Criteria. In cases where the National Planning Criteria cannot be met due to current resource and infrastructure challenges (as are found in Western Alaska), the Coast Guard may accept Alternate Planning Criteria as a risk mitigation measure until the National Planning Criteria can be met. The current level of response equipment in Western Alaska does not yet meet the National Planning Criteria.

Question: If not, how will the Coast Guard achieve the level of equipment it believes is needed in the WAK COTP zone? Does the Coast Guard expect a steady increase of equipment and response capability?

Response: Yes, the Coast Guard expects industry to steadily increase response capability over time. This was, and remains, the clear intent of the VRP regulations. The Coast Guard will continue to facilitate and foster continued growth toward the national planning criteria.

Question#:	6
Topic:	Equipment Build-out
Hearing:	Authorization of Coast Guard and Maritime Transportation Programs
Primary:	The Honorable Don Young
Committee:	TRANSPORTATION (HOUSE)

Question: Do you believe that equipment build-out in the WAK COTP zone is trending in the right direction?

Response: Yes, the growth of response capacity within the Western AK Captain of the Port Zone over the last 18+ months is positive. The additional resources have not only added to oil spill response readiness, but have also been vital to other missions including search and rescue, and salvage responses.

Question#:	7
Topic:	Equipment Measurement
Hearing:	Authorization of Coast Guard and Maritime Transportation Programs
Primary:	The Honorable Don Young
Committee:	TRANSPORTATION (HOUSE)

Question: How does the Coast Guard measure "equipment"? What are the current levels of equipment in the WAK COTP Zone?

Response: The Coast Guard measures equipment and the planned ability to respond in accordance with the regulations, which include specific levels of response equipment and oversight based on vessel service, the type of oil carried, and the worst case discharge. This applies in Western Alaska as it does in other parts of the country.

Question: How is ability to deploy equipment taken into account when measuring the level of equipment available?

Response: The Coast Guard measures equipment and the planned ability to respond in accordance with the regulations, which include specific levels of response equipment and oversight based on vessel service, the type of oil carried, and the worst case discharge. This applies in Western Alaska as it does in other parts of the country.

For oil spill response equipment, the Coast Guard reviews contracts, funding agreements, and certification statements between plan-holders and their contracted Oil Spill Removal Organization(s) (OSRO) stating their capability to respond to a worst case discharge in the COTP zones they operate. In addition, the Coast Guard measures the oil spill response equipment through an OSRO classification system managed by the National Strike Force Coordination Center. Traditionally, OSROs have voluntarily participated in the OSRO Classification system, which includes on-site verification of equipment by Coast Guard inspectors.

Question#:	8
Topic:	Ships Transiting the WAK COTP Zone
Hearing:	Authorization of Coast Guard and Maritime Transportation Programs
Primary:	The Honorable Don Young
Committee:	TRANSPORTATION (HOUSE)

Question: Are the number of ships transiting the WAK COTP Zone increasing? How many of those ships are considered tank vessels as compared to nontank vessels?

Response: The number of transits across the great circle route grew from 2015 to 2016; from 7735 to 8680 transits. Of these transits, approximately 7% were made by tank ships. These numbers do not include fishing vessels or intra-Alaska tug/barge traffic. Of the above, approximately 15% of transits are ships on innocent passage. Ships on innocent passage are not required to maintain USCG-approved Vessel response Plans.

Question#:	9
Topic:	Revenue Available
Hearing:	Authorization of Coast Guard and Maritime Transportation Programs
Primary:	The Honorable Don Young
Committee:	TRANSPORTATION (HOUSE)

Question: Is the Coast Guard tracking the overall level of revenue available in the WAK COTP zone for compliance with APC rules? If the revenue generated decreases, will the expected amount of equipment and level of response decrease?

Response: No, the Coast Guard does not track data related to level of available revenue. The Alternative Planning Criteria policy has resulted in additional resources in Western Alaska. These resources have not only added to the response readiness of Western Alaska for oil spill response, but have also been vital to other missions including search and rescue responses, and salvage responses.

Question#:	10
Topic:	Marine Safety Information Bulletin
Hearing:	Authorization of Coast Guard and Maritime Transportation Programs
Primary:	The Honorable Don Young
Committee:	TRANSPORTATION (HOUSE)

Question: Are all APCs in the WAK COTP Zone required to comply with the current Marine Safety Information Bulletin and other regulatory requirements issued by the Coast Guard?

Response: Yes, all APCs in WAK COTP Zone are evaluated against the guidance provided in the current MSIB and other regulatory requirements, including Policy Letter 09-02. Once signed, the updated APC national policy guidance will replace Policy Letter 09-02.

Question#:	11
Topic:	Coverage Requirements
Hearing:	Authorization of Coast Guard and Maritime Transportation Programs
Primary:	The Honorable Don Young
Committee:	TRANSPORTATION (HOUSE)

Question: Do the current APCs cover all of the WAK COTP Zone? If not, what is the requirement for coverage? Does it vary from APC to APC and who ultimately decides the extent of coverage?

Response: No, the current APCs do not cover all of WAK COTP Zone. Per the regulations, the requirement for coverage is determined by the vessel owner/operator as an area within which the National Planning Criteria are inappropriate and the vessel intends to operate. The Coast Guard evaluates each submission to ensure that the national planning criteria are, in fact, inappropriate for the areas that the vessel intends to operate.

Question#:	12
Topic:	Permanently Positioned
Hearing:	Authorization of Coast Guard and Maritime Transportation Programs
Primary:	The Honorable Don Young
Committee:	TRANSPORTATION (HOUSE)

Question: Does the Coast Guard require that all equipment provided by approved APC providers be permanently positioned in the WAK COTP? If not, and if current APC providers reference equipment not located in the WAK COTP, can you tell me where that equipment is currently located and how it will be made available in timely manner to respond to a spill?

Response: The Coast Guard evaluates each APC on its own merits, including its risk reduction and proposed gap mitigation strategies. In the case of the Alaskan APCs, those strategies all include a significant amount of response equipment located in the covered areas as well as a cascade proposal from elsewhere in Alaska and the lower 48. Similarly, oil spill response equipment in the lower 48 is based, to a certain extent, on the ability to cascade equipment from other locations.

STATEMENT OF ACTING CHAIRMAN MICHAEL A. KHOURI
FEDERAL MARITIME COMMISSION

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

April 4, 2017

Chairman Hunter, Ranking Member Garamendi, and Members of the Subcommittee, thank you for providing me with this opportunity to appear before you today and discuss the mission of the Federal Maritime Commission.

The Federal Maritime Commission is working to be a more efficient organization by making a concerted effort to reduce regulatory burdens on our constituents. The Commission is aggressively looking for ways to make compliance with Commission requirements easier and more cost effective for shippers, carriers, and ocean transportation intermediaries. On March 6th, the Commission approved key changes to regulatory requirements for ocean carrier service contract filings and non-vessel-operating common carrier (NVOCC) service arrangement filings that will make it easier and more efficient for shippers and carriers to do business.

I want to assure you, and those with business before the Federal Maritime Commission, that I am committed to continuing to identify rules that are outdated or impede the efficient operation of business, and eliminating them whenever possible. I believe there are additional reforms that can be made to existing regulations administered by the Federal Maritime Commission, and relief from tariff publication requirements immediately comes to mind as another obligation ripe for Commission consideration.

Currently, ocean transportation intermediaries and vessel-operating common carriers are required to publish tariffs, even though the overwhelming majority of cargo moving across oceans does so under the terms of service contracts. In other words, current law and Commission regulations require companies to publish rates that have nothing to do with the actual market prices being charged to shippers. Continuing to mandate thousands of tariffs be published that do not reflect real conditions in the market, and have minimal, if any, use by industry participants when negotiating service contracts, is a requirement and expense that regulated entities could be relieved of under the exemption authority provided to the Commission by Congress.

Building on Executive Orders of both the prior and current administrations, the Commission is in the process of identifying requirements that should be changed or eliminated. It takes far too long to travel the road to regulatory relief. When we see a regulatory burden, we should be able to successfully address it as rapidly as possible, and by that, I have in mind a timeframe of months as opposed to years. Unshackling the market from artificial constraints on efficiencies should be something we designate as a priority and work tirelessly to achieve.

Toward that end, after consulting with my fellow Commissioners, on March 13th I designated the agency's Managing Director, Karen V. Gregory, as the Regulatory Reform Officer. Ms. Gregory will stand up a Regulatory Reform Task Force as contemplated by the January 30th "Presidential Executive Order on Reducing Regulations and Controlling Regulatory Costs." The task force will identify those regulations that are the most ineffective, would be the easiest to repeal, and then establish a definitive timeline within the agency to move those items to a vote before the Commission. Even if not technically required as an independent agency to take this step, I believe that it is the right action to take and is consistent with the broader deregulatory history and scope of the Shipping Act.

This commitment to deregulation is essential. It is a critical factor in expanding America's economic competitiveness in the ocean container supply chain. If I can achieve only one thing as the Acting Chairman of the Federal Maritime Commission, I would like our numerous stakeholders to view the agency's regulatory regime as fair and to view the FMC as a global leader in terms of promoting a competitive and efficient ocean transportation system, with primary reliance on a free and open market place, and a minimum of government intervention and regulatory costs.

While my enthusiasm for achieving meaningful deregulation is genuine, no one should mistake that priority as signaling decreased vigilance in meeting the Commission's core mission—fostering a fair, efficient, and reliable international ocean transportation system while protecting the public from unfair and deceptive practices. We have been doing this work, as one entity or another, for one hundred years and we are at a particular juncture in the history of the container shipping industry where our work is all the more important.

Since the Commission last appeared before you, there have been tremendous changes to the ocean transportation services marketplace. The recent past has been marked by considerable merger and acquisition activity among shipping lines that was topped off by the bankruptcy of a "top ten" carrier late last summer. As a result of these events, the number of major shipping lines operating in the international trades has dropped from 20 in 2015 to what will be 13 by next year when the three Japanese-based carriers create a new, consolidated container line. All of this activity has consequentially caused a reordering of the carrier alliance system and the creation of two new organizations ("THE Alliance" and "The OCEAN Alliance") that will join the already existing "2M Alliance."

Carrier and marine terminal alliances can be very beneficial for U.S. exporters, importers, and consumers. Such alliances allow participants to obtain efficiencies and cost-savings that can be passed on to domestic consumers especially when healthy competition exists among vessel operators. Last, the benefits of alliances and other forms of joint commercial arrangements are recognized and addressed in the Shipping Act of 1984, as amended, and the contemporaneous Congressional record.

Given the significant amount of change that has taken place over the past year, shippers are viewing the new commercial environment with many questions and perhaps even some trepidation. Put succinctly, shippers are concerned that fewer carriers, operating in fewer, yet

larger, alliances will not only equate to less service choices, but to a commercial environment where shipping lines enjoy an advantage of leverage in contract negotiations. These apprehensions are not limited exclusively to cargo owners. We have heard similar sentiments voiced by terminal operators, equipment lessors, as well as various service providers. The industry is entering a new era and it is not surprising that there may be questions about whether carriers will be in a position to dictate rates. The current circumstances perfectly illustrate why the Federal Maritime Commission was created, what its job is, and how the agency provides a benefit to American shippers and to our economy more broadly.

The mission of the Federal Maritime Commission is to facilitate an open and free market for ocean shipping services by bringing transparency to market forces and protecting against anticompetitive behaviors. While the Commission is always diligent in its duties to assure the marketplace remains competitive, we are aware and alert that with the dawn of a new era, the oversight work of our professional transportation economists, attorneys, and analysts is all the more critical. It is vital to the interests of all parties involved in the movement of ocean commerce that the Commission provide confidence that America has a competitive, fair, and efficient marketplace. As the new alliances begin to operate commercially next month, we are positioned to monitor the marketplace more carefully than ever with a particularly keen eye focused on any behavior that might appear to produce an unreasonable increase in transportation cost or an unreasonable reduction in transportation services as a result of collective carrier behavior under the respective alliance agreements. Toward that goal, the Commission has strengthened the economic review process of new alliance agreements filed with us. More specifically, we have required tighter limits on the scope of each agreement's authority, as well as expanded quarterly reporting requirements to be filed with the Commission. All of this is done to ensure the Commission's ability to detect and respond to any signs of anticompetitive behavior or abnormal pricing trends.

Our *Annual Report* will provide you with a comprehensive summary of the Commission's activities and industry developments in Fiscal Year 2016. While future predictions are difficult, I will briefly address what we foresee as potential developments and trends in the coming months.

Carriers are operating in an environment where trade volumes are growing more sluggishly than has been typical of the sector. Concurrently, new vessels of the largest capacities continue to emerge from shipyards and be deployed into the world's trade lanes. All things being equal, and with no other shocks to the business such as a spike in fuel costs or another shipping line bankruptcy, this is a formula for continued low rates, which ultimately benefits shippers, at least in the shorter term.

As noted earlier, although there has been a contraction in the number of lines operating in the international ocean trades, competition between companies remains vibrant and shippers continue to benefit from low rates. Overall market share of even the largest oceangoing carriers remain diffused. In the U.S. export and import trades combined, CMA CGM holds a 12.42 percent market share followed closely by Mediterranean Shipping Company at 12.39 percent and Maersk in third position with 10.62 percent. These are far from dominant market positions as recognized by established economic standards. We will, of course, monitor what impact the carriers operating in the new alliances have on market dynamics, rates, and services. A preliminary analysis conducted

by FMC staff, and hopefully available for publication later this year, finds that shippers may enjoy certain benefits from larger alliances, particularly in terms of what they pay for service.

One factor to note is that some carriers receive government support, either directly or indirectly. The invisible hand is not the only force that guides the global shipping industry, and nations throughout the world go to great lengths to support national companies, including saving them from bankruptcy. At the moment, such close links between a government and its national carrier can also benefit American shippers and consumers by virtue of lower freight costs and greater service choices.

The ocean liner industry has been in a state of vessel oversupply for several years. The low freight rate structure in U.S. trade lanes is a direct reflection of that capacity supply/demand imbalance and American exporters and importers have been the beneficiary of those low freight rates. Such supply imbalances will not last forever. The Federal Maritime Commission does not favor one competitor, sector, or industry stakeholder over another. We will continue to be vigilant for indications of rate increases that are products of market distorting, collusive carrier business practices; however, it is important to remember that rate increases in and of themselves are not proof of an uncompetitive marketplace. At some point in the future, higher freight rates will be a normal result of a more equalized and healthy supply/demand marketplace.

Finally, I should note that the Commission is beginning to see marine terminal operators and port authorities show increased interest in how to use agreements filed with and reviewed by the Commission to their benefit. There is a realization among these parties that seeking an alternate antitrust enforcement regime available to them through an agreement filed at the FMC can lead to increased efficiencies and lowered costs. We welcome the application of any parties from the port and terminal sector who want to use agreements to achieve goals that ultimately benefit the American shipper and consumer.

Turning from the shipping industry to the Commission itself, I would like to note an FMC initiative that is making a meaningful contribution toward understanding, addressing, and mitigating port congestion – as well as enhancing supply chain efficiency for America's exporters and importers. I am referring to our Supply Chain Innovation Team Initiative that is being led by my colleague and friend, Commissioner Rebecca Dye.

This undertaking was launched in May of 2016 and focuses on challenges faced by America's international maritime supply chains. Commissioner Dye, with her volunteer teams of industry leaders composed of shippers, marine terminal operators, trucking companies, ocean carriers, port officials, labor representatives, logistics companies, and other stakeholders, have been working to develop actionable commercial solutions – including in particular – the key content for a national seaport information portal that could provide the necessary critical information sought by all parties involved in moving containers to/from vessels, through seaports, and onward to a final destination.

The team's consensus in Phase One was that if such a portal could be funded and implemented, it would make a meaningful contribution to both improved supply chain efficiency and to America's national economic competitiveness.

Phase One of the initiative addressed our country's import supply chains. This year, Commissioner Dye will launch a second phase – this time focusing on America's export supply chains. We are very much looking forward to the results of the work those teams will do.

Commissioner Dye's work illustrates what can be accomplished with the right people working toward a common goal under effective leadership. A proven method of achieving strong performance at an organizational level is through focused and meaningful strategic planning. From my years in the private maritime sector, I experienced first-hand how strategic planning can be not just a tool, but a driving force in an organization's success. Government agencies can also benefit from strategic planning that is focused, and designed to unite all agency team members to find ways to achieve our mission more effectively while delivering value to the taxpayer. Creating a strategic plan that is substantive and seeks to make the Commission an even better run agency is a task I welcome taking on as the Acting Chairman. To this point, we are now beginning work on a new five year strategic plan that will guide the Commission through Fiscal Year 2022.

Finding ways to conduct the Commission's business more efficiently is an important goal we share, Mr. Chairman. I am very pleased to say we have made some definitive steps toward trying to find ways to make every dollar appropriated to us go as far as it can. The FMC is a small agency with a very technical mission and a need for a very specialized workforce. Our requested level of funding for Fiscal Year 2017 is $27,490,000. The part of the agency involved in the heart of the mission, you will find a high percentage of transportation economists and attorneys – career fields that tend to command more compensation in order to successfully recruit and retain qualified candidates. Overall, the great bulk of the Commission's budget, approximately 88 percent, is consumed by rent and salaries. "Overhead" costs such as security fees, utilities, and government services account for most of the remaining budget dollars. The Commission has very little, if any, control over many of these costs. Year in and year out, the rent we are charged rises, the supplies and resources we purchase to support our economist and attorney's competitive analysis and legal research cost more, and information technology costs—including IT security and telecommunications bills—rise. We constantly work to find a balance between our resources and our workload; however, if there is a surge of agreement filings, if a "class" of plaintiffs choose to seek relief at the FMC, or if our building security requirements increase, then we work to prioritize our mission-critical activity and reallocate resources to the extent possible.

Another example of the challenge of controlling our costs is illustrated by the ongoing discussions we are having with the General Services Administration (GSA) regarding security requirements and related costs for our headquarters building in Washington D.C. The Commission's projected security costs for FY2017 is $758,017. Of this total, only $71,983 can be categorized as being basic, necessary, and pertinent for the agency's headquarters building and its six regional Area Representative offices. The additional $686,034 we estimate we will pay in security fees are incremental costs imposed upon us because of the building where are our headquarters is located. The $686,034 figure represents approximately 2.67 percent of our total FY 2017 budget. For an agency with a low security requirement and a desire to be accessible to the public, that money could be better used to hire the additional economists and analysts we need to help monitor the international ocean shipping marketplace.

Our building is a mix of government and non-government tenants. Two of our fellow government tenants are law enforcement agencies with higher physical security requirements than the Federal Maritime Commission. We are concerned that we will be required to shoulder anticipated cost increases associated with maintaining security levels at the building that are dictated by the needs of other federal tenants co-located by GSA into our building subsequent to our original occupancy in 1991. Additionally, we are concerned that we will be directed to contribute toward the overall cost of new security upgrades to meet the desires or professed needs of other federal tenants in the building. These ever-increasing security costs are problematic in light of current budget realities.

As I mentioned earlier in this testimony, the Federal Maritime Commission continues to faithfully pursue the purposes and mission of the Shipping Act that has been in place for 100 years. In its *First Annual Report*, published on December 1, 1917, a total of 83 employees were listed on the payroll of our predecessor agency, the United States Shipping Board. Today, a century later, with a vastly larger domestic economy and global trade, the Commission has only 127 employees working to maintain a competitive ocean transportation services marketplace that moves billions of dollars in commerce representing about one-third of America's Gross Domestic Product. I am proud of the work the Commission's staff does each day to ensure a fair, efficient, and reliable international ocean transportation system, and to protect our U.S. exporters, importers, and ultimately the American consumer from unfair and deceptive practices.

Thank you for this opportunity to discuss the mission of the Federal Maritime Commission, current state and future challenges of the ocean shipping industry, as well as highlight some of the Commission's recent achievements and future priorities. I am always ready to be of any assistance to the Subcommittee and its Members. I would be pleased to answer any questions you may have.

Response of Acting Chairman Michael A. Khouri to
Questions for the Record (QFR) Submitted on behalf of Congressman Duncan Hunter

Why did the FMC agree to allow a group of international car carriers to collectively negotiate with U.S. tugboat service providers?

Because attempting to stop the agreement in Federal District Court as a violation of the Shipping Act of 1984 would have been frivolous, and would have likely exposed the Federal Maritime Commission ("FMC" or "Commission") and its attorneys to sanctions under Rule 11 of the Federal Rules of Civil Procedure.

When the Commission receives an agreement, several things happen. First, staff conducts a preliminary review to determine that the parties to the agreement are vessel operators or marine terminal operators, and that there are no overt prohibited acts on the face of the agreement. Next, after being satisfied that there are no facial defects, staff then conducts a competitive analysis using well-worn antitrust standards. The analysis defines the market— both product and geographic. For agreements with joint purchasing authority, staff examines whether the portion of goods or services that would be jointly purchased is so large, relative to total purchases of the good or service, that the parties could effectively exercise market power in the upstream market.

In the case of the car carrier agreement amendment, the market being evaluated was the market for tug services for ocean going vessels that require tug assist in port docking. The geographic market was each relevant major port where the car carriers called. The FMC staff analyzed 12 U.S. ports on the west, east and gulf coasts. The basic assessment was that the car carriers did not have significant market purchasing power. Just as DOJ and FTC assess purchasing joint ventures under a rule of reason standard (testing whether the cooperative activities may produce efficiencies), the Commission assessed whether there would be efficiencies and cost savings that might flow to consumers. Unlike arrangements between competing sellers or between the competing service providers, which are judged skeptically using a *per se* test for illegality, joint ventures for purchasing are permitted – and even encouraged.

Here, car carriers make up a comparatively small part of the entities that purchase tug assist services. It thus would have been beyond difficult to make the legal case, based on the present facts that the agreement would have caused an unreasonable reduction in transportation service, or an unreasonable increase in transportation costs (the standard that the Commission would have been required to meet in order to convince a judge to grant an injunction).

When it determined that the legal case would have been fruitless, the Commission nevertheless implemented safeguards to ensure that the car carriers' agreement would not result in unexpected consequences. Specifically, the Commission notified the car carriers that before implementing any actual joint purchase, the car carriers would be required to bring *that actual proposed tug assist agreement* back to the Commission for review in order to ensure that the car carriers did not exercise any undue power in a particular port. Failure to do so would result in an investigation and potential enforcement proceeding. Further, the car carriers *do not receive*

antitrust immunity for agreements with tug providers. *See* 46 U.S.C. § 40307(b)(1). Additionally, the tug providers can file a complaint for adjudication at the Commission based on prohibited acts. *See* 46 U.S.C. § 41105(4).

In sum, the Commission did not seek to enjoin the agreement because the parties are unlikely to be able to exercise market power in the tug services market, the Commission would have lost in court with further risk of court-imposed sanctions on the FMC, and the tug providers still have several adequate, currently existing remedies if they do not concur with the decision of the Commission.

Given the increased consolidation we have seen in the foreign ocean carrier industry over the past decade, do you think the Shipping Act adequately protects the U.S. maritime industry and the public from the concentrated power of foreign shipping alliances?

As I noted in my written testimony submitted for the May 3 hearing before the Subcommittee on Coast Guard and Marine Transportation, the Commission has ample authority under the Shipping Act of 1984 (Shipping Act) to address the competitive issues facing the international liner industry. As an independent agency with experience and specialized expertise in this legal area and particular familiarity with maritime matters, the FMC is well positioned to be sensitive to the concerns of U.S. participants in the international ocean transportation supply chain and the U.S. shippers who rely on a fair, efficient, and competitive, ocean transportation system. The FMC has been forward leaning in our use of our authority as we have reviewed new carrier agreements as they formed the new generation of alliances. We have also been careful to consider the concerns of parties affected by these agreements, including the U.S. maritime industry and shipping public, as well as the views of our sister competition agencies.

Under the Shipping Act, cooperative or collaborative agreements between or among competitor international ocean liner carriers are filed with the Commission and reviewed under the Shipping Act's competition standard to prevent anticompetitive behavior in these agreements. This standard the Commission uses to review carrier agreements, 46 U.S.C. §41307(B)(1) - "Anticompetitive Agreements," commonly referred to as 6(g), is analogous to the standard employed by the Department of Justice (DOJ) and the Federal Trade Commission (FTC) to review mergers, acquisitions, and competitor collaborations. Under 6(g), an agreement filed with the Commission goes into effect *unless* the Commission determines (and convinces a judge to agree) that the agreement *is likely, by a reduction in competition, to produce an unreasonable reduction in transportation service or an unreasonable increase in transportation cost.* In the event of such determination, the Commission then must go to a Federal District Judge as discussed below.

Drafted by the House Judiciary Committee as a part of the deliberations leading to enactment of the Shipping Act, the process for agreement review under 6(g) is modeled on the Hart-Scott-Rodino Act of 1976 governing premerger clearance of proposed acquisitions and mergers. Congress adapted this process for the Commission as part of the Shipping Act to ensure that that potential efficiencies and cost-savings would not be lost by consumers because of delay in agreement effective dates. In order to prevent the agreement from going into effect, the Commission must bring a civil action in the United States District Court for the District of

Columbia and successfully obtain an injunction to halt the operation of the agreement. The burden of proof is on the Commission.

If parties agree to undertake activities that are governed by the Shipping Act, but do not comply with the Commission's process of review, they risk not only Shipping Act sanctions, but also federal criminal sanctions prosecuted by DOJ under the Sherman Act.

The success of section 6(g) in allowing the Commission to address concerns about potentially anticompetitive effects of filed agreements is evident in the Commission's successful efforts to mitigate or eliminate potentially anticompetitive provisions in pending agreements through detailed discussions with filing parties during the review process. By its terms, the Shipping Act provides an opportunity for the public, including U.S. maritime interests, to express concerns about filed agreements. The Commission takes these comments seriously, and uses them, together with its own economic analysis under 6(g), during the review process and in its ongoing review of trade conditions and carrier behavior under filed agreements to consider and address anticompetitive concerns.

During the period of time following the filing of the 2M, OCEAN, and THE alliance agreements and the time they went into effect, Commission staff engaged in detailed discussions with the filing parties to understand the scope and ramifications of proposed agreement authorities. Of particular concern were the parties' ability to jointly contract with vendors and suppliers, the possibility of exchanging commercially sensitive information and any potential limitation on the ability of individual alliance carriers to make independent decisions regarding their vessel capacity. As a result of these discussions, the alliance parties for the 2M, OCEAN, and THE alliances submitted substitute language that either eliminated or mitigated these concerns. For example, 2M does not allow for joint contracting. Under THE Alliance and the OCEAN Alliance joint contracting for tug services would not take place in the United States; joint contracting with marine terminal operators will take place only if the marine terminal operator wishes to engage in joint negotiations, and the type of commercial information that can be exchanged between the Parties was clarified and narrowed.

In addition to the review of carrier agreements for potentially anticompetitive effects under 6(g), the Commission may use section 10, the "Prohibited Acts" provisions in the Shipping Act, to preserve competition. This section of the Shipping Act includes prohibitions on a number of business practices on concerted carrier conduct acting outside of approved authority (such as price fixing or market allocation), unreasonable practices, discrimination in price or accommodations, refusal to deal, retaliation, boycotts, predatory practices, and discrimination based on shipper affiliation. 46 U.S. Code § 41105(4), prohibits carriers from jointly negotiating with non-ocean carriers *if doing so would violate antitrust laws* (emphasis added). These prohibited practices mirror remedies found in other competition statutes, such as the Robinson-Patman Act of 1936. The Commission, of course, may enforce section 10; but private litigants may also bring actions under these Shipping Act provisions to protect their interests.

The international ocean liner industry has recently experienced some consolidation because of long-term structural issues in the industry and poor financial returns and the number of major

carriers serving the U.S. trade will decrease from 20 in 2015 to 13 by the end of 2018. The number of major carrier alliances serving the U.S. trades decreased from four to three. The reduced number and increased size of these major alliances have raised new issues and concerns for the FMC and changed the way in which the Commission approaches these joint ventures. Broader authorities and language for small or limited slot sharing agreements or in a world with seven or eight alliances with much smaller market shares presented fewer and less complex competitive issues. Provisions that might have been acceptable in earlier agreements for smaller and more limited joint ventures have become increasingly problematic as the number of alliances serving the U.S. trades has shrunk to four, and now three. The FMC has increasingly insisted on narrower authorities, more specific language, and enhanced monitoring requirements. For some time now with respect to these larger alliances, the FMC has required more "clear and definite" authority language for alliances. Monitoring for these large alliances, requiring more details and more frequent filing of monitor reports has increased.

Each of the relevant geographic and product markets in which an agreement or alliance would operate is reviewed and evaluated by the Commission using standard antitrust economic principles. This includes assessing whether the agreement or alliance parties would have the potential and the incentive to use unilateral or coordinated actions that may restrain competition in any of these markets. A large, high-volume, high-growth, market with many participants and numerous potential entrants ("contestability") may not be problematic, for example, but a low-volume, low-growth, distant market with few current participants may raise competition concerns. When necessary, the Commission also evaluates whether the liner trade between any given foreign country and a specific U.S. coast (e.g. between Japan and the United States west coast) is its own separate market or is part of a broader geographic market.

Because alliances are ongoing cooperative agreements rather than mergers, the Commission is charged by Congress with ongoing and continuous monitoring after the initial review and following the effective date of the agreements. The Commission checks for anticompetitive behavior that would violate the Shipping Act. The Commission may challenge an agreement at any time after the effective date. Our expert analysts, economists, and attorneys maintain a careful watch on industry trends, being vigilant for any indications of anticompetitive behavior by the participants operating within the filed agreements.

As a general rule, subject to the competition standard of section 6(g) and the prohibited acts in section 10, the Shipping Act permits joint ventures among ocean carriers, these vessel sharing agreements can create efficiencies and cost savings that are passed on to exporters, importers, and ultimately benefit the U.S. consumer. Historical data points indicate that cost saving initiatives are being passed over to shippers. For example, between 1998 and 2013, average container freight rates, as measured by the China Container Freight Index increased by three per cent. Yet, over the same fifteen year period, fuel price has increased by 790 per cent. According to Alphaliner, in 1998, fuel was eight per cent of total container freight costs. In 2013, it accounted for over twenty-five per cent of total freight cost. It is widely reported in the trade press that carriers are in a constant battle to find cost savings. This figure would be considerably higher but for the practice of slow-steaming, which is one tactic widely used by carriers in their constant battle to find operational cost savings.

Under the 2M, OCEAN, and THE alliance agreements, the parties are permitted to jointly contribute and share vessels, charter or swap space on each other's vessels, and engage in a variety of cooperative working arrangements pertaining to operating services and related equipment. The latter would include, for example, deciding the services to be deployed and their associated schedules, coordinating sailings, establishing service performance criteria, agreeing on vessel maintenance and repair schedules, and the substitution of vessels during dry-docking. The alliance parties may exchange information pertaining to vessel operations, market conditions, and third-party costs. They also may establish an operations coordination center to manage and monitor the service network to ensure schedule integrity and service quality. Services within the network are reviewed at least annually, and adjusted where necessary, to reflect each member's respective requirements for the movement of cargo. Moreover, each alliance permits its members to charter space from (or sell space to) non-alliance parties if needed. Parties to the OCEAN and THE alliances are even allowed to deploy additional services in alliance trade lanes (but not under the alliance agreement) provided they give their partners first right of refusal of any new capacity offered.

Under the agreements as they went into effect, participants in these three alliances may not jointly contract with tug operators or other vendors of vessel-related goods and services in the United States. The parties will negotiate independently with marine terminal operators, except where the marine terminal operator is agreeable to a joint contract with the parties, in which case a joint contract with the marine terminal operator would be authorized, and subsequently filed with the Commission.

These alliance parties do not have authority to discuss and agree on rates or to exchange information on freight rates, tariff items, service contract terms or bids, customer lists, individual marketing plans, or similar commercial matters. Therefore, within each alliance and among the three alliances, there continues to be intense rivalry to obtain cargo through vigorous price competition and quality service delivery.

The Commission applies the Shipping Act's 6(g) competition standard to requests for joint purchasing authority just as it does for agreements seeking joint operational authority. The larger the market share of the participants to an agreement, the more concern the Commission will have about potential "market power" and potentially anticompetitive effects. Whether the Commission or any other antitrust enforcement agency will allow this joint purchasing authority to remain in an agreement depends on the specific facts of the agreement and an analysis of the potentially anticompetitive effects in each relevant geographic and product market. The Commission's determination of the competitive impact of an agreement is based on the specific facts of the requested authority. Such review would be very similar, if not identical to the review by the Department of Justice for joint purchasing arrangements. If anything, the Commission's review of joint purchasing arrangements is more focused than its antitrust sister agencies. While DOJ might permit joint purchasing after a survey of a marketplace, the FMC not only surveys the general marketplace, but also looks at each individual agreement to assess the relevant product and geographic market at the time of the proposed procurement. For joint purchasing collaborations by competitors, the Commission does not use a "safe harbor" formula employed by DOJ and FTC. Employing its industry expertise, the Commission analyzes each agreement on a case-by-case

basis, requiring that contracts entered into pursuant to any agreement negotiating authority be brought back to the Commission for further review based on the specific facts.

It is important to note that ocean carrier agreements filed with the Commission do not exempt them from application of the general antitrust laws (Sherman Act and Clayton Act) whenever the joint carrier group is dealing with certain domestic businesses, including tug-assist operators. Congress expressly considered these types of agreements and explicitly excluded these arrangements from the types of joint ocean carrier agreement that are not subject to general antitrust laws. Because they are cooperative working agreements with two or more ocean common carriers, these carrier joint purchasing agreements must be filed with the FMC for review, however, the agreements nevertheless do not receive immunity from the antitrust laws.[1]

In conclusion, under the Shipping Act, the Commission applies accepted antitrust standards and tests to evaluate the potential anticompetitive effects of ocean carrier agreements. The Commission is careful to consider the views and analyze the effects of concerted ocean carrier collaborations on all affected stakeholders. If unable to reach agreement with the filing carriers to remove potentially anticompetitive authorities from an agreement, the Commission will seek an injunction in U.S. District Court to prevent an agreement that allows the exercise of "market power" to the detriment of U.S. participants in the ocean transportation supply chain from going into effect.

Additional statutory authorities added by Congress to the Shipping Act could assist the Commission in gathering necessary and relevant information to evaluate agreements, and could provide additional avenues and remedies, allowing the Commission to better ensure a competitive market-place, protecting the international ocean transportation supply chain, and providing affected private parties with additional avenues to protect their interests. Should Congress determine to amend the Shipping Act, I will commit to implementing and enforcing any change consistent with Congressional intent, just as the Commission had done with the 1984 Act and 1998 amendments.

---

[1] This conclusion is reinforced by two statutory provisions:

- 46 U.S. Code § 40307 - Exemption from antitrust laws

(b) Exceptions.—This part *does not extend antitrust immunity* to—

(1) an agreement with or among air carriers, rail carriers, motor carriers, or common carriers by water not subject to this part relating to transportation within the United States;

- 46 U.S. Code § 41105 - Concerted action

A conference or group of two or more common carriers may not—

(4) negotiate with a non-ocean carrier or group of non-ocean carriers (such as truck, rail, or air operators) on any matter relating to rates or services provided to ocean common carriers within the United States by those non-ocean carriers, unless the negotiations and any resulting agreements *are not in violation of the antitrust laws* and are consistent with the purposes of this part, except that this paragraph does not prohibit the setting and publishing of a joint through rate by a conference, joint venture, or association of ocean common carriers;

STATEMENT OF
JOEL SZABAT
EXECUTIVE DIRECTOR
MARITIME ADMINISTRATION
U.S. DEPARTMENT OF TRANSPORTATION

BEFORE THE
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION
U.S. HOUSE OF REPRESENTATIVES

AUTHORIZATION OF COAST GUARD
AND MARITIME TRANSPORTATION PROGRAMS

April 4, 2017

Good afternoon, Chairman Hunter, Ranking Member Garamendi and members of the Subcommittee. I appreciate the opportunity to discuss the Maritime Administration's (MARAD) programs and how they support the agency's statutory mission to foster, promote, and develop the merchant maritime industry of the United States.

The Maritime Administration (MARAD) implements programs that promote the economic competitiveness, efficiency, and productivity of the U.S. maritime transportation system and ensures sealift capability and capacity is available to support the national and economic security needs of the Nation.

NATIONAL SECURITY

MARAD traces its origins to the Shipping Act of 1916, which established the U.S. Shipping Board, the first Federal agency tasked with promoting a U.S. Merchant Marine and regulating U.S. commercial shipping. Later, the Reorganization Act of 1950, which codified President Truman's Reorganization Plan No. 21, formally established the MARAD to ensure the maintenance of an adequate Merchant Marine to support national security. By law and (10 U.S.C. Chapter157) and Presidential National Security Directive No. 28 dated October 5, 1989, the Department of Defense (DOD) must rely on U.S.-flag ships crewed by volunteer, civilian American mariners, to provide the sealift to support military deployments and respond to emergencies. MARAD's responsibility is to ensure that U.S.-flag ships and merchant mariners are available to meet DOD requirements. The U.S.-flag fleet of privately owned, commercially operated vessels, along with government-owned vessels, provide a critical public-private sealift surge and sustainment capacity to move equipment and materials for the Armed Forces and Federal agencies when needed, and where needed, during times of conflict, humanitarian crises, and natural disasters.

Three programs ensure that there are enough U.S.-flag vessels available to provide this capacity: the Jones Act, which ensures a role for the U.S.-flag fleet in domestic trade; and Cargo Preference and the Maritime Security Program (MSP) which, together, support a militarily useful, U.S.-flag fleet sailing internationally.

MARAD and DOD also rely on the commercial fleet to employ enough qualified mariners to crew all the commercial ships tasked to support military operations, as well as 1,300 additional mariners to crew the "surge fleet" of Federally-owned cargo ships. As of today, the size and composition of the U.S.-flag commercial fleet is adequate to meet immediate military contingencies. However, due to the decline in size in recent years of both the domestic U.S.-flag fleet with unlimited horsepower and unlimited tonnage and the international U.S. flag commercial fleet, both the U.S. Transportation Command and MARAD are concerned that there are not enough qualified mariners to sustain an activation of the entire sealift fleet, though there has never been a full activation of the entire sealift fleet.

Maritime Security Program

The Maritime Security Act of 1996[1] established the MSP, which ensures access to U.S.-flag ships engaged in ocean-borne foreign commerce and the necessary intermodal logistics capability to move military equipment and supplies during an armed conflict or a national emergency, while currently providing employment for up to 2,400 U.S. merchant mariners each year. Under this program, participating operators are required to commit their ships, crews, and commercial transportation resources upon request by the Secretary of Defense during times of war or national emergency. The MSP provides direct annual stipends for 60 active, commercially viable, militarily useful, privately-owned U.S.-flag vessels and crews operating in international trade. The program is authorized up to $299,997,000 for Fiscal Year (FY) 2017 at an annualized stipend level of approximately $4.9 million per vessel[2]. Of the 81 U.S.-flag vessels that currently trade internationally on a full-time basis, 60 participate in the MSP program.

National Defense Reserve Fleet / Ready Reserve Force[3]

MARAD manages and maintains a fleet of government-owned merchant ships in the National Defense Reserve Fleet (NDRF)[4]. This includes 45 Ready Reserve Force (RRF) vessels that are maintained ready for operation within five days for transport of cargo to the area of operation and one RRF off-shore petroleum discharge vessel maintained ready for operation within 10

[1] Section 2 of the Act created the MSP, but that authorization is now codified and appears at 46 U.S.C. Chapter 531. Authorized funding levels are at 46 U.S.C. § 53111.
[2] The most recent amounts appropriated are found in the Consolidated Appropriations Act of 2016 (P.L. 114-113)
[3] See, 50 U.S.C. §4405 and 46 U.S.C. Chapter 571.
[4] See, 50 U.S.C. § 4405.

days to meet critical military requirements. As required by law, our Nation has called upon RRF and NDRF vessels, which include training ships on loan to the six State Maritime Academies (SMAs) and the U.S. Merchant Marine Academy (USMMA), to respond to several disasters, including Hurricane Sandy in 2012 and Hurricane Matthew in 2016. Additionally, RRF and NDRF vessels can be configured to support other emergent situations as was the case in mobilizing the Motor Vessel CAPE RAY for use in the international effort to destroy the Syrian Government's declared chemical weapon stockpile. MARAD completed this mission in August of 2014.

MARITIME TRAINING[5]

MARAD provides funding and oversight for mariner training programs to produce highly skilled U.S. Coast Guard (USCG) credentialed officers for the U.S. Merchant Marine. Maintaining an adequate pool of American merchant mariners is vital to both the commercial success of the U.S.-flag fleet and to maintaining the capacity needed to project American sea power. The USMMA and SMAs graduate the majority of USCG-credentialed officers, consisting of the highest entry-level merchant marine officers who hold an unlimited tonnage or horsepower endorsement available to crew U.S.-flag ships. These graduates support our Nation as a cadre of well-educated and trained merchant mariners capable of serving in support of military emergency, national emergency, and humanitarian missions.

United States Merchant Marine Academy[6]

The USMMA is an accredited institution of higher education operated by the DOT and managed by MARAD. The USMMA offers a four-year maritime-focused program, centered on rigorous academic and practical technical training that leads to a Bachelor of Science degree, a USCG merchant mariner credential with an unlimited tonnage or horsepower officer endorsement, and, upon application and acceptance, a commission as an officer in the Armed Forces or uniformed services (National Oceanographic and Atmospheric Administration (NOAA) Corps or the Public Health Service (PHS) Corps) of the United States. USMMA graduates incur an obligation to serve five years as a merchant marine officer aboard U.S. documented vessels or on active duty with the U.S. Armed Forces or uniformed services. In addition, they must serve as a commissioned officer in a reserve unit of the U.S. Armed Services for eight years. In 2017, 176 midshipmen are expected to graduate from the Academy.

---

[5] The Secretary of Transportation is specifically authorized to provide education and training to U.S. citizens for the safe and efficient operation of the U.S. Merchant Marine in 46 U.S.C. § 51103(a). See also, 46 U.S.C. Subtitle V Part B. See Chapters 511, 513, 515 and 517.

[6] See, 46 U.S.C. Chapter 513.

The USMMA's shipboard training program, or "Sea Year", exposes Midshipmen to life at sea on board commercial and military vessels and provides cost-effective hands-on seamanship and engineering sea time that is required to secure USCG mariner credentials. Midshipmen are required to have 360 days of sea service during their four-year program in order to obtain their USCG merchant mariner credentials. Shipping companies and the U.S. Navy are part of a cooperative effort to ensure that a Midshipman's shore based education is enhanced by the required on-the-job training at sea.

Sea Year is critical to the education and training of Midshipmen at the USMMA, and all training must be conducted in a safe and respectful environment. In the wake of a series of reports that indicated problems with sexual assault and sexual harassment (SASH) and other coercive misconduct, both on campus and at sea, DOT and MARAD leadership suspended commercial Sea Year until we developed a better understanding of the problem and could develop a strategy to ensure the safety of the Midshipmen. To address campus concerns, DOT commissioned a cultural audit of the USMMA and the Superintendent is implementing audit recommendations. In addition to the audit, MARAD brought together a consortium of fourteen leading maritime companies to find solutions. Just two weeks after the stand down, the consortium brought forth a proposal to address SASH. MARAD and DOT subsequently created a compliance team that established standards, and collaborated with the consortium and labor to lay out workable criteria for the companies to achieve those standards.

Working collaboratively to resume the program, MARAD, industry, and the unions have adopted comprehensive new policies to ensure that the highest standards for behavior, leadership, and integrity are met. Together we have worked to establish requirements for companies providing Sea Year training opportunities for Midshipmen. To meet these requirements, companies must now show that they have written policies, procedures, and robust training demonstrating zero tolerance for SASH; that they will provide qualified mentors for Midshipmen onboard vessels; and have taken other measures to ensure the safety of Midshipmen. Implementation of these requirements will assist in ensuring both the quality of the anti-SASH programs and each company's accountability when it takes on Midshipmen. At present, four companies have met compliance requirements and resumed hosting Midshipmen on their vessels.

MARAD is committed to doing everything it can to eliminate SASH at the USMMA, improving the reporting rate, taking appropriate action in each reported case, and ensuring Midshipmen subjected to assault or harassment receive the services they need. In addition to the efforts to improve the Sea Year training experience, the USMMA has developed a comprehensive plan to reduce SASH on campus. The USMMA Sexual Assault Prevention and Response (SAPR) Program has significantly improved training across the Academy aimed at the prevention SASH, including online prevention training, case studies, videos, social media, professional speakers and small groups. Actions taken by the USMMA have included installation of new emergency

call boxes and security cameras, improvement of the security guard force, implementation of a 24/7 hotline for reporting inappropriate behaviors, and victim assistance in obtaining medical or mental health treatment. Efforts will continue to improve upon the SAPR Program as the USMMA implements recommendations from the cultural audit and responds to feedback from Midshipmen.

State Maritime Academies[7]

In addition to providing oversight of the USMMA, MARAD provides funding assistance to six State Maritime Academies (SMAs), which collectively graduate more than two-thirds of the entry-level Merchant Marine officers annually.[8] Approximately 972 Cadets are expected to graduate from the SMAs in 2017. MARAD provides annual direct payments to provide for operational support to each of the six SMAs as well as assistance to fund the enrollment of 75 new cadets in the Student Incentive Program (SIP) for a period of four years. The SIP program provides cadets with funds to be used for uniforms, tuition, books, and subsistence. Upon graduation SIP students must maintain an unlimited USCG credential for six years, fulfill a three-year service obligation, and serve in a reserve unit of an Armed Forces or uniformed service for eight years. Assistance provided to the SMAs also includes funding for maintenance and repair costs for training ships on loan from MARAD and funding to offset training vessel fuel costs. Unlike the USMMA Midshipmen, the SMA Cadets receive most of their sea time on these training ships, under the instruction of each school's faculty.

The SMAs use MARAD funds for maintenance and repair projects. This work is particularly important as the training ships age and approach or exceed their designed service life. Two training ships are over 50 years in service, which is twice the standard service life. Accordingly, MARAD is using the funds to address priority maintenance across all the training vessels, with emphasis on the Training Ship EMPIRE STATE, to ensure that they all meet safety and functional requirements and remain in service as long as necessary. As required by the Consolidated Appropriations Act, 2016, P.L. 114-113, MARAD has done a standard training ship design and is conducting an independent requirements and alternatives analysis of Cadet training ship needs as it explores options for replacing aging SMA training vessels; however, no decision has been made at this point regarding their replacement.

---

[7] See, 46 U.S.C. Chapter 515.

[8] The six SMAs are: California Maritime Academy in Vallejo, CA; Great Lakes Maritime Academy in Traverse City, MI; Texas A&M Maritime Academy in Galveston, TX; Maine Maritime Academy in Castine, ME; Massachusetts Maritime Academy in Buzzards Bay, MA; and State University of New York (SUNY) Maritime College in the Bronx, NY.

ENVIRONMENT AND COMPLIANCE

Ship Disposal Program[9]

MARAD is the ship disposal agent for Federal Government-owned merchant-type vessels of 1,500 gross tons or greater and has custody of a fleet of non-retention ships. When ships are determined to be no longer of sufficient value to merit the cost of further preservation, MARAD arranges for their responsible disposal on a worst-first basis. Currently, MARAD has 18 obsolete vessels slated for eventual disposal. MARAD gives priority to expeditiously removing the vessels from the Suisan Bay Reserve Fleet (SBRF) as required by the April 2010 U.S. District Court Consent Decree. Of the 57 obsolete vessels once in the SBRF, two ships remain. The Consent Decree requires MARAD to remove all non-retention vessels by the end of FY 2017. The decline in domestic scrap steel prices makes it difficult for MARAD to sell vessels to recyclers and results in the need to pay to recycle ships. As a result, funds will be needed to pay to dry dock, hull clean, tow to the Gulf Coast, and dismantle these vessels if we are to meet the Consent Decree.

MARAD is also responsible for continuing the required protective storage activities for the inactive former Nuclear Ship SAVANNAH (NSS), including nuclear license compliance, radiological protection, ship maintenance and custodial care, and planning and preparation for decommissioning. The NSS decommissioning is to be completed by December 2031, which coincides with the current Nuclear Regulatory Commission license term.

INTERMODAL DEVELOPMENT

Port Infrastructure Development[10]

Ports and the U.S. marine transportation system are critical to our economy. To better support our ports MARAD developed a port infrastructure development program called StrongPorts[11]. StrongPorts delivers tools and technical assistance to ports and integrate ports and maritime transportation into the larger U.S. surface transportation system. MARAD also oversees funding for port infrastructure projects provided through the Transportation Investment Generating Economic Recovery (TIGER) program authorized in the American Recovery and Reinvestment Act of 2009 (P.L. 111-5), and the Nationally Significant Freight and Highway Projects program which was authorized in section 1105 of the Fixing America's Surface

[9] See, 46 U.S.C. § 57102 for NDRF vessels and § 57101(c) for authority for other agencies to transfer vessels into the NDRF for disposal.
[10] See, 46 U.S.C. § 50302(c).
[11] StrongPorts is a collection of the Maritime Administration's programs and efforts aimed at improving ports. MARAD authority for intermodal development is based on several authorities including those you have noted. Additionally, MARAD has promotional authority for short sea shipping found generally in chapter 556 of title 46.

Transportation Act (FAST Act), (P.L. 114-94). Since 2009, DOT awarded $578 million in TIGER funding for 48 port or marine highway projects in 27 states, and in FY 2016, awarded $115 million for five FASTLANE grant projects.

Short Sea Transportation Program (America's Marine Highways)[12]

Projects designated under the America's Marine Highways program make use of our Nation's vast network of waterways and coastlines to provide new export-based supply chain alternatives for our Nation's manufacturers and shippers. The mission of the program is to lead the development and expansion of services that move freight along our waterways and coastlines and to facilitate their integration into the U.S. surface transportation system. The program encourages partnerships with a variety of stakeholders including shippers and manufacturers, truckers, ports and terminals, ocean carriers, and domestic vessel operators to create new supply chain options that utilize our waterways. America's Marine Highway projects also allow for the optimization of equipment relocation and help to reduce wasteful movement of empty shipping containers. In FY 2016, MARAD awarded $4.85 million in Marine Highway Grants for six projects impacting nine states.

SHIPBUILDING AND FINANCING

Maritime Guaranteed Loan Program (Title XI)[13]

MARAD's Title XI Program provides loan guarantees to enable successful applicants to secure long-term financing for shipyard modernization projects and for building vessels in U.S. shipyards. The loan guarantees provide applicants with long-term financing at favorable interest rates, while sustaining facilities for shipbuilding and ship repair within the United States. In FY 2017, the Title XI program issued a Letter of Commitment for the construction of two new LNG powered combination container roll-on/roll-off vessels.

Assistance for Small Shipyards and Maritime Communities[14]

The Small Shipyard Grant program provides funding to support capital improvements and employee training at small U.S. shipyards. Small shipyards play a significant role in our Nation's shipbuilding and repair activity. The grants support efficiency improvements and modernizations that allow U.S. shipyards to compete more effectively in the global market place. Congress has provided approximately $177 million between FY 2008 and FY 2016 for the Small

[12] See, 46 U.S.C. Chapter 556. The Consolidated Appropriations Ct of 2016 (P.L. 114-113), provided specific funding for the Short Sea Transportation Program.
[13] See, Title XI of the Merchant Marine Act fo 1936, as amended, codified at 46 U.S.C. Chapter 537.
[14] See, 46 U.S.C. § 54101.

Shipyard Grant program supporting 160 grants. In FY 2016, MARAD awarded $4.9 million in funding to 9 small shipyard projects.

CONCLUSION

We will continue to keep this Subcommittee apprised of the progress of our program activities and initiatives in these areas in the coming year.

I appreciate the Subcommittee's continuing support for maritime programs and I look forward to working with you on advancing maritime transportation in the United States. I will be happy to respond to any questions you and the members of the Subcommittee may have.

Hearing on the "Authorization of Coast Guard and Maritime Transportation Programs"
Subcommittee on Coast Guard and Maritime Transportation
Tuesday April 4, 2017
2167 Rayburn House Office Building
Washington, DC
April 4, 2017

Submitted on behalf of Congressman Duncan Hunter (CA-50):

Questions for the Record to MARAD:

The 2017 National Defense Authorization Act, NDAA (P.L. 114-840) was enacted into law on December 23, 2016. Section 3517, directed the Maritime Administrator, in consultations with the Coast Guard Merchant Marine Personnel Advisory Committee and the Committee on Marine Transportation System, to convene a working group to examine and assess the size of the pool of U.S. citizen mariners necessary to support the U.S. flag fleet in times of national emergency.

The working group was required to convene 120 days (April 26, 2017) after enactment:

QUESTION 1. Has the working group been created?

RESPONSE: A charter for Maritime Workforce Working Group (MWWG) was created in early calendar year 2017 as a subcommittee of the U.S. Maritime Transportation System National Advisory Committee (MTSNAC), which operates under the Federal Advisory Committee Act. MARAD hosted the first meeting on March 10, 2017.

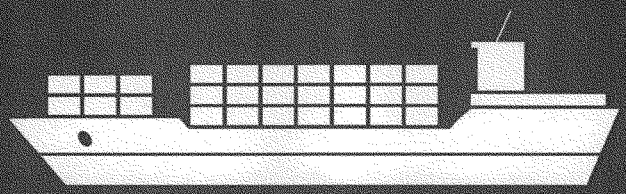
QUESTION 2: How many people have been appointed?

RESPONSE: Twenty-six members, representing twenty-two stakeholder organizations, have been appointed to the MWWG. As specified in the 2017 NDAA the member organizations include MARAD, the U.S. Merchant Marine Academy, U.S. Coast Guard, the U.S. Navy and the U.S. Navy's Military Sealift Command, the State Maritime Academies, U.S.-flag fleet vessel owners operating in coastwise and international trades, and non-profit labor organizations representing licensed and unlicensed employees operating in the U.S.-flag fleet. Members of five organizations were also brought in as subject matter experts, including representatives from the U.S. Transportation Command, U.S. Army, and U.S. Department of Defense.

QUESTION 3: Will the working group be able to produce the required report in one year, as directed?

RESPONSE: The MWWG is on target to complete its report within a year as mandated by Congress.

A REPORT FROM CONGRESSMAN GARAMENDI'S
MARITIME ADVISORY COMMITTEE



PRIORITIES OF THE NORTHERN CALIFORNIA MARITIME INDUSTRY

Summary of Views Shared at a Roundtable Convened April 25, 2016 at the California State University Maritime Academy

THE MARITIME ADVISORY COMMITTEE ROUNDTABLE STEERING COMMITTEE:

Captain Lynn Korwatch | Executive Director | Marine Exchange of the San Francisco Bay Region
Captain Bruce G. Clark | California Marine & Intermodal Transportation System Advisory Council
Dave Nolan | Marine Personnel Manager | Patriot Services
Norman Fassler-Katz | California Marine & Intermodal Transportation System Advisory Council
Christian Yuhas | Marine Engineers Beneficial Association
Captain Tom Cullen | Administrator | California Office of Spill Prevention & Response
Jon Haveman | Principal | Marine Economic Consulting, LLC.
Steve Kreta | Vice President of Student Affairs | California State University Maritime Academy
Laura Podolsky | Policy Director | UC Davis | National Center for Sustainability Transportation
Jim Lites | Director | California Association of Port Authorities

Congressman Garamendi addressing his Maritime Advisory Committee.

Disclaimer: The roundtable was convened to sample the ideas and perspectives of maritime stakeholders in the Northern California region. While the Office of Congressman John Garamendi attempted to invite as many stakeholders as possible, our database is certainly not exhaustive, and not every invitee was able to attend. We invite any thoughts and comments not featured in this publication, and welcome additional participation at future Maritime Advisory Committee events. The views expressed in this document were shared generally at the roundtable meeting and should not be taken as the endorsed beliefs or recommendations of any single participant or organization.

CONTRIBUTORS

Bill Aboudi	President	AB Trucking
Daniel Shea	Executive Vice President	American Maritime Officers
Milton Merritt	President & CEO	AMNAV Maritime Corporation
Dennis Deisinger	Director, Business Development	BAE Systems San Francisco Ship Repair
Christopher Christensen	President	Bay Area Longshoremen's Memorial Association
John Coleman	CEO	Bay Planning Coalition
Peter Belden	Operations Manager, Vallejo	Blue Gold Fleet
Don Maddy	Ex Director, Legislative Affairs	BNSF Railroad
Captain Lane Johnson	Chief	C4IT Division, Pacific Area Command, USCG
Jeff Cowan	National President	Council of American Master Mariners
Thomas Cullen	Administrator	California Office of Spill Prevention and Response
Ruby Grover	Representative	California State University Maritime Academy
Palin Berkana-Wycoff	Lecturer	California State University Maritime Academy
James Dalske	Dean of Student Development	California State University Maritime Academy
Steve Kreta	Vice President of Student Affairs	California State University Maritime Academy
Sue Opp	Provost	California State University Maritime Academy
Cynthia Marvin	Division Chief, Transportation and Toxics Division	California Air Resources Board (CARB)
Timothy Schott	Executive Director	California Association of Port Authorities
Kome Ajise	Chief Deputy Director	California Department of Transportation
Robert Oglesby	Executive Director	California Energy Commission
James Haussener	Executive Director	California Marine Affairs & Navigation Conference
Bruce Clark	Chairman	California Marine and Intermodal Transportation Advisory Council
Norman Fassler-Katz	Executive Officer	California Marine and Intermodal Transportation Advisory Council
Robert Arp	Vice President	California State University Maritime Academy
Ravindra Varma	Supervisor, Planning Branch	California State Lands Commission
Phillip Davies	General Manager Marine Transportation	Chevron Shipping Co LLC
Richard Coyle	President	Devine Intermodal
LCDR Collin Bronson	External Affairs	Eleventh Coast Guard District
Matt Gimple	Chief of Staff	Eleventh Coast Guard District
Buck McDermott	Founder & President	U.S. National Response Forces Foundation
Mike O'Connor	Director of Labor Relations	Foss Maritime Company
Tom Wetherald	Director Business Development & Strategic Planning	General Dynamics NASSCO
Jeff Robbins	District Manager	General Steamship Corp.
Willie Adams	Representative	International Longshore and Warehouse Union
Dr. Jon Haveman	Principal	Marin Economic Consulting, LLC
Christian Yuhas	Patrolman	Marine Engineers Beneficial Association (AFL-CIO)
Captain Lynn Korwatch	Executive Director	Marine Exchange of the SF Bay Region
Captain Ray Shipway	Regional Representative - Oakland Office	International Organization of Masters, Mates & Pilots
Jeremy Hope	Coast Agent - Oakland Office	International Organization of Masters, Mates & Pilots
Don Marcus	President	International Organization of Masters, Mates & Pilots
Paul Londynsky	VP for Safety, Security & Env	Matson
Torey Presti	President and CEO	National Shipping Agencies, inc
Gerald Swanson	Coast Director	Pacific Maritime Association
John McLaurin	President	Pacific Merchant Shipping Association
Dave Nolan	Marine Personnel Manager	Patriot Contract Services LLC
Samara Ashley	Government Relations Analyst	Port of Long Beach
Matt Davis	Director of Government Affairs	Port of Oakland
Michael Giari	Executive Director	Port of Redwood City
Randa Coniglio	President and CEO	Port of San Diego
Willie Adams	Representative	Port of San Francisco
Rick Toft	Port Business Manager	Port of West Sacramento
Stas Margaronis	President	Propeller Club of Northern California
Captain Joseph Long	President	San Francisco Bar Pilots
Nick Marrone	Vice President West Coast	Seafarers International Union
Michael Sacco	President	Seafarers International Union
Craig Dziedzic	General Manager	SF Bay Area Urban Area Security Initiative
David Gonzalez	President	Ship Clerks' Association ILWU Local 34
Joe Carrillo	Regional Vice President, Northern CA	SSA Marine
Bill Fairchild	Project Manager	Starlight Marine Services
Greg Murphy	Executive Director	The Maritime Alliance
Dr. Manuel Lopez	President	The Port of Hueneme
Peter Keller	Executive Vice President	Tote
Bill Nickson	General Manager	Transmarine Navigation Corp.
Jim Henry	Chairman and President	Transportation Institute
John Hummer	Gateway Director, Northern California	MARAD, U.S. Department of Transportation
LTC John Morrow	Commander, SF District	U.S. Army Corps of Engineers
Frank Johnston	Retired RADM	U.S. Maritime Service
David Boyd	Lead Operations Research Analyst	USCG Pacific Area (PAC-7) Research Analysis Branch
Fred Pecker	Secretary-Treasurer	Warehouse Union Local 6, ILWU
John Leitner	President and CEO	WJ Byrnes & Co.
Pamela Wayne	President	Hawser Marine Insurance Services, LLC
Jim Lites	Director	California Association of Port Authorities
Laura Podolsky	Policy Director	UC Davis National Center for Sustainable Transportation
Maxim Alper	Patrolman	Marine Engineers Beneficial Association (AFL-CIO)

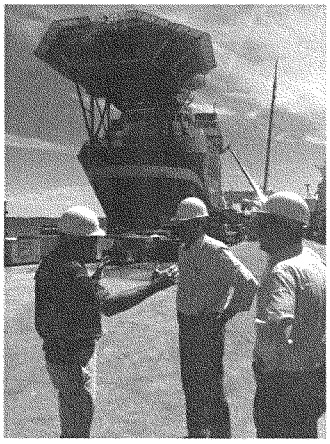
TABLE OF CONTENTS

Steering Committee 1
Contributors 2
Introduction 4
Working Groups 5
Priority Issue Survey 6
Summary of Recommendations & Priorities 7
Public Sector Priorities 9
Private Sector Priorities 13
Sustainability & Regulations Priorities 15
Education Priorities 17
Appendix - Focus Comments 19

INTRODUCTION

On April 25, 2016, Congressman John Garamendi (D-Fairfield, Davis, Yuba City, CA), Ranking Member of the Transportation and Infrastructure Subcommittee on the Coast Guard and Maritime Transportation, convened a roundtable discussion at the California State University Maritime Academy in Vallejo. More than 250 maritime stakeholders participated in this discussion, representing federal, state, and local agencies, maritime businesses, and labor unions. The roundtable had the following two goals:

Broadly identifying key priorities of the many sub-sectors within Northern California's maritime industry:
blue/brown water steamship companies, waterfront industry (terminal operators, stevedoring companies, cranes & equipment operators), employer associations (PMSA), employee associations (ILWU & MEBA), ship servicing industry (Bar Pilots), and logistics & transportation industry (NVOCC, CA Trucking Association).



Eastern Shipbuilding Founder and CEO Brian D'Isernia describing the completed $190 million deep water oil service ship ready for delivery in Panama City, Florida – a Made in America Jones Act ship.

Developing specialized working groups to discuss priority issues and goals in greater detail. Working groups included the following sectors/issue categories:
Private Sector, Public Sector, Education/Workforce Sector, and Environmental. Each working group identified and addressed their priority issues through the following 4-prong methodology:

(a) Description and explanation of the "state of issue" for each priority agreed upon by the sector working groups

(b) Significance of the priority issue (implications to private & public sector, etc.)

(c) Recommendations for Congressman John Garamendi regarding possible legislative solutions, best practices and/or action plans

(d) Appendix of additional comments and suggestions from Advisory Committee Members

WORKING GROUP ISSUE TOPICS

A. Public Sector Funding & Initiatives **(Working Group 1)**

1. 2016 Water Resources Development Act (WRDA)
2. 2016 FAST Act Implementation in California ($23 Billion for CA)
3. U.S. Port Security (Port Security Grant Program – FEMA)
4. 2016 U.S. Coast Guard Re-Authorization
5. M-580 Marine Highway Program
6. Port & Terminal Congestion
7. Federal agency response to the introduction of ultra-large containerships
8. MARAD Title XI Federal Loan Guarantee Program

B. Private Sector Economic Opportunities **(Working Group 2)**

1. Jones Act Provisions & Proposals
2. Revitalizing the U.S. Shipbuilding Industry
3. Make it in America & Buy America Provisions
4. West Coast Maritime Industry Implications of Panama Canal Expansion
5. U.S. Coast Guard Waterway Management Policies & Forecast
6. Port & Terminal Congestion
7. Land Use & Urban Port Planning (Regional Private/Public Sector Partnerships)

C. Regulations & Environmental Sustainability Goals **(Working Group 3)**

1. CA Exec Order B-32-15 (CA Freight Mobility Plan & Sustainability Plan)
2. Land-Use & Urban Port Planning (plans for building bulk commodity capacity)
3. U.S. Endangered Species Act / WRRDA 2014 implications
4. Terminal Emission Control Agency - Fuel Transition Goals & Plans
5. California Air Quality Board & U.S. Environmental Protection Agency
6. The need for National Emission Standards for the Maritime Industry
7. U.S. Clean Water Act (Foreign Ship Ballast Water Issues)

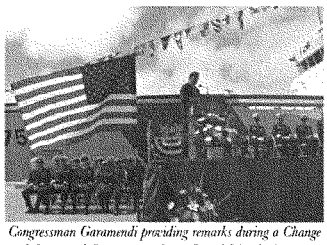
D. Education & Workforce **(Working Group 4)**

1. Educating policymakers on the importance of the maritime industry to U.S. national security and economic security
2. Building future U.S. Maritime Workforce via apprenticeships & WIOA (Workforce Innovation Opportunity Act) industry-driven curriculum
3. Funding for Merchant Marine Training Ship Programs
4. Coast Guard Licensing & Certification for Merchant Marine
5. Shipbuilding Naval Architecture & Ship Design Programs
6. Implementation/Discrepancies in Jones Act Provisions

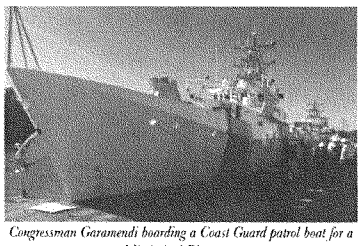
Congressman Gavamendi engaging with his Education & Workforce working group during the Maritime Advisory Committee Roundtable.

PRIORITY ISSUE SURVEY

ISSUE CATEGORY	DESCRIPTION OF PRIORITY	TOTAL
Private Sector	Jones Act Provisions & Proposals	27
Private Sector	Port & Terminal Congestion (Private Sector Implications of Pier Pass & Oakland Pier Pass Proposal)	15
Private Sector	Revitalizing the US Shipbuilding Industry	14
Education/Workforce	Educating Policymakers on the importance of Maritime Industry to the local, regional, & national economy	13
Private Sector	Make it in America & Buy America Provisions	10
Public Sector	M-580 Marine Highway Program	8
Regulations & Env.	CA Executive Order B-32-15	7
Regulations & Env.	CA Air Quality & US Environment Protection Agency	6
Public Sector	US Port Security (Port Security Grant Program - FEMA)	6
Public Sector	Federal Agency Response to the introduction of Ultra-Large Containerships	5
Public Sector	2016 Water Resources Development Act (WRDA)	5
Private Sector	Land Use & Urban Port Planning (Regional Private/Public Sector Partnership)	5
Education/Workforce	Building future US Maritime Workforce (Ex: via apprenticeship program, etc.)	5
Education/Workforce	Coast Guard Licensing & Certification for Merchant Marine	5
Regulations & Env.	The Need for NTL Emission Standards for the Maritime Industry	4
Private Sector	West Coast Maritime Industry Implications of Panama Canal	4
Public Sector	MARAD Title XI Federal Loan Guarantee Program	4
Public Sector	2016 Coast Guard Re-Authorization	3
Public Sector	2016 Fast Act Implementation in CA ($23 Billion for CA)	3
Education/Workforce	Implementation / Discrepancies in Jones Act Provisions	3
Regulations & Env.	Terminal Emission Control Agency Fuel Transition Goals & Plans	2
Regulations & Env.	US Clean Water Act	2
Private Sector	US Coast Guard Waterway Management Policies & Forecast (Coast Guard's Role in Ice-Breaking Efforts)	2
Education/Workforce	Shipbuilding Naval Architecture & Ship Design Programs	2
Education/Workforce	Funding for Merchant Marine Training Ship Programs	2
Regulations & Env.	Land Use & Urban Port Planning	1
Regulations & Env.	US Endangered Species Act/ WRRDA 2014 Implications	0



Congressman Garamendi providing remarks during a Change of Command Ceremony at Coast Guard Island Alameda.



Congressman Garamendi boarding a Coast Guard patrol boat for a Mississippi River tour.

SUMMARY OF RECOMMENDATIONS & PRIORITIES

PUBLIC SECTOR RECOMMENDATIONS & PRIORITIES

1.Congress should **adjust the definition of "Donor Ports" within WRDA,** to reflect a $5 million contribution rather than the current $15 million contribution to the Harbor Maintenance Trust Fund.

2.Congress should **continue supporting legislation such as the FAST Act** that emphasizes programmatic funding for multi-modal freight transportation, such as rail, highways, marine-highways, and ports, as an interconnected and interdependent system of systems, and which provides a strategic framework for multi-modal transportation systems both at a national and state level.

3.Congress should **provide additional dedicated funding for "port security & maintenance"** through additional discretionary funding programs and grant funding dedicated to port authorities and port stakeholders, where contributory equity is a key factor in assuring a fair return and distribution of tax and fee payer revenues dedicated for these purposes.

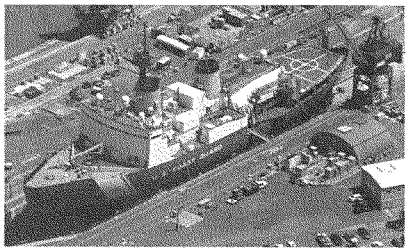
4.National and local policies/practices at our ports should **include "coordination" of infrastructure investments** and implement practices such as: 1) Pre-Arrival Scheduling, and 2) coordinated infrastructure development and deployment (federal, state, local, public and private), both landside and waterside to address port congestion issues. As a result of this recommendation, Congressman Garamendi supported and monitored the activities of the Port Performance Freight Statistics Working Group authorized under the FAST Act, as well as the work of the FMC's Supply Chain Innovation Initiative.

5.Both national and statewide leadership should **revisit the deployment and implementation of the M-580 program** and similar strategies for coastwise short sea and inland river transportation as a means to address: 1) Port Congestion, 2) Compliance with 2016 California Freight Sustainability Goals and associated environmental target goals, and 3) economic opportunities to strengthen the economic viability of the maritime industry.

PRIVATE SECTOR RECOMMENDATIONS & PRIORITIES

1.Congress should **continue advancing the Jones Act, while considering revisions that can strengthen its original intent of promoting the U.S. maritime industry and protecting national security interests.** Congress should consider: 1) possible revisions in the "build and charter" program; 2) revising the construction differential subsidy and operating differential subsidy; and 3) including provisions requiring American new ship builds and American existing ship repairs.

2.Congress should **incentivize U.S. private sector leaders to construct additional U.S.-built vessels through Title XI tax incentives** and implementation of additional policies, such as H.R. 5270 (113th Congress), to ensure that crude oil and LNG exports are used to expand our U.S.-flag fleet, U.S. mariner pool, and U.S. shipbuilding capabilities. Congress should incentivize the private sector to build U.S. ships utilized in international trade, and should prioritize enforcement of cargo preference rules. In keeping with this recommendation, Congressman Garamendi introduced H.R. 1240, the Energizing American Maritime Act, requiring that 30% of exported crude oil and LNG travel on U.S.-flag ship by 2025.



The USCGC Polar Star *Icebreaker during dry dock repairs at Mare Island, CA. The Polar Star is a key Coast Guard asset in protecting American interests and ensuring safe and reliable maritime commerce.*

ENVIRONMENTAL SUSTAINABILITY RECOMMENDATIONS & PRIORITIES

1.Congress and/or the state legislature should **provide additional funding for tools and resources for the maritime industry to address the many environmental sustainability goals** that have become increasingly burdensome and "unviable" for the industry's capabilities. Without such funding and resources, it will not only come at the cost of the economic competitiveness of the U.S. maritime industry but will disrupt long-term compliance of these sustainability goals.

2.Congress should **propose a nationwide freight sustainability standard that works in conjunction with state standards** and is mindful of the national maritime industry's needs and goals. If sustainability goals are ambitious, additional funding should be provided to ensure that these goals can be achieved.

3.Congress and state policymakers should **consider the following principles when developing new environmental policies impacting the maritime industry:** 1) Establish uniform standards across all states that accurately reflect existing Best Available Technology, and establish goals that are reasonably attainable. 2) For regulations reliant on the adoption of new technologies, consider the viability and availability of respective technologies to the industry and adequate funding support for research & development. 3) For regulations that are performance-based, provide incentives and rewards for good actors.

Congressman Garamendi touring the Eastern Shipbuilding Naval Shipyards.

EDUCATION & WORKFORCE RECOMMENDATIONS & PRIORITIES

1.Congress, state policymakers, and maritime industry stakeholders should coordinate efforts **to advance public discourse on the priorities and needs of the maritime industry by:** 1) holding public hearings and additional roundtables that are work-focused and outcome-driven; 2) planning field trips for students to ports; 3) hosting larger lobbying efforts; 4) hosting maritime industry & policymaker lunch meetings.

2.Congress should work with the Maritime Administration and the U.S. Coast Guard to **ease licensing requirements and programs for veterans entering the maritime workforce,** noting that many veterans are currently not receiving credit for training completed during their military service. Many veterans already possess expert knowledge and training, but face delay in entering the industry following release from active duty due to redundant licensing requirements and fees that delay or completely disrupt the transition into the maritime industry at a time when the maritime workforce faces critical projected shortfalls. In keeping with this recommendation, Coast Guard and Maritime Transportation Chairman Duncan Hunter and Ranking Member John Garamendi convened two separate listening sessions with Federal agencies and maritime stakeholders on the issue in 2016, and were successful in including "Military to Mariner" language in the 2017 National Defense Authorization Act.

3.Congress and U.S. private sector interests should **work together to develop a new era of life-saving equipment and updated requirements for U.S. mariners and U.S. vessels.** With climate change, significant weather events are growing more severe every year, and new equipment and training will be critical in preventing further loss of American lives and shipping infrastructure, along with the associated economic and social impacts.

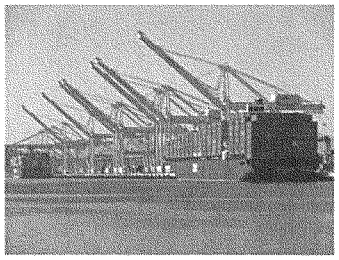
PUBLIC SECTOR PRIORITIES

Public Sector Working Group Facilitator:
Captain Tom Cullen
Administrator
CA Office of Spill Prevention & Response

PRIORITY ISSUE #1 – WATER RESOURCES DEVELOPMENT ACT (WRDA) 2016

State of Issue: The Harbor Maintenance Trust Fund (HMTF) provides funding for port dredging and maintenance paid for by a 0.125 percent user fee on the value of cargo shipped through a port. A port is considered a "donor port" if it collects at least $15 million in HMTF dollars annually, received less than 25 percent of collected HMTF dollars in the last five years, and is located in a state where over 2 million twenty-foot equivalent units were loaded or unloaded in FY 2012. Donor ports qualify for assistance from a $50 million set-aside that can be used for berth improvements and dredged materials disposal and reuse, environmental reviews, and payments to importers. California, whose northern ports face a dire need for additional dredging funding, is a major donor state that, as of 2015, received only 15 percent of the amount paid into the HMTF by shippers for the use of its harbors. For example, shippers at the Ports of Los Angeles and Long Beach paid on average $250 million each year into the HMTF, but those ports received an average of $2 million in return.

Significance: California has many needs to maintain our ports and canals. Dredging operations, utility improvements, and infrastructure upgrades are just a few of the many costs our ports face to remain competitive.



Container Ships in the Port of Oakland
Photo: Steve Boland, http://calurbanist.com/

Recommendations: Congress should put pressure on Appropriators to allocate additional funds for dredging, and should adjust the definition of "Donor Ports" within WRDA to reflect a $5 million contribution rather than the current $15 million contribution to the Harbor Maintenance Trust Fund. The Sector Group particularly recognizes the efforts of the Port of San Diego and the Port of Hueneme in this regard, as shown in the following example:

(a) San Diego contributes an average of between $6 million and $8 million annually.

(b) The current $15 million contribution requirement does not qualify the Port of San Diego for "expanded use" of HMTF funds, which include berth dredging and maintenance projects and disposal of contaminated soil.

(c) The Port of Hueneme also supports the adjustment of $5 million.

(d) The Executive Directors of the Ports of Los Angeles and Long Beach are not opposed. Congressional delegations representing San Diego and Ventura have expressed support.

NOTE: With Congressman Garamendi's support, the Water Infrastructure Improvements for the Nation Act (WIIN), the 2016 version of WRDA, was passed and signed into law in December of 2016. It included a provision to expand the donor port program to include medium-size ports that collect between $5 million and $15 million for the HMTF annually, received less than 25 percent of those funds back during the previous five years, and are located in a state where more than 2 million shipping containers were loaded or unloaded in 2012. This is a win for the Port of San Diego, the Port of Hueneme, and all of California.

PRIORITY ISSUE #2 – 2016 FAST ACT IMPLEMENTATION

State of Issue: In December of 2015, a five-year surface transportation bill was signed into law after nearly a decade of short-term extensions. The $305 billion plan, called the Fixing America's Surface Transportation (FAST) Act, highlighted freight infrastructure as a top national priority with the first ever freight title and over $10 billion directed for freight programs.

Significance: The FAST Act marks the first time the federal government proactively recognized the need to fund multi-modal port systems. Money for freight is incredibly important, supporting a larger statewide freight transportation system that serves America's businesses and consumers. Freight grants made available through the FAST Act, like the FASTLANE grant program, will be important in alleviating the high demand for TIGER grants.

Recommendations: Congress should continue supporting legislation such as the FAST Act that emphasizes programmatic funding for multi-modal freight transportation (rail, highways, marine-highways, etc.) and provides a strategic framework for multi-modal transportation systems both on a national and state level. Such legislation must recognize the important role ports play in freight movement, and stakeholders should strive to get ports projects listed in the Transportation Improvement Program (developed by Metropolitan Planning Organizations) and Statewide Transportation Improvement Program (developed by California).

PRIORITY ISSUE #3 – PORT SECURITY GRANT PROGRAM

State of Issue: The Port Security Grant Program (PSGP) supports the building, sustainment, and delivery of core capabilities essential to national security, directly supporting maritime transportation infrastructure security activities. Over a five-year period from 2006 to 2010, a total of nearly $1.7 billion in PSGP funds were allocated, averaging $340 million annually. But the program has seen significant cuts, and in FY2016 was funded at just $100 million for FY2016. Further, these funds are now allocated on a purely competitive basis by a central panel in Washington, DC, rather than based on the needs assessments of regional partners most familiar with local priorities and requirements.

Significance: Ports often lack the sophisticated lobbying efforts of other modes of transportation and are often unable to compete for scarce grant dollars. This grant program helps state, local, and private sector maritime partners improve port-wide risk management, maritime domain awareness, training, and recovery and resilience capabilities.

Recommendation: Congress should provide additional dedicated funding for port security and maintenance, including through additional discretionary funding programs and grant funding dedicated to port authorities and port stakeholders. Congress should:

(a) create a dedicated funding source for Cyber Security and Radiological/Nuclear Threats and Protections (RADNU) that focuses specifically on these threats

(b) keep the Port Security Grant Program as a unique budget line item and resist moves to consolidate it into other grant initiatives;

(c) ensure tax dollars collected in California that fund the PSGP fairly and equitably benefit California Ports and Harbors, and that prioritized projects are selected using regional input as the primary consideration;

(d) streamline and revise the PSGP to extend the grant expenditure timeline (currently limited to a two year expenditure cycle) to improve obligation and expenditure rates for PGSP funds (some participants expressed views that local project approvals and federal and state environmental compliance requirements can erode the actual project performance schedule to an unattainable level, particularly for civil improvement and protection projects); and

(e) expand the approved use of funds to include maintenance and replacement of critical port security equipment and infrastructure with a limited effective life cycle, whether previously purchased with PSGP funds or not.

NOTE: In keeping with this recommendation, Congress convened two hearings in 2016 to gather additional background on port security threat assessment and security.

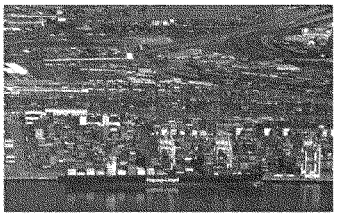
PRIORITY ISSUE #4 – PORT & TERMINAL CONGESTION

State of Issue: Outdated infrastructure, inefficient processes, labor disruptions, and changing market trends (including the introduction of ultra-large carrier vessels and the use of megaships) are among the many factors that contribute to port and terminal congestion. Federal assistance is needed to address channel depth, landside infrastructure, intermodal connectors and other factors that can contribute to the smooth functioning of ports. Concerns include scheduling costs, overtime labor, labor management issues, and insufficient access to ports and transactions.

The Committee specifically identified concerns about Pier Pass, a program unique to the Port of LA and Port of Long Beach. They pointed out that Pier Pass Scheduling covers only two shifts during a five-day period and allows drayage companies and shippers to pay a "fee" for preferential assignment of a "pick-up" slot, when not all carriers and shippers have the resources and flexibility to do this. The Committee also noted that the warehousing and inland port staging areas often do not match extended gate hours at the port facilities, so that even if the port gates remain open for three shifts, drayage companies have no place to go with their loads. These elements limit the attainment of maximum efficiencies, resulting in port congestion and the accompanying economic and environmental impacts.

Significance: Businesses, workers, and consumers across the U.S.—and the world—rely on the smooth and efficient flow of goods through our ports and terminals to remain competitive. Port and terminal congestion threaten the efficiencies of supply chains crucial to our global economy, and challenge implementation and attainment of rigorous "zero emissions" environmental goals.

Recommendations: Noting that a proposed "increased fee" for usage negatively impacts the trucking industry, the Committee determined that a comprehensive approach is needed to address port congestion. Both national and local port decision makers should pursue "coordination" of infrastructure investments and implement practices such as: 1) pre-arrival scheduling; 2) coordinated infrastructure deployment both landside and waterside to addressing port congestion issues; and 3) avoidance of limited gate hours, including the avoidance of gate closures on Sundays.

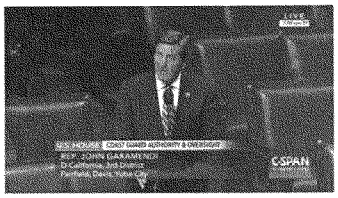


Port of Oakland aerial view
Photo: Daniel Parks, http://www.flickr.com/photos/parksdh/

Port of Oakland cranes
Photo: Steve Bolama, http://oaklandtrust.com/

Containers being moved in preparation for loading at the Port of Oakland
Photo: Department of Energy

PRIORITY ISSUE #5 – THE M-580 MARINE HIGHWAY PROGRAM



Congressman Garamendi speaking on the House Floor about the importance of building a U.S. polar icebreaking fleet.

State of Issue: The M-580 Marine Highway Program was discussed at Congressman Garamendi's 2013 Maritime Roundtable and supported by the Congressman. Unfortunately, a series of issues led to the failure of the California Test Project on the Sacramento River between the Ports of Oakland and Stockton, including a lack of time and resources for full implementation. For instance, Virginia's Marine Highway Program was given three years of funding for private-market value sustainability and acceptance, whereas the M-580 only received 14 months of funding. Some Committee members also offered the idea that the selection of this relatively short inland river route may not have been the best initial test of this concept in California.

From left: Senator Chris Murphy, Rep. Ted Deutch, former Rep. Donna Edwards, Rep. John Garamendi, and Senator Brian Schatz aboard the USS Mustin.

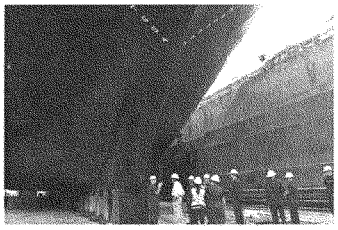
Significance: The Public Sector Group identified multiple reasons to secure additional funding to revive this program, including:

(a) Marine highways are proven tools that can address port congestion, roadway traffic, and general wear-and-tear on inland highway infrastructure, while promoting improvements and increased service by rail to currently underserved areas.

(b) With the State of California mandating stricter Zero Emission sustainability goals, the marine highway can be a valuable and effective alternative.

(c) Because the infrastructure for this program is already in place, subsidies are only required to assist with temporary cargo movement.

(d) There is a strong business case for the M-580 Program when considering cargo perishability issues for conventional cargo transportation.



Congressman Garamendi touring the USCGC Polar Star *Icebreaker during dry dock repairs at Mare Island, CA.*

Recommendations: Both national and statewide leadership should revisit the deployment and implementation of the M-580 program as a means to address port congestion, compliance with California's Freight Sustainability Goals, and opportunities to strengthen the economic viability of the maritime industry by development and construction of U.S.-made ships crewed by U.S. mariners.

PRIVATE SECTOR PRIORITIES

Private Sector Working Group Facilitator:
Jon Haveman
Principal
Marin Economic Consulting, LLC.

PRIORITY ISSUE #1 – JONES ACT PROVISIONS

State of Issue: The Jones Act is vital to the U.S. maritime industry. The Sector Group focused on the importance of protecting the Jones Act, as well as revisions that adhere to its original goals and strengthen many of the sub-sectors of the U.S. maritime industry, including the revitalization of the U.S. shipbuilding industry.

Significance: The Jones Act not only has major economic implications for the maritime industry, but also significant and serious implications for the national security of our nation. The current composition of the Jones Act fleet is both insufficient for the long-term viability of the maritime industry and poses a national security concern that must be addressed.

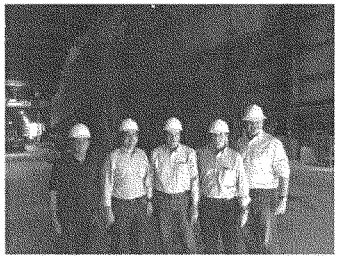
Recommendation: Congress must continue advancing the Jones Act, while considering revisions that can strengthen its original intent of promoting the U.S. maritime industry and protecting national security interests, including:

(a) Possible revisions in the "build and charter" program.

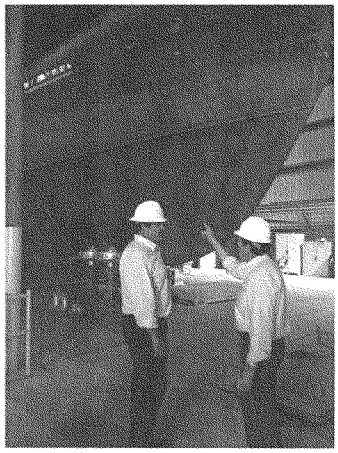
(b) Possible revisions to the construction differential subsidy and operating differential subsidy.

(c) Revisions to require that all repair work on U.S.-flag Jones Act vessels—with an exception for emergency repairs—be done in the United States in U.S. shipyards with U.S. labor and materials.

NOTE: In keeping with this recommendation, Congressman Garamendi and others were successful in fending off efforts in 2016 to weaken the Jones Act.



Top and Bottom: Congressman Garamendi touring Bollinger Shipyard in Louisiana, where 22 Fast Response Cutters have been built for the Coast Guard so far.



PRIORITY ISSUE #2 – REVITALIZING THE U.S. SHIPBUILDING INDUSTRY

State of Issue: In 1979, the United States had over 576 U.S.-flagged vessels operating in the foreign trade. Today, that number has plunged to under 90 vessels. This slow decline in U.S. shipbuilding and ship operating capacity poses great concerns for America's long-term economic viability and national security.

Significance: There are only nine remaining active blue-water (large vessel) shipyards capable of building vessels for foreign trade. Moreover, as noted the current build (construction schedule) of "Jones Act Fleets" will not be enough to fulfill all economic needs and/or U.S. national security interests. Without enough Jones Act vessels, many ship owners are left to reflag foreign vessels, a practice that has short-term functional or economic value for civilian cargo but presents great national security risks and concerns for military cargo lift capacity over the long term.

Recommendations: Congress should incentivize U.S. private sector leaders to construct additional U.S.-built vessels through Title XI tax incentives and implementation of additional policies such as H.R. 5270 to ensure Crude Oil and LNG oceangoing exports utilize U.S.-built, -crewed, and -flagged ships. Congress should provide incentives for private sector construction of U.S. ships utilized in international trade, and should prioritize enforcement of cargo preference rules. Congress should pursue and promote:

(a) policies that encourage or require the use of U.S. ships for international trade;

(b) policies and practices that include dual military vessel usages, including incentivizing the development and use of coastal container and bulk carrier vessels which, under Jones Act provisions, can be made available to the Department of Defense in times of war, and exploring other military and civilian joint usage ideas;

(c) policies that provide better shipbuilding opportunities;

(d) policies that increase U.S. qualified mariner base;

(e) tax incentives that encourage the construction of U.S. ships; and

(f) export trade policies that protect and promote the U.S. maritime industry, including requirements that set volumes of export cargoes must travel on U.S.-flag vessels.

Note: In keeping with this recommendation, Congressman Garamendi introduced H.R. 6544 and H.R. 6545 at the end of the 114th Congress, as well as H.R. 1240 in the 115th Congress. He also supported colleagues in the passage of a 2017 National Defense Authorization Act provision authorizing the design and construction of a new multi-mission maritime training vessel for the U.S. Merchant Marine Academy and state maritime academies.

Congressman Garamendi delivering the keynote address during the 2016 SF Fleet Week Senior Leaders Seminar

SUSTAINABILITY & REGULATIONS PRIORITIES

Sustainability Working Group Facilitator:
Laura Podolsky
Policy Director, University of California, Davis
National Center for Sustainability Transportation

PRIORITY ISSUE #1 – FUNDING FOR NEAR ZERO EMISSIONS EQUIPMENT

State of Issue: California has the strictest environmental regulations for the maritime industry in the United States. The general consensus of the working group was that these are good and sound policies in attaining a balance between economic, commercial, and environmental goals. But because other states have been slow or reluctant to adopt similar regulations, the stage has been set for uneven and unequitable competition.

Significance: Federal preemption by establishing a set of national standards could help expand uniform application of environmental regulations and result in the following things:

(a) California would not bear the entire cost of bringing new and more efficient engines and water treatment systems to market, and maritime commercial operators would not be required to purchase these systems to comply only with the requirements of a single state.

(b) Cargo companies would not be tempted to forgo California ports for ports in other states because of the cost of compliance with California's environmental regulations. If more cargo is diverted to other ports, California is not fixing the problem of reducing greenhouse gases and is instead exacerbating the problem by transferring these issues to other regions and states. Greenhouse gases would be reduced on a nationwide level by the adoption of uniform national standards focused on attainable and realistic goals and using a "Best Available Technology" approach.

(c) What should come first: more efficient products, or regulations that require more efficient products? Without stricter regulations, there is no incentive to create more efficient products, but regulations must come with funding for research and development, and incentives for bringing technologies to market. Regulations on vessel incidental discharges, described in a subsequent section, are a good example of the fragility of this balance.

Recommendations: Congress and the state legislature should provide additional funding for tools and resources for the maritime industry to address the many environmental sustainability goals that have becoming increasingly burdensome and "unviable" for the industry's capabilities. Without such funding and resources, it will not only come at the cost of the economic competitiveness of the U.S. maritime industry but will disrupt long-term compliance of these sustainability goals.

PRIORITY ISSUE #2 – CALIFORNIA'S SUSTAINABLE FREIGHT ACTION PLAN

State of Issue: Governor Jerry Brown's executive order B-32-15 directed the California Air Resources Board (CARB), the California Department of Transportation (Caltrans), the California Energy Commission (CEC), and the Governor's Office of Business and Economic Development "to develop an integrated action plan by July 2016 that establishes clear targets to improve freight efficiency, transition to zero-emission vehicles (ZEVs), and increase competitiveness of California's freight system." The integrated plan must be informed by existing state agency plans, most notably the California Freight Mobility Plan (produced by Caltrans), Sustainable Freight Pathways to Zero and Near-Zero Emissions (produced by CARB), and the Integrated Energy Policy report (produced by CEC).

Significance: Current projections show that reconciliation of these plans will come at considerable cost to the California inter-modal transportation system. There are still many questions that have yet to be answered, including:

(a) How will the trucking and the freight industry at large transition to ZEVs?

(b) Will the action plan be prescriptive?

(c) Although many California agencies are working together, how will the state's efforts fit into the federal context? If California efforts do not sync with the federal dynamics, the Sector Group is concerned that the state may become less economically viable.

(d) How will regulations affect the cost of moving cargo?

(e) What's next after the statewide plan is adopted?

Recommendations: Congress should propose a nationwide freight sustainability standard that works in conjunction with the state standards, and is mindful of the national maritime industry's needs and goals. If sustainability goals are ambitious, additional funding should be provided to ensure that these goals can be achieved.

PRIORITY ISSUE #3 – RECONCILING TECHNOLOGICAL CAPACITY OF INDUSTRY WITH NATIONAL & STATE ENVIRONMENTAL REGULATIONS AND SUSTAINABILITY GOALS

State of Issue: With new environmental regulations and sustainability goals being adopted both by the state and national government on an on-going basis, maritime industry sectors face challenges in the ambitious nature of many of these reforms, as well as inconsistencies between state and federal standards. Leaders in every sector of the maritime industry understand the importance of adopting sustainability goals, but request that policymakers consider strategies to assist in achieving sustainability goals while remaining economically competitive. One key issue is ensuring that regulations and goals are being established in consideration of the viable technology available to industry. Policymakers must also ensure that available technology is viable for large-scale commercialization and implementation to meet the demands of new regulations on a statewide and national scale.

Significance: On July 17, 2015, the Governor's Executive Order B-32-15 to coordinate the California Sustainability Freight Action Plan with the goals of improving freight efficiency, transitioning to zero-emission technologies, and increasing economic competitiveness in the state. While a positive step forward, the Sector Group identified concerns in the maritime industry of possible opportunity losses related to this order. After the order was announced, the California State University Maritime Academy Golden Bear Research Center began identifying segments of the freight sector that would face challenges in adopting the mandated new technologies—an indication that regulations and sustainability goals were set without clear evidence that they were reachable. The Sector Group notes that industry often takes a triple-hit when environmental regulations and standards change: once in up-front R&D costs, again for commercialization and implementation of the required technology, and finally in competitive impacts if the associated costs are not spread universally across the national marketplace.

Recommendations: Federal and state policymakers should consider the following principles when developing new environmental policies impacting the maritime industry:

(a) Strive for uniform standards across all states.

(b) For regulations reliant on the adoption of new technologies, consider the viability and availability of respective technologies to the industry, provide adequate funding support for R&D, and incentive partnerships for implementation.

(c) For regulations that are performance-based, provide incentives and rewards for good actors.

Note: The International Maritime Organization's International Convention for the Control and Management of Ships' Ballast Water and Sediments (BWM) will enter into force on September 8, 2017. Vessels operating under the flag of a signatory country must comply with those regulations, as well as with applicable port regulations issued by the U.S. Coast Guard, the U.S. Environmental Protection Agency, and any state-specific regulations. In December of 2016, the U.S. Coast Guard approved Optimarin AS' UV-based treatment system for compliance with its regulations, with expectations of two additional approved systems shortly. While this is a positive step forward in clarifying this complex compliance environment, maritime stakeholders remain concerned about the evolving regulatory program and point out the need for a stable, uniform standard.

EDUCATION & WORKFORCE PRIORITIES

Education & Workforce Working Group Facilitator:
Steve Kreta
Vice President of Student Affairs
California Maritime Academy

PRIORITY ISSUE #1 – RAISE AWARENESS OF POLICYMAKERS AND THE GENERAL PUBLIC ON THE CRITICAL IMPORTANCE OF A STRONG U.S. MARITIME INDUSTRY TO OUR ECONOMY AND NATIONAL SECURITY

State of Issue: The U.S. maritime industry contributes more than $649 billion annually to national GDP, sustaining more than 13 million jobs. Virtually 90 percent of all cargo comes through our ports via the maritime industry, touching the lives of every American on a daily basis. Yet most policymakers and members of the general public are largely unaware of these vital contributions, the needs of the industry, and the various supply chains vital to its success (including trucking and rail).

Significance: Noting that the U.S. Maritime Industry is largely driven by legislative policies (including infrastructure funding, subsidies, and regulations), it is vital for U.S. policymakers and for the public at large to learn more about the value and impact the maritime industry has on our country's economic and national security. The economic footprint of this industry spans many sectors and is deeply tied to the strength of our local workforce. Expanding our U.S.-flag fleet and employing more workers, both on land and at sea, means more mariner and manufacturing jobs strengthening the entire U.S. economy. But due to a pattern of depreciating competitive value on a global scale, the percentage of U.S.-flagged and operated ships continues to decrease, to the point that our maritime industry now falls far short of its potential. As a result, America falls short of its potential as well.

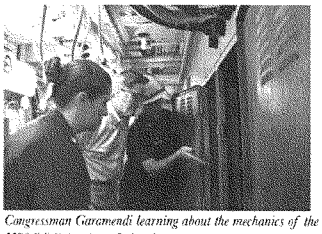
Recommendations: Efforts should be coordinated amongst Members of Congress and state policymakers to elevate public discourse on the priorities and needs of the maritime industry, including: 1) holding public hearings, 2) additional roundtables, 3) planning field trips for students to ports, 4) hosting larger lobbying efforts, 5) maritime industry & policymaker lunch meetings, etc.

Suggestions:

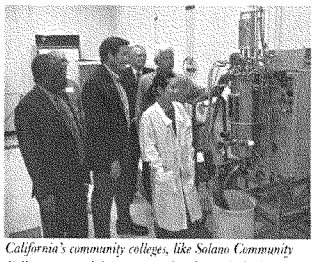
(a) Hold More Public Events and Hearings – Congressional meetings in the district are great ways to bring everyone together. Encourage policy makers to hold their own district roundtables. This year's Roundtable format is a great model and format for future discourse.

(b) Lobbying and Marketing – Get policymakers physically on the ships, possibly to include a lunch date with the labor unions. It makes a big difference when they're on the ship and see the various operations for themselves.

(c) Student School Involvement – Encourage more field trips to U.S. ports, train stations, railways, etc. Get the word out that there are good paying jobs within the maritime industry.



Congressman Garamendi learning about the mechanics of the USCGC Polar Star *Icebreaker*



California's community colleges, like Solano Community College, can teach important engineering and physics concepts for those aspiring to enter the maritime economy.

PRIORITY ISSUE #2 – BUILDING THE MARITIME WORKFORCE

State of Issue: The maritime industry lacks a sufficient workforce and work opportunities. There is an insufficient number of ships and mariners to maintain the competitiveness and economic needs of the maritime industry, notably described by a recent MARAD report indicating that thousands of additional mariners will be needed in the near future to meet sealift requirements. To address these needs, we must build a pipeline by continually recruiting and training future mariners.

Significance of Issue: Currently there are impediments in certain industry and education sectors which act to decrease the speed and efficiency of rebuilding this workforce pipeline, specifically the transition of sailors and mariners from the military into the commercial maritime industry.

Recommendations: Congress should ease licensing requirements and programs for veterans entering the maritime workforce, noting that many veterans are currently not receiving credit for training completed during their military service. Many veterans already have the knowledge and training, but face delay in entering the industry due to redundant licensing requirements and/or fees. This can delay or completely disrupt the transition into the maritime industry. Congress should also focus on retention of those in the mariner industry, easing the many challenges mariners face in continuing an at-sea lifestyle.

Suggestions: Congress should do the following:

(a) provide more flexibility for students coming from different backgrounds to help meet STCW guidelines;

(b) require the Coast Guard and Navy to streamline the licensing process involved in the military-to-mariner transition to provide a career track option supporting this goal;

(c) continue encouraging industry to credit military transition to workforce;

(d) increase availability and affordability of mandated Advanced Training, noting the many new courses mandated by Coast Guard and international regulations (courses should be made available online or outside of traditional working hours so participants are not forced to take time off);

(e) eliminate federal income tax for mariners to encourage them to live at sea; continue advanced training to assist with mariner retention; and

(f) better marketing to future mariners, highlighting humanitarian efforts, and a focus on getting youth connected through social media marketing.

PRIORITY ISSUE #3 – NAVAL ARCHITECTURE (SHIP BUILDING & DESIGN)

State of Issue: The Sector Group notes that there is not enough life-saving equipment on ships. Recent incidents with American lives lost at sea, like the sinking of the S.S. El Faro on October 1, 2015, should encourage policymakers and the private sector to investigate ways to prevent such tragedies from occurring in the future.

Significance: As climate change continues to increase the frequency and severity of storms, advances in life-saving technologies are needed to keep pace. Improving such technologies will decrease loss of life associated with maritime professions, alleviate instances of pain and suffering for family members, and improve the attractiveness of the maritime industry at a time when the industry is aging out and must place special emphasis on attracting young entrants.

Recommendations: Life rafts are not the answer. As a world super-power, we must strive to build more effective and cost-efficient life-saving vessels and equipment for both commercial vessels and cruise ships. Congress and U.S. private sector interests should work together to develop a new era of life-saving equipment for U.S. mariners, leveraging the R&D of the International Maritime Organization and other worldwide maritime organizations when possible.

Congressman Garamendi touring Coast Guard Sector New Orleans

APPENDIX ONE
FOCUS COMMENTS

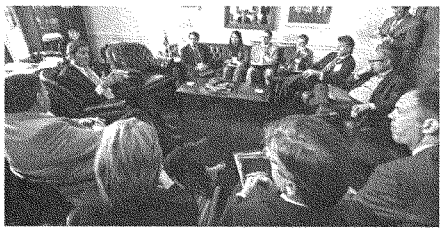
FOR CLARIFICATION OF THE 2016 GARAMENDI MARITIME ROUNDTABLE REPORT

PROVIDED BY **CAPT BRUCE G. CLARK**, USCG (RET) – CHAIR, THE CALIFORNIA MARINE AND INTERMODAL TRANSPORTATION ADVISORY COUNCIL.

PUBLIC SECTOR RECOMMENDATION #1 "Adjust the definition of "Donor Ports" within WRDA"
While it is advisable to evaluate the level of, and means testing for, financial support paid by each Port into the HMT fund, the more critical issue is to rebalance the payments from the fund to "spend down" the available funding as intended by Congress for dredging and harbor maintenance projects. Every year, funds in the Harbor Maintenance Tax Fund (HMT Fund) go unspent while available approved projects remain undone or incomplete. Donor states contributing the most funding should receive prioritized return on investment commensurate with the taxes paid, and the HMT fund should be paid down every fiscal cycle by clear direction from Congress and regulatory requirement. Each maritime state (coastal, Great Lakes and inland and western rivers) should also be required to contribute to the HMT goals and objectives through annual assessment contribution of matching funds at some level established by Congress. This action assures an equality of stakeholder investment (federal, state, and local) and recognition of the maritime transportation system (MTS) as a regional, state, and national asset – and not simply a national (federal) responsibility.

PUBLIC SECTOR RECOMMENDATION #4 "Coordination" of infrastructure investments"

Federal, state and local agencies and authorities must work together to manage public revenues targeted for MTS-related infrastructure investments. Funding in the past has been delayed, mired in competitive confusion, and "siloed," dependent upon agency focus and transportation mode bias. Clearinghouse activities to jointly prioritize and approve projects in an expeditious manner remains a critical challenge to assure maximum comprehensive benefit is obtained from the expenditure of limited public funds. A clear and effective approach to these complex issues can only be accomplished where the critical needs are evaluated across all modes of the MTS – not simply with a focus on a single mode requirement. As no transportation mode operates in isolation from the others, prioritization of critical projects must consider effects and benefits to all modes – and this requires a concerted and sustained, organized and well-coordinated effort across a full spectrum of government, agency, and MTS stakeholders. U.S. DOT MARAD should be fully empowered and funded to lead and manage this national effort, leveraging and utilizing the existing Maritime Transportation System National Advisory Council (MTSNAC) and the federal TIGER Grant process, but in direct consultation and coordination with state equivalents such as the California Marine and Intermodal Transportation Advisory Council (CALMITSAC - a state level MTSNAC counterpart). CalSTA and CFAC should lead the state prioritization effort, and the state, regional, and key county municipalities (where there are direct benefits and port entities) must all be willing to contribute infrastructure enhancement funding for selected critical projects.



Congressman Garamendi meeting with Maritime representatives in his Washington, D.C. office.

PUBLIC SECTOR RECOMMENDATION #5 "Revisit the deployment and implementation of the M-580 program"

Complementing federal and local port initiatives, the State of California must join federal and local government and stakeholders to take a leadership role in supporting the development and trial of the M-580 concept over a sufficient timeline to assure a legitimate proof of concept. The State provided no funding supporting for the M-580 initiative and was only a marginal voice in attempting to reconcile differences between port, vessel operators, and labor considerations. With the advent of California's new environmental goals and objectives that further restrict air and water emissions – specifically a renewed focus on reducing congestion and pollutant concerns associated with highway transportation from major urbanized port regions – it should convene a regional working group to evaluate lessons learned from the initial effort of the M-580 initiative, and should analyze success stories available from test programs in other regions of the country to revitalize and relaunch the effort. Because the majority funding would likely again stem from federal sources, the U.S. Maritime Administration should again lead this process, supported and informed by an active and engaged coalition of state agencies (lead by CalSTA and leveraging the California Freight Advisory Council) with the full partnership of labor and the trucking industry. Human nature often drives us all towards personal interest decision making, and change often means a shift in economic beneficiaries and job creation, but the attainment of mutually desirable long-term social and environmental goals and objectives requires a willingness to review the efficacy of practices and procedures to seek better solutions to urban goods movement challenges.

Further, a realistic exploration of an M-5 type offshore hub-and-spoke marine reception and distribution centers, such as the Portunus Project envisioned by researchers at the Lawrence Livermore National Laboratory (LLNL), might well address a combination of environmental, operational, and national security challenges that would completely rework traditional land-based port operations and distribution mechanics, while promoting the development of smaller, cleaner coastwise feeder ships (U.S.-Flag/Jones Act Crewed) and possible regional feeder ports (Humboldt Bay, Monterey Bay FT Ord/Seaside, Pismo Beach/San Luis Obispo).

Where once California and other coastal states had a robust coastwise maritime industry along its long coastline, most of these once vibrant and active ports have declined or vanished with the advancement of rail and highway services. These smaller "ports" are now currently underdeveloped, underserviced, and economically vulnerable, but would significantly benefit by increased land-based facility and goods management jobs likely to be union-organized and compensated at sustainable, middle class "living wage" standards.

We expect these activities to change the transportation ecosystem while maintaining jobs tied to highway transportation, and to possibly revitalize short line rail service in these regions. Both elements would directly reduce congestion in urban areas notorious for heavy truck traffic and add jobs in historically-impacted areas. Long haul firms would still be contracted to carry specific loads point-to-point to inland regions in competition with rail, but there would also be a reduction of I-5, 99 and 101 long haul transportation on traditionally diesel-fueled trucks over promotion of local and regional distribution via cleaner-fueled trucks such as LNG. Electric hybrid or future hydrogen power plants are currently deemed unfeasible for long haul, but possible for 120-mile radius operations. Main line and short rail opportunities would be enhanced under this plan as well, with an opportunity for clean or alternative fuel, or hybrid or electric operated systems.

The governments' role at all levels is to encourage innovation in these areas, including direct research, development, and practical support for the testing of concepts. LLNL; transportation centers such as those located at SJSU, CSU Long Beach, and UC Davis; the National Transportation Research Board; and maritime subject matter experts from the California Maritime Academy would be a well-qualified team to explore options and potentials if properly funded and supported by federal, state and local governments.

While all of these alternatives must be decades-long strategies to attain and realize the maximum public benefit through a deliberate planning process, elements of these programs are viable and ready to be implemented now, and should be funded to move the process forward.

PRIVATE SECTOR RECOMMENDATION #1 "Advancing the Jones Act, while considering revisions that can strengthen its original intent of promoting the US maritime industry and protecting national security interests"

One of the major impacts to the U.S. shipping industry has been direct or indirect support of foreign flag carriers by flag state nations such as China, essentially resulting in the de facto ownership and control of otherwise commercial maritime assets. This situation is inherently unfair to commercial enterprises who are forced to compete with them. The Jones Act was envisioned to assure viability of coastwise trade in the waters of the United States and to assure a viable deep water capacity for national defense and national security military lift. With an increasing disappearance of the U.S.-flag oceangoing merchant fleet (currently less than 90 vessels), the ability of the United States to support rapid deployment of war material when and where needed is being significantly degraded and may well result in a future dependence on foreign flag charters for this critical logistical effort – a seriously flawed process. Historically, no nation in the world has maintained its global influence and supremacy without a strong and flexible Naval and Merchant Marine fleet. This status can only be maintained through a robust shipbuilding and repair infrastructure, exceptional workforce skills training and domestic employment, the highest level of professional mariner education (such as that provided by the six state chartered maritime academies), and a full commitment to exploration, development, and deployment of the next generation of efficient ships. All of these elements could be incorporated into a reinvigorated Jones Act for the maximum benefit of the nation and the maritime states. Attainment of these goals will provide the nation renewed control over our maritime borders, global goods movement, and implementation of effective foreign policy when and where maritime power projection and humanitarian assistance is needed.

ENVIRONMENT SUSTAINABILITY RECOMMENDATION #3 "Congress & state policy makers to consider the following principles when developing new environmental policies impacting the maritime industry"

California historically leads the nation in developing and implementing marine environmental protective standards – by some measures the toughest in the world. If its goals, which apply to eleven commercial ports and several private port operations within the state, are to be both socially desirable and technologically attainable, Congress and the appropriate executive agencies of government on the national level should look to streamline and standardize national standards applicable to all states to assure a level field for competitiveness and attainment of a healthy environment for America as a whole. Industry cannot be expected to independently fund 100 percent of federally-mandated changes without significant impacts to business viability and the national economy. Therefore, state and federal incentive programs should be considered to ease the burden and positively embrace required changes. If economic incentives are required to attain common standards, Congress should consider block grants directly to ports and their maritime stakeholders for the attainment and maintenance of common national environmental standards.

EDUCATION AND WORKFORCE RECOMMENDATION #2 "Easing licensing requirements and programs for veterans entering the maritime workforce"

In consideration of the prevailing general circumstances, it is counterintuitive to expect the U.S. Navy and U.S. Coast Guard to invest millions of dollars training sailors, and then expect these organizations to fully embrace an easy exit program for the best of these men and women who are attracted to better working conditions, pay, and other incentives in the commercial maritime sector. Both organizations can and should consider obligation requirements, particularly for critical specialized skills, that encourage military personnel to remain in the service while also incentivizing them to stay as a fundamental way to attain an acceptable return on investment. Nevertheless, many sailors will choose to leave the maritime military services, and when they do, it is a national responsibility to assist these men and women to transition as efficiently and expeditiously as possible to commercial, civilian jobs where these perishable skills can be retained for the benefit of the nation. The nation's six state maritime academies can be enlisted to validate and certify basic skills using existing USCG-certified training courses, but the services themselves must be willing to certify practical sea time and PQS attainment. It is operationally and fiscally unwise and morally indefensible to install unnecessary barriers to the transition of qualified sailors from the military to the commercial sector where these skills can continue to be utilized for public benefit.

EDUCATION AND WORKFORCE RECOMMENDATION #3 "Work together to develop a new era of life-saving equipment"

The USCG establishes the rules and regulations for required life safety systems and equipment in the United States utilizing minimum baseline recommendations established by the International Maritime Organization (IMO). For international routes, the IMO standards are the minimum requirements. The USCG can – and often does - require more restrictive requirements for U.S.-flag vessels, but this process is often negotiated through alternative mitigation programs, policies, and procedures. It is clear that larger, state-of-the-art "blue water" ships require an equivalency in state-of-the-art life safety equipment, sized and sufficient to serve all crew members in reliable, enclosed survival craft deployed in adequate quantity and extreme weather conditions. In addition, review of life safety equipment for coastwise and inland vessel operators is overdue for review and upgrade. For example, passenger ferry operators are provided multiple alternative options to support the reduction of numbers and types of survival craft, as well as the required number of crew members in ratio to the numbers of passengers carried, to the extent that woefully inadequate practical safeguards often exist to counter the effects of a major marine casualty, should one occur. The continued authorization for use of Inflatable Buoyant Apparatus (IBA's) on coastal and inland ferries, in numbers inadequate to safely manage the high peak numbers of passengers and crews aboard, virtually assures significant numbers of passengers will end up in the water if a major incident occurs. Significant changes in these practices are realistically possible and absolutely necessary to protect the seafarer and the general public – before a major incident again makes clear the inadequacy of current practices.

Statement of

General Darren W. McDew, United States Air Force

Commander, United States Transportation Command

Before the House Armed Services Committee

Readiness Subcommittee and the Seapower and Projection Forces Subcommittee

On the State of the Command

30 March 2017

Introduction

The United States Transportation Command (USTRANSCOM) delivers National objectives on behalf of the United States, and has proudly done so for nearly three decades. As we near our 30th anniversary, we stand ready to deliver an immediate force through our airlift and air refueling assets or a decisive force with our strategic sealift assets when and where needed. Our delivery of these forces assures an unparalleled global expeditionary capability and gives our Nation options when needing to respond to a variety of crises. Ultimately, this unmatched capability extends a helping hand or projects combat power anywhere, at any time and provides a key strategic advantage for our Nation. We must continue to invest in and preserve our edge. Our ability to sustain strategic power projection is challenged on several fronts by potential adversaries growing ever more capable. However, we continue to look forward and innovate as we face challenges, uncertainties, risks, and complex demands placed upon the unique capabilities we provide daily to our Nation.

Mission

USTRANSCOM delivers full-spectrum global mobility solutions supporting our Nation's requirements in peace and war. In the simplest terms, we provide viable national security options to the National Command Authorities. Those options range from immediate humanitarian or combat deliveries by our airlift and air refueling fleets, to the global delivery of the Nation's decisive combat power via our strategic sealift fleet. While ensuring the readiness and availability of these options on a daily basis, the command also leads the Joint logistics enterprise which is the foundation on which every other Department of Defense capability rides.

Although transportation remains USTRANSCOM's core competency, our span of influence extends from the source of supply, through each segment of the DoD supply chain to

any designated point of need. Through logistics enterprise forums, the Services, Combatant Commands, DoD interagency partners and commercial providers, we continue to collaborate with logistics leaders in order to better identify, prioritize, and close capability gaps within the enterprise. Since 2009, these efforts have resulted in efficiencies and cost avoidances for the DoD distribution supply chain of nearly $1.6 billion, which translates to more buying power for the Services.

In addition to our primary mission of providing full-spectrum global mobility solutions, our subordinate command, the Joint Enabling Capabilities Command (JECC), provides decisive, rapidly deployable joint command and control capabilities. By doing so, they assist in the initial establishment, organization, and operation of joint force headquarters.

The JECC is a unique total force joint organization that delivers highly effective, cost efficient, joint planning, public affairs, and communications capabilities to all combatant commanders. This Subordinate Command is alert-postured to respond across the full range of military operations. They routinely deliver high-impact mission-specific teams of experts who produce executable solutions for emergent global crises. In fact, they provided more than 40,000 man-days of support that touched every combatant command in 2016; notably providing key Joint Task Force staff and planning expertise within 72 hours to assist Southern Command in responding to Hurricane Matthew. In addition, the JECC's robust support to the Chairman of the Joint Chiefs of Staff Combatant Command Exercise and Training program improved our National proficiency, knowledge, preparation, and response to emergent events.

The JECC continues to have significant forces deployed in support of missions around the globe, including direct support to ongoing counterterrorism operations in Iraq and Afghanistan. Their ability to deliver highly effective joint planning, public affairs, and

communications capabilities have enabled better integration of DoD, U.S. government, and partner responses to strategic challenges in every part of the world.

Operating Environment

Today's diverse global security environment is dramatically different and more complex than the one we operated in for the last 30 years. China, Russia, Iran, North Korea, and violent extremist organizations continue to challenge us in new ways, ultimately demanding new and innovative solutions. As we look to the future, we expect trans-regional, multi-domain, and multi-functional conflicts will define our future operating environment. A global view is essential in such conflicts. Fortunately, USTRANSCOM has operated globally every day since its inception.

We also expect that future conflicts will cross regional boundaries and potential adversaries and peer competitors will field numerically superior forces with near-technological parity. Those adversaries are aware the United States has become accustomed to geographically-isolated conflicts and enjoyed technological superiority over its adversaries, so we expect contested global sea lanes and air routes to a degree we have not faced since World War II. Potential adversaries seek asymmetric means to cripple our force projection and sustainment capabilities by targeting critical military and civilian assets, both within the U.S. and abroad. Additionally, our enemies continue to use our dependence on the cyber domain against us. With those challenges in mind, every Soldier, Sailor, Marine, Airman, Coast Guardsman and Department of Defense (DoD) Civilian of USTRANSCOM and its Component and Subordinate Commands recognizes it is our duty to ensure the Command remains postured to operate in such an environment and effectively answer the Nation's call, should it come.

Our Approach

To effectively operate in that future environment, we are focused on four priorities: ensuring readiness today while advocating for future capabilities, advancing our capabilities in the cyber domain, evolving the command for tomorrow, and championing an innovative, diverse, and agile workforce.

In prioritizing today's readiness while keeping an eye toward future capabilities, we are advocating for the right mix of personnel, platforms, systems and training to ensure we can provide the global transportation and logistics capabilities our Nation requires. By making the right investments today in enhancements for our air, sea and surface fleets, we will ensure USTRANSCOM delivers the Nation's objectives tomorrow. Through this pursuit, we posture to meet the full range of Unified Command Plan roles and missions in current and emerging trans-regional transportation, logistics, and patient movement requirements.

Improving our cyber defense allows USTRANSCOM to operate freely and effectively. We continue to broaden our scope to actively evaluate and mitigate our command and control, weapon system, and infrastructure vulnerabilities, while identifying and advocating for the critical capabilities, policies, and procedures that ensure mission accomplishment.

As a global Combatant Command charged with delivering national objectives in tomorrow's dynamic security environment, we must challenge our assumptions, accurately forecast trends that shape that future environment, and develop the technologies and ideas that maintain our Nation's competitive advantage. In our pursuit to continuously evolve for tomorrow, we established a relationship with the Defense Innovation Unit Experimental to expedite the implementation of logistics- and cyber-based technologies such as commercial cloud-based technologies which can provide Infrastructure-as-a-Service, Platform-as-a-Service, and Software-as-a-Service offerings to host USTRANSCOM's unique applications. These and

other initiatives will increase our responsiveness, agility, efficiency, and operational processes, while enhancing transparency with our customers and positioning us ahead of emerging challenges and threats.

Finally, our approach recognizes USTRANSCOM requires a talent rich, diverse, creative, adaptive, and innovative workforce to survive today and thrive in tomorrow's dynamic environment. We will create this workforce by recruiting, developing, and retaining the best talent America has to offer. We recognize that doing so requires us to remove cultural, procedural, and policy barriers along the way such as significant civilian hiring reform. We appreciate the attention Congress has placed on this issue with the recent passage of legislation in the 2017 NDAA creating a streamlined civilian on-campus recruiting authority, fast tracking the ability to hire talented personnel for critical positions in an ever-more competitive marketplace. Initiatives improving the speed at which talent can be hired, and opening aperture to additional fast-tracked hiring authorities and policy flexibility, ensures better access to streams of talent benefitting USTRANSCOM.

State of Our Readiness

Without reservation, USTRANSCOM stands ready to deliver on behalf of the Nation today. However, as our approach to the future operating environment indicates, there are challenges that demand our attention to ensure our readiness is never called into question. These challenges fall into the following broad categories: airlift and air refueling, sealift, surface, budget, and workforce issues.

Airlift/Aerial Refueling

Air Mobility Command (AMC), a Component Command of USTRANSCOM, provides an incredible capability to our Nation and the world. As one Total Force team with commercial

partners, AMC provides airlift, aerial refueling, air mobility support, and aeromedical evacuation around the globe, supporting eight combatant commands while operating in 23 countries.

On average, tankers are conducting aerial refueling operations every five minutes over the skies of Iraq and Afghanistan. Additionally, AMC refuels fighter squadrons across the Pacific Ocean to ensure a constant presence throughout the Pacific and refuels nearly all of our North Atlantic Treaty Organization allies during operations and exercises around the globe. Yet the scarcity of forces and their current distribution, coupled with the high operations tempo placed upon them, comes at a cost to the health of the KC-10 and KC-135 fleets.

Currently, the KC-46A program is on track to deliver 179 aircraft by 2028, which will enhance operational agility. The delivery of these aircraft over the next few years remains a critical investment to ensure we can continuously project power around the world, whether in support of humanitarian relief missions or combat operations.

The delivery of the KC-46A alone, however, will not address present concerns with the allocation and distribution of the global tanker fleet. For example, since 2011, the authority of the USTRANSCOM commander to manage tankers globally has been constrained by congressional language prohibiting changes to command and control of scarce KC-135 forces. As global tanker requirements continue to expand, we are seeing more cases where the requirements of a given combatant command are in competition with others. At the same time, we recognize a trans-regional, multi-domain, and multi-functional operating environment combined with proliferating anti-access and aerial denial threats will only place greater strain on the air refueling force. Although we continue to work closely with AMC and the Joint Staff to mitigate the effects on the global tanker fleet, the restriction in place since 2011 continues to limit the USTRANSCOM commander's ability to exercise operational control of high demand Pacific and European tanker forces necessary to meet global and national defense requirements.

Also key to air mobility are our airlift assets and the additional capabilities commercial industry brings to the fight. For our part, the C-17 and C-5 continue to provide strategic airlift the world over while our C-130s meet tactical airlift needs in every region of the globe. We are seeing stress on the strategic airlift fleets and have some concerns about hard choices that have been made to close active duty C-17 squadrons with an eye toward buying that capability back in the reserve component. While both components are capable, maintaining the right balance is critical so we do not create a situation where mobilization is needed for every new mission that might arise.

On the commercial airlift side, our Civil Reserve Air Fleet (CRAF) partners commit aircraft to augment DoD airlift during contingencies and/or emergencies in exchange for government airlift business while also providing commercial airlift services to DoD during peacetime. USTRANSCOM closely coordinates with the Department of Transportation (DoT) in administering the CRAF program. This steadfast relationship has historically provided lift for roughly 40 percent of all DoD air cargo and 90 percent of all passenger movements in direct support of our warfighters. Our 24 CRAF carriers remain ready to support DoD readiness requirements with cargo and passenger support worldwide and we will continue to rely on viable and healthy CRAF program in the future. To ensure the relationship with our CRAF partners remains robust, we've begun contracting with them based on early demand signals, allowing us to move workload to them which would have otherwise been handled by our organic aircraft. This has the dual benefit of providing additional workload to our CRAF partners while also reducing flying hours in our organic fleet.

Sealift

Historically, nearly 90 percent of wartime transportation requirements are delivered through strategic organic and U.S. flagged commercial sealift. In fact, our strategic sealift fleet

provides the ability to deliver a decisive force over great distances. Our U.S. Navy component, the Military Sealift Command (MSC), provides sealift capabilities through ship chartering, prepositioning, and sustainment operations while also executing operational command over the Maritime Administration's (MARAD) Ready Reserve Force ships during contingencies. Without a healthy and viable U.S. Commercial Sealift Fleet, MSC Surge Fleet, and MARAD's Ready Reserve Force, our Nation's military may not be able to deploy as quickly and efficiently as it can today.

The National Security Directive on Sealift and the Sealift Emergency Response Programs provide assured access to U.S. flagged commercial sealift assets, Merchant Mariners, and the global intermodal capability required to augment government owned (organic) sealift capabilities during contingencies. This assured access is provided via the Voluntary Intermodal Sealift Agreement (VISA) which ultimately ensures the U.S. maintains its capability to meet sealift requirements in peace, crisis, or war. The VISA program provides a responsive transition from peace to contingency operations through pre-coordinated agreements for U.S. flagged commercial sealift capacity and systems to support DoD's contingency sealift needs. It allows USTRANSCOM to meet mobilization requirements in a rapid fashion.

At the core of the VISA vessels are our Maritime Security Program (MSP) partners, who are essential to our wartime U.S. commercial sealift capability, and all are participants Sealift Emergency Response Programs. Over time, MSP has provided access to required commercial U.S. flag shipping assets, while also supporting the pool of Merchant Mariners needed to operate MSC's Surge and Ready Reserve Fleet. In this way, the MSP significantly contributes to the supply of Merchant Mariners available to serve on U.S. vessels in time of war while mitigating future risk to our national commercial capacity.

Along with MSP, The Merchant Marine Act of 1920, also known as the Jones Act, provides an additional pool of trained Merchant Mariners and sealift capacity. It does this, and contributes to national defense, by subsidizing a robust, domestic, maritime industry including U.S. industrial shipyard infrastructure for building, repairing, and overhauling U.S. vessels.

Ensuring a healthy U.S. fleet has proven difficult in the larger global context where international shipping has slowed while the industry as a whole has ended up with an excess of ships. Excess supply has caused prices to fall, which has put considerable financial pressure on U.S. flagged vessels. Unfortunately, the U.S. flagged international commercial fleet and Mariner pool has shrunk over time; while we have contingency plans, further reductions may cause us to investigate other options such as using more foreign flagged international commercial vessels manned by foreign crews during crisis or war. American shipping companies continue to re-flag vessels to foreign nations, diminishing the size of our commercial fleet, although that fleet stabilized in recent years at around 80 today. While the U.S. flagged commercial fleet remains the most effective means for us to obtain the necessary sealift capability to meet national defense needs, we are considering a range of options to ensure that we retain the ability to deploy a decisive combat force at the time and place of our choosing. Those options may include new approaches to preserving essential capabilities in the Ready Reserve Force, which among other options, may include non-US built vessels.

Sealift Fleet Recapitalization

Since the 1990s, DoD mobility studies have indicated a requirement for nearly 20 million square feet of Roll-on/Roll-off (RO/RO) capacity to promptly transport materiel wherever needed in defense of the Nation's interests in major conflicts abroad. This includes over 15 million square feet of organic RO/RO capacity on 65 total ships and nearly 4.5 million square feet of U.S. flagged commercial RO/RO capacity gained through VISA. However, we are

projecting a loss of 4.5 million square feet of organic surge RO/RO capacity by 2033 as these vessels reach the end of their service life, with an accelerated loss expected between 2026 and 2031. The organic vessels tasked to meet this requirement are becoming obsolete or unsustainable. Our organic surge vessels, for example, have an average age of 39 years and will begin to reach their 50-year service life in the 2020s. This will result in a critical sealift capacity shortfall, which limits our ability to support the national security requirements. In addition to the RO/RO capacity loss, 10 of 12 special-capability ships will age out of the fleet between 2020 and 2024. These ships provide expeditionary capabilities such as over-the-shore fuel distribution and crane lift to austere or damaged ports, a critical necessity for the deployment of ground forces and for operations in a contested environment. The aging and loss of sealift capacity places a particular urgency on the need to explore options for maintaining critical capabilities, without which the Nation's strategic sealift capability to support future operations will be at risk. We are working closely with the U.S. Navy to maintain the full spectrum of strategic sealift capabilities required to move U.S. forces in current and future operational environments.

In order to keep the recapitalization strategy on track and achieve success in the near term, the used vessel acquisition component must start as early as fiscally possible. This component seeks to purchase vessels leaving MSP or other commercial vessels regardless of country of origin. The acquired vessels would replace the aging organic vessels for a fraction of the cost of new construction and could remain in service for several decades. Congressional support will be needed to gain the necessary authorities and funding for this effort.

Additionally, DoD's current organic surge fleet is composed of several steam-propelled ships. The manning of these ships with seasoned steam certified engineers is a growing concern as commercial industry is expected to retire all steam ships by the early 2020s, while we need to operate them until 2035 unless recapitalization efforts allow us to replace them sooner. As

commercial industry retires their steam ships, our access to a civilian pool of steam-certified engineers and mariners may fall severely (and eventually be) eliminated.

Surface

Since the first stage in delivering a decisive force happens on the ground, our Nation's infrastructure of roads, rails, and ports plays a fundamental and crucial role in the deployment and sustainment of the Joint force. USTRANSCOM closely partners with the Department of Transportation (DoT) and other Federal and State entities to ensure infrastructure within the continental U.S. is ready to support DoD deployment and distribution needs.

USTRANSCOM, through its Army component the Military Surface Deployment and Distribution Command (SDDC) represents the interests and requirements of the DoD to access and safely utilize both private and public transportation infrastructure and services. Currently, the public sector road network remains capable of meeting DoD ground transportation needs while providing adequate access to commercial trucking capacity to meet current and anticipated surface transportation needs.

Just as the availability and safety of drivers and roadways are critical to national defense, our national rail system is of equal importance. Through our Railroads for National Defense Program, and close collaboration with civil sector rail officials and DoT's Federal Railroad Administration, we assess the ability of the U.S. rail system to support military needs. Currently the rail network required to deploy our force is in place and viable. In the next fifteen years, however, we face age-mandated retirements of some of our uniquely capable DoD railcars. We are developing a plan in close collaboration with the Department of the Army to retain this critical transportation capability.

To successfully execute our deployment mission, USTRANSCOM also relies on a collection of both DoD and commercially-owned U.S. seaports, designated as Strategic Seaports.

The primary mission of the Strategic Seaport Program is to ensure DoD has access to sufficient seaport infrastructure to meet contingency deployment needs. None are more important than the main West and East Coast ports of Military Ocean Terminal Concord (MOTCO) and Military Ocean Terminal Sunny Point (MOTSU).

MOTCO on the West Coast is indispensable to USTRANSCOM's support of U.S. Pacific Command's operations and DoD's military capability in the Pacific Theater. Due to the nature and size of this mission, no suitable alternatives exist on this coast and MOTCO's infrastructure assets require critical upgrades and maintenance to remain relevant in the current military environment. Current efforts are centered on preserving the operability of MOTCO's primary pier until it can be replaced. We are also examining additional options for MOTCO to become a modern ammunition port, fully capable of safe and efficient operations to enable uninterrupted delivery of ammunition to the Pacific theater.

At MOTSU, significant infrastructure improvements within the last few years have enhanced our ability to support the EUCOM, AFRICOM, and CENTCOM Combatant Commanders' operations and allow the terminal to meet throughput requirements. We continue to work with the Department of the Army to preserve both seaports by finding and applying resources to reduce risk and prevent capability gaps.

Although our nation's roads, rails, and ports play a fundamental role in the deployment and sustainment of our Armed Forces, nothing is more important than the people and their families who support and execute the mission, at home and abroad. The Defense Personal Property Program provides our Service members, DoD Civilians, and their families with an effective and efficient system for the relocation, storage, and management of their household goods and privately-owned vehicle (POV) shipments. As a testament to our partnership with the Deputy Assistant Secretary of Defense for Transportation Policy, the Services, and commercial

transportation service providers, the Defense Personal Property Program enables nearly 875 service providers to support the movement of approximately 70,000 POVs and around 430,000 household goods shipments globally each year.

An initial review and analysis of the Defense Personal Property Program identified that the end-to-end household goods value chain lacked proper alignment to consistently produce high quality relocation services due to lack of a single program manager and the need for more commercial capacity. Consequently, stakeholders from across the Department have collaborated on initiatives to recommend to key leaders from the military Services. Additionally, the Defense Digital Service recently assessed our primary software and customer interface within the Defense Personal Property System and found that while we are working toward reasonable solutions to the problems our customers have with the system, we are plagued by common problems that can be overcome by focused effort and assistance from the Defense Digital Service. Although still a work in progress, these initiatives are intended to improve the move experience for our Service members while simultaneously posturing the program for institutionalized and sustained continuous improvements. Addressing the challenges of program accountability, customer service, entitlements, standardization, and automation provides an opportunity to incorporate updated technologies and processes that will improve the quality of life and security of our Service members, DoD Civilians, and their families.

Budget Uncertainties

USTRANSCOM's mobility readiness depends highly on our financial health, which in turn relies on the financial posture of Services that provide the capabilities we use to execute our critical missions. Notably, the Budget Control Act and recent Continuing Resolutions have forced the Services to prioritize immediate operational needs over prudent long-term planning and investment, decisions that ricochet inefficiencies through the logistics and transportation

enterprises. More generally, sequestration's impact on readiness, mission operations, and modernization funding will result in the Services being unable to adequately man, train, and equip mobility forces thus presenting a significant readiness challenge. Irregular budgets jeopardize critical mobility acquisition programs like the schedule for the KC-46A program which addresses significant challenges with our aging aerial refueling fleet.

Additionally, our overall readiness and that of other combatant commands is influenced by the joint training and exercises conducted solely through resources provided by the Combatant Commander's Exercise Engagement and Training Transformation program. With an increased emphasis on trans-regional, multi-domain, and multi-functional operations, adequate support to combatant command joint training and exercise programs is as critical as ever.

As we head into FY18, we are projecting adequate financial levels to ensure our readiness, but remain vigilant in light of budget uncertainty. While maintaining our overall readiness, we continue to focus on our commitment to becoming audit ready by complying with the initiatives of the Financial Improvement and Audit Readiness (FIAR) program. At the same time, as we move to multi-modal operations and new Plan, Order, Ship, Track and Pay processes, we are integrating FIAR throughout those processes to ensure audit compliance. Furthermore, we continue to work closely with our DoD counterparts to ensure Transportation Financial Audibility throughout the Department. In an effort to ensure our business processes remain relevant today and into the future, we are striving to be cost-competitive and more transparent with our customers while simultaneously seeking ways to provide a lower, more predictable rate structure. These actions enhance our coordinating role across the deployment and distribution enterprise and ultimately enhance the support we provide the warfighter.

Availability of the Transportation Workforce

Each mode of our transportation network (air, surface, and sea) requires commercial and/or military operators such as truck drivers, aircraft pilots, and sealift mariners. These operators allow USTRANSCOM to transport forces and materiel to the point of need and to return our ill and injured to appropriate medical care. Worsening shortages of these operators limit our ability to successfully deliver required combat power across the globe.

In order to respond anywhere in the world in a matter of hours, appropriate manning levels of both Air Force and commercial pilots are essential. In fact, all DoD aerial refueling and nearly all strategic aeromedical evacuation capability relies on the availability of the U.S. Air Force aircrews from the active and reserve components. Additionally, USTRANSCOM's organic and commercial airlift capabilities deliver roughly 10 percent of all transportation requirements and continue to be a significant force multiplier for the Nation by delivering an immediate force overnight into an area of operations when needed. Pilot manning will remain vital for the near and long-term future of this critical USTRANSCOM capability.

Our Mobility Air Forces and commercial airline partners, however, are experiencing manning shortages. Reduced undergraduate pilot training quotas, changes in force structure, and declining retention (along with aggressive airline hiring for the foreseeable future) will require a concerted effort if we are to mitigate potential negative impacts across the active and reserve components of the U.S. Air Force. By comparison, U.S. commercial airlines, including our partners participating in the CRAF program, expect a pilot shortage of roughly 35,000 pilots through the year 2031. Contributing factors include retirements exacerbated by statutory age limits (i.e., max of 65 years old), an increase in new airline transport pilot certificate requirements, and the continuous growth of the global airline industry.

While monitoring the health of pilot manning, we are keenly focused on the strain the trucking industry continues to feel due to the commercial truck driver shortage (current shortage of 75,000 with a projection of 890,000 by 2027). The industry's ability to attract and retain qualified commercial truck drivers required to move freight for the DoD and the Nation is a growing concern. Persistent shortages are caused by several factors such as quality of life, younger generations not seeking out the truck driving profession, and the pursuit of more desirable job alternatives. Due to the shortage of operators, the trucking industry is currently operating at greater than 95% capacity leaving little to no surge capacity for DoD. In an effort to address and reverse the shortage of drivers, the DoT Federal Motor Carrier Safety Administration implemented initiatives such as granting test waivers for military members with previous commercial motor vehicle experience and expanding their experience validation timeline from 90 days to one year. These efforts are the first steps in addressing the shortage; however, they may not be sufficient to alleviate likely impacts in times of increased demand for DoD's surge requirements. To combat this issue, we are continuously engaged with industry and conducting ongoing analysis and reviewing plausible alternatives, such as increasing the use of multiple modes (rail and truck) and un-manned vehicles.

We will continue to monitor and manage the manning shortages across our three fundamental domains. While supporting DoT's efforts in reversing current trends, we remain determined to ensure a sufficient pool of transportation operators are available to provide our Nation transportation options.

Advancing the Cyber Domain

The greatest challenge USTRANSCOM faces every day is the threat of attack from the cyber domain. Although cybersecurity is a DoD-wide focus area, USTRANSCOM is distinctly vulnerable because the majority of the Command's transportation data resides within and travels

through the unsecure commercial internet. Furthermore, unsecure networks and systems of our commercial transportation service providers, coupled with critical infrastructure vulnerabilities around the globe, almost wholly reside outside our control and pose significant risk to mission assurance. Due to these challenges, USTRANSCOM is prioritizing our key cyber concerns. The Command is collaborating with U.S. Cyber Command, DoD Agencies, Federal cyber organizations, industry, and academia to identify and mitigate gaps and shortfalls, as well as to seize opportunities to advance our cyber domain capabilities.

We have and will continue to encourage industry partners to join together in a transportation-related Information Sharing and Analysis Organization, focused on supporting DoD's transportation mission. Our current partnership with the National Defense Transportation Association (NDTA) Cybersecurity Committee and our semiannual Cybersecurity Roundtables that have drawn interest from across government, industry, and academia are cornerstones of our efforts to build a more responsive, aware, and collective approach to mission assurance.

For example, through our partnership with the NDTA Cybersecurity Committee, we seek to address: cybersecurity issues of mutual concern, rapid sharing of threat information, the application of best practices, and, research on existing and emerging cybersecurity technology and development activity. The committee provides a mechanism to address urgent concerns, such as cybersecurity contract language and the exchange of unclassified and sensitive information between USTRANSCOM and industry partners.

However, there is still much more to do in order to address our current and future cyber capabilities. People, processes, and technology are all key areas where we can enhance our cyber resiliency. Specifically, we must grow and retain a highly skilled cyber workforce; clarify cybersecurity roles and responsibilities across the critical infrastructure sector; implement acquisition policy to provision cloud services and other innovative cyber solutions at the "speed

of need." We also need to ensure that DoD can rapidly share threat and vulnerability information with our commercial partners while continuing to improve cybersecurity compliance reporting that enables informed risk management decisions appropriate to the situation at hand. We will continue to work with U.S. Cyber Command, DoD Agencies' cyber organizations, Department of Homeland Security, and commercial transportation partners to mitigate cyber risks to global distribution operations.

Evolving for Tomorrow

Beyond the contested cyber domain, we recognize we will face new challenges across the other domains as well. As mentioned, we expect future conflicts are increasingly likely to occur in an environment contested across all domains, subsequently restricting our freedom of action. Adversaries and geopolitical competitors have the ability today to challenge our freedom of movement from deployment to employment using kinetic and non-kinetic means to disrupt, delay, or deny operations. This creates an environment that places our strategic assets at great risk. As our Joint force prepares to face this challenge, operational plans must reflect the anticipated attrition of both combat and mobility assets and associated personnel.

Future conflicts within the contested environment will also greatly challenge global patient movement operations. USTRANSCOM currently operates the best patient movement system in the world, safely and efficiently moving thousands of our nation's ill and injured Service members to the medical care they need every year. We are not content, however, to rest on our successes. Recognizing future adversaries might be able to limit our access to the air and cyber domains, we are aggressively exploring surface movement solutions to ensure we remain the best in patient movement no matter the threat or environment. We continue to partner with the Services to expand maritime patient movement capabilities and we are working to rebuild our ability to move patients by rail. Our Nation's joint casualty stream must be supported by joint

patient movement capabilities that are interoperable, multi-modal, and capable of functioning in a cyber-compromised environment. Synchronized policies, training, and research and development are needed across the DoD to ensure we remain the best in safely moving our ill and injured whenever and wherever needed.

We also conducted a Future Deployment and Distribution Assessment focused on deployment and distribution in a contested environment. This assessment solidified our concerns about the challenges of conducting operations in contested environments and again highlighted that our global network (to include partners and allies) is at risk from threats in all domains – land, sea, air, space, and cyberspace.

Finally, we hosted our inaugural contested environment war game aimed at creating a common understanding of our operations in contested environments. We also sought to recognize the enterprise-wide challenges and develop prioritized mitigation efforts to enable future operations in those environments. The war game also addressed the necessary investments in planning and collaboration with the entire DoD logistics enterprise necessary to develop appropriate mitigation strategies for these threats. Finally, the war game highlighted the need for multiple operating options to ensure resiliency, agility, and responsiveness in future conflicts. An important insight from the war game is that operational plans and fleet sizing considerations must account for the loss of capital assets. These vital principles ensure realistic planning and aligned with risk, resulting in operational resiliency across all domains in future contested environments.

Based on these findings and published defense guidance, we will work with the Office of the Secretary of Defense, CAPE to initiate a new mobility requirements study once defense strategic guidance and the supporting elements, such as defense planning scenarios, mature.

Championing an Innovative, Diverse, & Agile Workforce

In light of all of the challenges and opportunities ahead of us, we recognize our people are our greatest resources and are the ones who will rise to those challenges and seize the opportunities. At the same time, it is clear the competition for talent is becoming more acute. Given that, we are working to recruit, develop, and retain the best talent America has to offer. At the heart of that effort we completed our first-ever headquarters Human Capital Strategic Plan setting short and long term goals for cultivating and managing our large professional civilian workforce. We also entered into an agreement with Defense Logistics Agency that created an individual civilian experiential development opportunity. Goal of effort is to address how USTRANSCOM and Defense Logistics Agency can work together to collectively develop the skills, knowledge, and effectiveness of our civilian workforce. We expect this initial agreement to serve as a baseline we can expand upon in the future. Beyond these early accomplishments, we are positioning ourselves to remain competitive in attracting future talent by identifying and establishing developmental positions within USTRANSCOM.

Our Commitment

For nearly three decades, our Nation has turned to USTRANSCOM's strategic power projection capability to respond rapidly to global threats and disasters. Today, USTRANSCOM continues to deliver 21st century, enterprise-wide, global expeditionary capabilities to the joint force. Anticipating and adapting to challenges will allow us to perform our missions in an ever-changing security environment. These missions continue to trend toward non-permissive, remote, austere, and widely-dispersed locations, but this team of transportation and logistics professionals always finds a way to deliver our national objectives. Our continuous focus on the resiliency and preservation of the Joint logistics enterprise while advocating for the right

investments in our cyber-enabled air, sea, and surface fleets ensures we can deliver the Nation's objectives tomorrow.

Continued Congressional support, coupled with the hard work of the professional men and women of USTRANSCOM and our components, will ensure we are ready to deliver the Nation's Objectives. We will continue to address challenges and vulnerabilities and advocate for innovative solutions as we provide the joint force options for delivering an immediate force tonight and a decisive force when needed. "Together, we deliver!"

○