

**REVIEW OF THE FISCAL YEAR 2019 BUDGET
REQUEST FOR THE COAST GUARD AND MARI-
TIME TRANSPORTATION PROGRAMS**

(115-40)

HEARING
BEFORE THE
SUBCOMMITTEE ON
COAST GUARD AND MARITIME TRANSPORTATION
OF THE
COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES
ONE HUNDRED FIFTEENTH CONGRESS

SECOND SESSION

MARCH 14, 2018

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¹ Master Chief Cantrell did not submit a written statement.

² The report entitled “Federal Maritime Commission 56th Annual Report for Fiscal Year 2017” is available online at <https://www.fmc.gov/assets/1/Page/AnnualReportFY17.pdf>.



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

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March 9, 2018

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SUMMARY OF SUBJECT MATTER

TO: Members, Subcommittee on Coast Guard and Maritime Transportation
FROM: Staff, Subcommittee on Coast Guard and Maritime Transportation
RE: Hearing on "Review of Fiscal Year 2019 Budget Request for the Coast Guard and Maritime Transportation Programs"

PURPOSE

The Subcommittee on Coast Guard and Maritime Transportation will hold a hearing on Wednesday, March 14, 2018, at 11:00 a.m., in 2167 Rayburn House Office Building to examine the fiscal year (FY) 2019 budget requests for the Coast Guard and Maritime Transportation Programs. The Subcommittee will hear testimony from the U.S. Coast Guard (Coast Guard or Service), the Federal Maritime Commission (Commission or FMC), and the Maritime Administration (MARAD).

BACKGROUND

Coast Guard

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

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

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

May 2018. On March 8, 2018, President Trump announced his intention to nominate Vice Admiral Karl Schultz as the 26th Commandant of the Coast Guard.

Fiscal Year 2019 Coast Guard Budget Request

The President requests \$10.93 billion in FY 2019 for the activities of the Coast Guard. The FY 2019 request was in line with the spending caps for FY 2019 that were set in the Balanced Budget and Emergency Deficit Control Act. The Bipartisan Budget Act of 2018 increased defense and non-defense discretionary spending caps in FY 2018 and FY 2019. Based on those increases, the President modified the FY 2019 budget request to reflect the increased cap levels through an Addendum which included \$720 million for the Coast Guard for the construction of the first Heavy Polar Icebreaker. With this additional funding, the total request for the Coast Guard is \$11.65 billion, which is an increase of \$977 million above the FY 2018 request level of \$10.673 billion, and an increase of \$979 million over the FY 2017 enacted level of \$10.671 billion.

Of the \$11.65 billion requested in FY 2019, \$9.7 billion is for Coast Guard discretionary accounts, \$1.1 billion (or 11 percent) more than the current FY 2017 enacted level. This amount does not include a transfer of approximately \$160 million in funding to the Coast Guard from the Department of Defense (DoD) Overseas Contingency Operations account. The transfer of these funds would support the ongoing deployment of six 110-foot Coast Guard Patrol Boats conducting port and waterways security operations in the Persian Gulf.

The Coast Guard is currently operating under *The Continuing Appropriations Act, 2018* (P.L. 115-56, as amended by P.L. 115-123), that provides \$4.244 billion (or 60 percent of the FY 2017 enacted level) in discretionary funding through March 23, 2018.

In FY 2019, the Coast Guard will transition to the DHS Common Appropriations Structure (CAS). Accordingly, activities funded through the previous Operating Expenses, Reserve Training, Environmental Compliance and Restoration, and Medicare-Eligible Retiree Health Care Fund Contribution are included as part of the new Operations and Support (O&S) account. In addition, acquisition personnel costs previously funded through the Acquisition, Construction, and Improvements account are included as part of the O&S account. The Acquisition, Construction, and Improvements account transitions into the Procurement, Construction, and Improvements account and the Research, Development, Test and Evaluation account becomes the new Research and Development account.

Below is a comparison of the President's FY 2019 budget request to the FY 2017 enacted funding level.

Program	FY 2017 Enacted	FY 2019 President's Budget Request	Diff. Bet. FY 2019 Budget Request & FY 2017 Enacted	% Diff. Bet. FY 2019 Budget Request & FY 2017 Enacted
Operations & Support ¹	\$ 7,218,059	\$ 7,792,498	\$ 574,439	8.0%
Operating Expenses	\$ 6,916,936	\$ 7,462,054	\$ 545,118	7.9%
Environmental Compliance & Restoration	\$ 13,315	\$ 13,429	\$ 114	0.9%
Reserve Training	\$ 112,302	\$ 117,655	\$ 5,353	4.8%
Medicare-Eligible Retiree Health Care Fund	\$ 175,506	\$ 199,360	\$ 23,854	13.6%
Procurement, Construction & Improvements	\$ 1,370,007	\$ 1,886,750	\$ 516,743	37.7%
Research & Development	\$ 36,319	\$ 19,109	\$ (17,210)	-47.4%
Subtotal, Discretionary	\$ 8,624,385	\$ 9,698,357	\$ 1,073,972	12.5%
Retired Pay	\$ 1,666,940	\$ 1,734,844	\$ 67,904	4.1%
State Boating Safety Grants	\$ 113,049	\$ 114,682	\$ 1,633	1.4%
Maritime Oil Spill Program	\$ 101,000	\$ 101,000	\$ -	0.0%
General Gift Funds	\$ 2,829	\$ 2,864	\$ 35	1.2%
Subtotal, Mandatory	\$ 1,883,818	\$ 1,953,390	\$ 69,572	3.7%
Total	\$ 10,508,203	\$ 11,651,747	\$ 1,143,544	10.9%

¹ The FY 2019 President's Budget Requests combines 4 legacy appropriations into "Operations & Support."

Operations and Support (previously Operating Expenses)

The President requests \$7.79 billion for the O&S account in FY 2019, \$876 million (or 11 percent) more than the FY 2017 enacted level. The O&S account supports the day-to-day activities of the Coast Guard including administrative expenses, support costs, travel, lease payments, and the operation and maintenance of infrastructure and assets. The O&S account also funds personnel compensation and benefits for the Service's approximately 41,000 active duty military members, 7,500 reservists, and 8,500 civilian employees.

The O&S budget includes increases in funding to cover follow-on costs for the operation and maintenance of newly acquired assets and technology and increases in other administrative expenses. The request includes a \$275.2 million increase to cover the cost of the FY 2019 military pay raise (2.6 percent), as well as expanded military benefits enabling Coast Guard servicemembers to maintain parity with benefits received by DoD servicemembers, operational adjustments, and operating and maintenance funds for new assets.

Environmental Compliance and Restoration (EC&R)

The President requests \$13.4 million for the EC&R in FY 2019, \$114,000 (or 0.86 percent) more than the FY 2017 enacted level. The EC&R funding provides for the clean-up and restoration of contaminated Coast Guard facilities,

as well as for the remediation of Coast Guard assets to ensure they are safe to operate or can be decommissioned in compliance with environmental laws.

The Coast Guard plans to use the \$13.4 million requested for EC&R to pay for the continued long-term monitoring at 29 sites and begins or continues investigation/remediation site work at 19 sites.

Reserve Training

The President requests \$117.65 million for the Reserve Training in FY 2019, \$5.4 million (or 4.77 percent) more than the FY 2017 enacted level. Reserve Training funding supports the costs of training members of the Coast Guard Reserve and the administration of the Reserve Program.

The FY 2019 request retains the FY 2017 enacted level of 416 positions. The FY 2019 request of 409 FTEs is a reduction of seven FTE from the FY 2017 enacted level of 416 FTEs. This request supports the readiness of the 7,000-member Coast Guard Reserve workforce.

Reservists maintain readiness through regular training and exercises. Reservists can be mobilized by the Secretary of Homeland Security to support the response to a national emergency or disaster, and by the Secretary of Defense to support national security operations worldwide. In 2017, Coast Guard Reservists were mobilized to support U.S. states and territories affected by Hurricanes Harvey, Irma, and Maria.

O&S increases are offset by \$120.6 million in cuts derived through decommissioning certain assets, the elimination of a program and the associated military and civilian positions, and the termination of one-time costs. The proposed reductions in the O&S account include:

- *Reduction of Pharmacy Co-Pays:* In FY 2019, the Coast Guard anticipates a \$7.3 million savings based on the FY 2018 National Defense Authorization Act (NDAA) proposal to modify retail and mail order pharmaceutical co-pays.
- *Termination of One-Time Costs:* The FY 2019 budget request proposes a \$37.1 million savings associated with the termination of one-time costs for program start-up and exit transactions in FY 2018, including the termination of CG Aircraft FAA Compliance and Obsolete Equipment Replacement (\$16.8 million) and National Security Cutter Follow-On (\$7.7 million).
- *Elimination of Crew Rotation Concept Pilot Program:* The FY 2019 budget eliminates \$31.7 million funding and 231 positions / 231 FTEs for the Crew Rotation Concept operations on National Security Cutter hulls 1-3 homeported in Alameda, CA.

- *Asset Decommissionings*: The FY 2019 budget proposes to decommission four HC-130H aircrafts, which are being replaced by the new HC-130J aircrafts. The Coast Guard estimates these decommissionings will save \$16.2 million in FY 2019.

Procurement, Construction, and Improvements (previously Acquisitions, Construction, and Improvements)

The President requests \$1.89 billion for the Procurement, Construction, and Improvements (PC&I) account, a \$516.7 million (or 37.7 percent) increase over the FY 2017 enacted level. The PC&I account funds the acquisition, procurement, construction, rebuilding, and physical improvements of Coast Guard owned and operated vessels, aircraft, facilities, aids-to-navigation, communications and information technology systems, and related equipment.

The FY 2019 budget request includes \$1.76 billion for the acquisition of aircraft, vessels, and the continued build-out of Command, Control, Communications, Computer, Intelligence, Surveillance, and Reconnaissance (C4ISR) systems. This represents an increase of \$597.1 million (or 51.7 percent) from the FY 2017 enacted level. The budget request includes:

- \$30 million for the construction of a Heavy Polar Icebreaker. The FY 2019 Budget Addendum included an additional \$720 million, for a total of \$750 million;
- \$65 million to conduct Post Delivery Activities on National Security Cutters (NSC) 7 through 9;
- \$240 million for the production of four Fast Response Cutters (FRC);
- \$400 million for the construction of the second Offshore Patrol Cutter (OPC) and to facilitate evaluation of the Long Lead Time Materials for OPC 3. The OPCs will replace the Service's aging 210-foot and 270-foot Medium Endurance Cutters (MEC);
- \$80 million to fund the requirement to establish logistics for 14 newly acquired HC-27J aircraft. The request funds HC-27J Asset Project Office activities, logistics, training, and engineering studies to assess and resolve aircraft obsolescence issues;
- \$20 million for the continued modernization and sustainment of the HH-65 Dolphin helicopter fleet;
- \$23.3 million for C4ISR design, development, and integration; and
- No funding for the Alteration of Bridges program in FY 2019. The program did not receive funding in FY 2017 or FY 2016. Established by the Truman-Hobbs Act of 1940 (33 U.S.C. 511 et. seq.), the Alteration of Bridges program authorizes the Coast Guard to share with a bridge's owner the cost of altering or removing privately or publicly owned railroad and highway bridges that are determined by the Service to obstruct marine navigation.

The budget requests \$135 million to construct or renovate shore facilities and aids-to-navigation. This request is a \$35.5 million (or 26.3 percent) increase over the FY 2017 enacted level. The Coast Guard currently has a backlog of 95 prioritized shore facility improvement projects with an estimated combined cost of over \$1.5 billion.

Research and Development (previously Research, Development, Test, and Evaluation)

The President requests \$19.1 million in FY 2019 for the Coast Guard's Research and Development (R&D) account, \$17.2 million (or 47.4 percent) less than the FY 2017 enacted level. The R&D account supports improved mission performance for the Service's 11 statutory missions through applied research and development of new technology and methods.

The Coast Guard intends to use the \$19.1 million in FY 2019 for programs to test and evaluate unmanned aircraft system (UAS) prototypes, continue development and testing of the next generation Arctic navigation safety information system, evaluate emerging maritime oil spill response technology, and evaluate existing cybersecurity tools for port critical infrastructure protection and resilience.

Coast Guard Fiscal Year 2017 Authorized Funding

On February 8, 2016, the President signed into law H.R. 4188, *the Coast Guard Authorization Act of 2015* (P.L. 114-120). The *Coast Guard Authorization Act of 2015* authorized funding for the discretionary accounts of the Coast Guard for FY 2017. Below is a comparison of the President's FY 2019 budget request to the FY 2017 enacted authorization.

Program	FY 2019 President's Budget Request	FY 2017 Enacted Authorization (PL 114-120)
Operations and Support	\$7,792,498,000	\$6,981,036,000
Environmental Compliance & Restoration	\$13,429,000	\$16,701,000
Reserve Training	\$117,655,000	\$140,016,000
Procurement, Construction, & Improvements	\$1,886,750,000	\$1,945,000,000
Research & Development	\$19,109,000	\$19,890,000
Total	\$9,698,357,000	\$9,102,643,000

The *Coast Guard Authorization Act of 2017* is awaiting Senate action. The *Coast Guard Authorization Act of 2017* (passed by the House of Representatives as Division E of H.R. 2825) authorizes funding levels of \$9.397 billion for FY 2018 and \$9.587 billion

for FY 2019. The FY 2018 and FY 2019 authorized levels were dictated by the funding caps in the *Balanced Budget and Emergency Deficit Control Act*.

Federal Maritime Commission

The Federal Maritime Commission (FMC or Commission) was established in 1961 as an independent agency that regulates oceanborne transportation in the foreign commerce of the United States. The FMC protects shippers and carriers from restrictive or unfair practices of foreign governments and foreign-flagged carriers. The FMC also enforces laws related to cruise vessel financial responsibility, to ensure cruise vessel operators have sufficient resources to pay judgments to passengers for personal injury or death or for nonperformance of a voyage.

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

Fiscal Year 2019 FMC Budget Request

The President requests \$27.49 million in FY 2019 for the activities of the FMC, \$264,347 (or 0.97 percent) more than the FY 2017 enacted level. The Commission is currently operating under *The Continuing Appropriations Act, 2018 and Supplemental Appropriations for Disaster Relief Requirements Act, 2017* (P.L. 115-56, as amended by P.L. 115-123), that provides \$13.02 million (or 52.2 percent of the FY 2017 enacted level) through March 23, 2018. Below is a comparison of the President's FY 2019 budget request to the FY 2017 appropriated funding.

Account	FY 2017 Enacted	FY 2019 President's Budget Request	Diff. Bet. FY 2019 Request & FY 2017 Enacted	% Diff. Bet. FY 2019 Request & FY 2017 Enacted
Formal Proceedings	\$8,273,972	\$8,744,040	\$470,068	5.68%
Equal Employment Opportunity	\$146,544	\$94,508	(\$52,036)	-35.51%
Inspector General	\$367,331	\$437,817	\$70,486	19.19%
Operational and Administrative	\$18,437,806	\$18,213,635	(\$224,171)	-1.22%
Total	\$27,225,653	\$27,490,000	\$264,347	0.97%

The *Coast Guard Authorization Act of 2015* authorized the activities of the FMC at \$24.7 million for FY 2017. H.R. 2593, as passed by the Committee, authorizes \$28 million for FY 2018 and \$28.5 million for FY 2019.

Maritime Administration

The Maritime Administration (MARAD) was established in 1950. It administers financial programs to build, promote, and operate the U.S. flag fleet; manages the disposal of federal government-owned vessels; regulates the transfer of U.S. documented vessels to foreign registries; maintains a reserve fleet of federal government-owned vessels essential for national

defense; operates the U.S. Merchant Marine Academy; and administers a grant-in-aid program for state operated maritime academies.

MARAD is led by an Administrator appointed by the President with the advice and consent of the Senate. On August 8, 2017, President Trump appointed Rear Admiral Mark H. Buzby, USN, Ret. to serve as Administrator.

Fiscal Year 2019 MARAD Budget Request

The President requests \$396.4 million in FY 2019 for the activities of MARAD, \$126.1 million (or 24 percent) less than the FY 2017 enacted level. The FY 2019 Budget Addendum included an additional \$300 million for a one-time procurement and retrofitting of two used cargo ships to replace ageing State Maritime Academy training ships. With the addition of the \$300 million, the total request for MARAD in FY 2019 is \$696.4 million.

MARAD is currently operating under *The Continuing Appropriations Act, 2018 and Supplemental Appropriations for Disaster Relief Requirements Act, 2017*, that provides \$247.4 million (or 52.7 percent of the FY 2017 enacted level) through March 23, 2018. Below is a comparison of the President's FY 2019 budget request to the FY 2017 appropriated funding.

Account	FY 2017 Enacted	FY 2019 President's Budget Request	<i>Diff. Bet. FY 2019 Request & FY 2017 Enacted</i>	<i>% Diff. Bet. FY 2019 Request & FY 2017 Enacted</i>
Operations and Training	\$175,560,000	\$452,428,000	\$276,868,000	157.71%
Assistance to Small Shipyards	\$10,000,000	\$0	-\$10,000,000	0.00%
Ship Disposal Program	\$34,000,000	\$30,000,000	-\$4,000,000	-11.76%
Maritime Security Program	\$300,000,000	\$214,000,000	-\$86,000,000	-28.67%
Title XI - Administrative Expenses	\$3,000,000	\$0	(\$3,000,000)	-100.00%
Title XI - Loan Guarantees	\$0	\$0	\$0	0%
Total	\$522,560,000	\$696,428,000	\$173,868,000	33.27%

Operations and Training

The President's FY 2019 request of \$152.4 million for Operations and Training (O&T) is \$23.1 million less than the FY 2017 enacted level of \$175.6 million. The FY 2019 Budget Addendum added \$300 million in the O&T account as a one-time cost for the replacement of two of its aging Schoolships — the TS *Empire State* and the TS *Kennedy*. O&T funds the salaries and expenses for each of MARAD's programs, the operation, maintenance, and capital

improvements to the U.S. Merchant Marine Academy, and financial assistance to the six state maritime academies.

The FY 2019 budget request for O&T includes \$74.6 million for the U.S. Merchant Marine Academy, including \$70.6 million for Academy Operations, and \$4 million for capital improvements, repairs, and maintenance; \$24.4 million for the six state maritime academies, including \$22 million for School Ship Maintenance and Repair; and \$53.4 million for MARAD Operations and Programs. The budget does not request funding for the Marine Highways Grant Program.

Assistance to Small Shipyards

The FY 2019 budget does not request funds for the Assistance to Small Shipyards Grant Program. The program provides capital grants to small privately owned shipyards to expand and modernize shipbuilding capacity, efficiency, and competitiveness. The program received \$10 million in FY 2017. The *Howard Coble Coast Guard and Maritime Transportation Act of 2014* (P.L. 113-281) reauthorized the program through fiscal year 2017 at \$10 million per year.

Ship Disposal

The FY 2019 budget requests \$30 million for the Ship Disposal Program, \$4 million (or 12 percent) less than the FY 2017 enacted level. The program provides for the proper disposal of obsolete government-owned merchant ships maintained by MARAD in the National Defense Reserve Fleet. This request includes \$25 million to continue the decommissioning project for the dismantlement and decontamination of the defueled nuclear power plant on board the former Nuclear Ship SAVANNAH (NSS).

Maritime Security Program

The FY 2019 budget requests \$214 million for the Maritime Security Program (MSP), \$86 million (or 28.7 percent) less than the FY 2017 enacted level. Under this program, \$214 million in direct payments are allocated among up to 60 U.S. flagged vessel operators engaged in foreign trade. MSP vessel operators are required to keep their vessels in active commercial service and provide intermodal sealift support to the DoD in times of war or national emergency.

Title XI Loan Guarantees

The budget does not request funds for new loan guarantees for the construction or reconstruction of U.S. flagged vessels in U.S. shipyards under the Title XI program. The program received \$3.0 million in FY 2017. The President's FY 2019 budget request (similar to the FY 2018 request) proposes to

the move the administration of the Title XI program from MARAD to the National Surface Transportation and Innovative Finance Bureau.

WITNESS LIST

Admiral Paul F. Zukunft
Commandant
United States Coast Guard

Master Chief Steven W. Cantrell
Master Chief Petty Officer of the Coast Guard
United States Coast Guard

Rear Admiral Mark H. Buzby, USN, Ret.
Administrator
Maritime Administration

The Honorable Michael A. Khouri
Acting Chairman
Federal Maritime Commission

REVIEW OF THE FISCAL YEAR 2019 BUDGET REQUEST FOR THE COAST GUARD AND MARITIME TRANSPORTATION PROGRAMS

WEDNESDAY, MARCH 14, 2018

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

The subcommittee met, pursuant to call, at 11:07 a.m., in room 2167 Rayburn House Office Building, Hon. Duncan Hunter (Chairman of the subcommittee) presiding.

Mr. HUNTER. The subcommittee will come to order.

Today we convene to review the fiscal year 2019 budget request for the Coast Guard and maritime transportation programs.

The United States Coast Guard is a multimission service and the only armed service with law enforcement authorities. I have ongoing concerns with the Coast Guard being an armed service 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, under the Department, the Coast Guard doesn't fare well.

The Service is hampered by lackluster funding requests that don't meet the needs of the Service, and as we heard at last week's hearing, the Department restricts what performance measures the Coast Guard publicly reports.

Admiral Zukunft, during your 4 years as Commandant of the Coast Guard, we have seen the Service make progress reforming its acquisition process, acquisition programs for the National Security Cutter and the Fast Response Cutter. While they have had their issues in the past, they have been producing much-needed assets for the Coast Guard. The Offshore Patrol Cutter is coming online this year, and hopefully soon we will see the start of construction for a polar icebreaker.

Last year, the Service was instrumental in the Federal Government's response to Hurricanes Harvey, Irma, and Maria. The Coast Guard's hurricane response efforts were in addition to all of the everyday actions the Coast Guard does to protect our Nation.

One of which is drug interdiction. Last year, the Service had a record-breaking year for cocaine seizures, having stopped over 450,000 pounds of cocaine worth over \$6 billion wholesale.

These efforts often go unsung, and we do not want that. We want the Coast Guard to be known for the valor of their servicemembers,

because we know they take risks every day in defense of this Nation.

We need to understand the needs of the Service. Congress needs information to conduct proper oversight and to support programs with adequate funding. The lack of information on how the Service is meeting its statutory missions and how its assets are meeting or not meeting performance goals leaves Congress without much-needed information and could lead to inadequate budget requests, and more importantly, inadequate funding levels. We would like you to help us help you.

The Coast Guard already falls behind the other services. It is the only armed service subjected to nondefense discretionary budget requirements. So unlike the other services, this is not considered defense spending. This places the Coast Guard in competition with all nonmilitary discretionary spending despite the Coast Guard being a military service.

The lack of budget clarity that the nondefense discretionary budget has imposed on the Coast Guard has definitely impacted the Service in its ability to adequately and consistently fund its programs. As I have said before, without question, this is a risk to national security and should compel a more serious budget approach.

When the Service is active in time of war, it works as part of the Navy. But its everyday missions are critical to our national defense. I repeat, every day the Coast Guard's missions are critical to our Nation's defense, and the Coast Guard needs sufficient funding to acquire its assets and effectively do its job.

Admiral, this is your last hearing in front of this subcommittee. And on behalf of the ranking member, I am sure he will have something to say, too, but I just want to say thank you for your loyalty, steadfast service to this Nation. And we just enjoy being with you.

It is great to see the Coast Guard turn more in a Marine Corps direction. So as a marine to coastie, we just want to say thank you, and keep on weaponizing your boats.

MARAD is also with us today. The subcommittee shares jurisdiction over the Maritime Administration 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.

MARAD has been an integral part of the subcommittee's Military to Mariner roundtables and discussions to assist active and retired military mariners to move into civilian mariner positions.

The subcommittee looks forward to working with MARAD on these important issues. I thank our witnesses for being here today, and I look forward to hearing your testimony.

I will now yield to Ranking Member Garamendi.

Mr. GARAMENDI. Mr. Chairman, thank you. Thank you for calling the hearing.

Once again, it is a welcome change to be able to talk about a funding increase rather than to try to figure out what to do with less money.

First off, Admiral Zukunft, thank you so very much for your service. You have been a pleasure to work with over this period of time. And the Coast Guard in the recent hurricanes performed admirably, way beyond the expectations—well, not beyond our expectations, but in a very, very difficult environment. And we know that has to do a lot with the command structure, and I know that you are at the top of that. So thank you so very much.

I also see that, Mr. Cantrell, you are also going to retire. I want to thank you for your service. And I am sure that all of the men and women in the Coast Guard appreciate what you have been able to accomplish representing them so well in your position as well as before this committee.

I guess we will look forward to Admiral Schultz and see how he bears up under our severe questioning. I am sure he will do very, very well with it, and I know that he has a significant person to follow.

Now, back to the budgets. It is not just about the numbers, but it is really how they all fit together. We have much better numbers to work with. That is not my concern.

Moreover, the real problem with this budget is, does it represent a change in which we can look forward to the future with wholesome, full budgets, or is it just an anomaly and we will go back to where we have been over the last several years, and that is trying to figure out how to do more with less.

Last year's budget, by example, requested the Coast Guard be cut by 14 percent. This year we are looking at an 11-percent increase. Well, we think that is a significant improvement. But what about the years in the future?

It is my hope that among the options, we are going to see increased budgets for the Coast Guard.

I note that the President is talking about his wonderful, beautiful border wall. I think he said \$18 billion. Probably closer to twice that. But nonetheless, if you want to stop the drugs, as he apparently wants to do, better to spend that money on the Coast Guard where you have an extraordinary record.

Tariffs. Interestingly, the President unilaterally imposed tariffs last week on steel and aluminum, but in his budget he proposes not to use that newfound opportunity for the American steel industry to build ships, but rather for MARAD to go out and purchase a couple of used hulls and to somehow repurpose those for the academies. But what happened to the multiservice vessels that were authorized in the budget?

I am going to ask you, Admiral Buzby, about that. We think that we had a pretty good plan, and we are not interested in buying a bunch of foreign ships for the maritime academies, but rather to make them in America.

So what are we going to do? Well, we are going to find out where you are coming from today.

Additionally, the Title XI Maritime Loan Guarantee Program seems to have been zeroed out. So what does that mean for our ships that we need to build for the recycling program and for the Marine Highway Program?

All of this makes very little sense. We need to put together a budget that actually meets all of the needs and not cuts inappropriately.

So while the top line looks good, you get into the details and we have problems. We are going to get into that in detail.

I yield back.

Mr. HUNTER. I thank the ranking member.

And I just ask that we put on timers, too, because we never have anybody here at our hearings very often, and now we have quite a few people. We will stay on track.

Mr. DEFAZIO. Mr. Chairman, may I?

Mr. HUNTER. Absolutely.

The ranking member of the full committee is recognized.

Mr. DEFAZIO. Thanks, Mr. Chairman.

I would like to congratulate and thank Admiral Zukunft on his pending retirement. There was something about severe questions, and there don't need to be any today. I think we have come a long way in the last 4 years in terms of the Coast Guard's future looks better.

We are finally getting some of the recognition that all of us have been arguing for in terms of adequate funding for the resources you need. Instead of starting with a proposed cut, we have a proposed increase. Inadequate, but a start.

We are finally moving ahead with the first new icebreaker, but we have other things that are still underfunded. Although there is \$135 million for constructing and renovating shoreside infrastructure, there is still a \$1.6 billion backlog. We still have to look at a whole new fleet of helicopters, buoy tenders, heavy lifeboats. There is an incredible list of things that we still need for the Coast Guard.

And when I think about this idiotic wall, I just think, boy, if we had the money that is being proposed for the wall that anybody can go over, under, or around, particularly on the oceans, wouldn't it be better to spend those billions of dollars on fully recapitalizing and meeting the needs of the Coast Guard and other real defenses to the integrity of the United States and to interdict smuggling.

Chief Cantrell, I also want to congratulate you. Thanks for your many, many years of service. And I don't know where you are going, I know he is going someplace warm, but I wish you well.

This was a new issue to me about OMB and the replacement ships with MARAD, and that causes me tremendous concern. And like the ranking member, I can't believe that we can't find American hulls. And even for that much money, I think we can build a couple of ships. I am not quite sure what the specifications are. But that seems like a fair amount of money. And if we are going to repurpose foreign hulls, I am going to be really not very happy about that. I think three, hopefully, at least, and maybe we can enlist the full committee chairman.

With that, I would yield back the balance of my time. Thank you.

Mr. HUNTER. I thank the gentleman.

Today we will hear testimony from Admiral Paul F. Zukunft, Commandant of the United States Coast Guard; Master Chief Steven W. Cantrell, Master Chief Petty Officer of the United States Coast Guard; Rear Admiral Mark H. Buzby, United States Navy,

retired, Administrator, Maritime Administration; and the Honorable Michael A. Khouri, Acting Chairman, Federal Maritime Commission.

Admirable Zukunft, you are now recognized to give your statement.

TESTIMONY OF ADMIRAL PAUL F. ZUKUNFT, COMMANDANT, U.S. COAST GUARD; MASTER CHIEF STEVEN W. CANTRELL, MASTER CHIEF PETTY OFFICER OF THE COAST GUARD, U.S. COAST GUARD; REAR ADMIRAL MARK H. BUZBY, U.S. NAVY (RET.), ADMINISTRATOR, MARITIME ADMINISTRATION; AND HON. MICHAEL A. KHOURI, ACTING CHAIRMAN, FEDERAL MARITIME COMMISSION

Admiral ZUKUNFT. Good morning, Chairman Hunter, Ranking Member Garamendi, and ranking member of the full committee, Mr. DeFazio, distinguished members of this committee. I appreciate the opportunity to testify today and ask that my written statement be entered into the record.

Mr. HUNTER. Without objection.

Admiral ZUKUNFT. The Congress, and especially this subcommittee, has gone to great lengths to challenge the status quo, demand transparency regarding our needs, and serve as a strong voice for the men and women of your United States Coast Guard.

Examples, such as helping us establish the polar icebreaker integrated program office, your support in products like the unfunded priorities lists, typify what this committee has done for the United States Coast Guard. Your leadership and vision have helped us offset uncertainty in the budget cycle and have positioned us to receive the first meaningful funding increase since the Budget Control Act was passed in 2011.

And, yes, we are working with the administration to finalize our long-term major acquisition project and the latest Capital Investment Plan and unfunded priorities list. Many of these were submitted months ago. We continue to work with our Department and with the administration. We know you need those so you can help us in your endeavors to support the United States Coast Guard. You have my commitment that we will get these to you just as soon as possible, Chairman.

Following a series of devastating hurricanes, the Coast Guard launched one of the largest responses ever, culminating in the rescue of nearly 12,000 people. This was an all-hands-on-deck campaign, but it came at a cost. And I thank you and this Congress for the \$835 million to address Coast Guard response costs and rebuild damaged infrastructure to modern standards.

And while so many endured these natural disasters, transnational criminal organizations continue to raise havoc in the Western Hemisphere. Last year, our campaign to protect the U.S. border, thousands of miles from our land border, netted over \$6 billion worth of cocaine before it could reach our shores.

And equally important, we referred 606 smugglers to the Department of Justice for prosecution here in the United States where we prosecute 100 percent, less than 5 percent prosecution in their countries of origin, effectively advancing security and prosperity in our backyard.

Our cybersecurity program of record safeguards cyberspace and we secure our maritime critical infrastructure—ports, waterways, and commerce—that translates to \$4.6 trillion in economic activity on an annual basis.

And we continue to be a sound investment. We earned our fifth consecutive clean financial audit opinion, the only armed service to do so, and our major acquisition programs continue to deliver assets that meet performance cost and schedule milestones.

Given our important work in the high latitudes, coupled with an ever-increasing assertive Russia and China, I am very pleased the President's budget includes \$750 million for the polar icebreaker program as well. Our request for proposals, released just 2 weeks ago, has energized the U.S. industrial base and keeps us on track. We are as close as we have ever been in over 40 years to recapitalizing our Nation's polar icebreaking fleet, and we must keep this momentum going.

The budget also advances the recapitalization of our aged fleet of 35 inland construction and river tenders, some over 70 years old, in all with an average age of 56. Replacing these vessels with a modern, modest fleet of Waterway Commerce Cutters is a matter of economic and National Security Cutters as these ships are necessary to sustain our vital maritime transportation system, part of that infrastructure, if you will.

While this progress is meaningful and very encouraging, it is simply not enough. We need to continue building tomorrow's Coast Guard. Years of fiscal constraint under Budget Control Act caps have forced funding offsets and reduced our force structure. Going forward, we require 5 percent analyzed growth in our operations and maintenance account and a minimum of \$2 billion in our acquisition account, a small ask for a service that provides great return on investment.

I have been honored to work alongside you these past 4 years. The more predictable the resource allocation process, the more ready our Coast Guard becomes. We are on the right track.

Thank you, Mr. Chairman, Ranking Member, and members of this committee, and I welcome your questions.

Mr. HUNTER. Thank you, Commandant.

Master Chief Petty Officer of the Coast Guard Cantrell, you are recognized.

Master Chief CANTRELL. Thank you, sir. And good morning, Chairman Hunter, Ranking Member Garamendi, and distinguished members of this committee. It is a privilege to appear before you today to represent the workforce of your United States Coast Guard.

As an Armed Force of the United States of America, as well as one of the Nation's lead maritime law enforcement and marine safety agencies, our men and women represent the finest coast guard in the world. These dedicated individuals are on the front lines every day carrying out major operations globally, as well as protecting our homeland at our maritime borders and inland waterways.

When disaster strikes, your Coast Guard responds with an unmatched humanitarian spirit. And I want to thank committee

members and staff that have visited various Coast Guard units throughout a remarkable 2017.

While visiting our units, you heard directly from the selfless people who wear the uniform of one of our Nation's five armed services. I hope those visits provided you with ground truth about the effects your decisions have on our personnel, their families, and their careers.

I also want to thank you for your continued support of our recapitalization efforts, which, as you know, are making tremendous impact on an international level. Our new platforms are more capable, allowing our personnel to carry out their missions with the latest and most technologically advanced systems available.

We continue to have devoted Americans volunteer to serve and reenlist in our multimission service, and not just as individuals, but often as a family.

I, along with our senior leaders, remain deeply committed to providing our people with state-of-the-art platforms and world-class quality of life for them and their families as they serve this great country.

I would continue to ask that we not lose sight of the fact that we still have some work to do as many of our Coast Guard men and women continue to serve in cutters and at stations that are older and less capable.

But besides the challenges an aging fleet presents to our military workforce, in many places members and their families continue to face quality-of-life challenges. With many of our workforce serving at remote units far from bases or military installations, and in many cases high-cost coastal areas, access to affordable housing, adequate medical services, and suitable childcare will always be a challenge.

The sacrifices our members and their families make throughout a typical career are virtually impossible to quantify, and we simply cannot afford not to invest in them and their future.

I would like to take a moment to thank you for the language in the 2018 National Defense Authorization Act, which amended title 37, United States Code, section 476, allowing reimbursement of relicensing costs for our military spouses who are forced to move due to military relocation.

I also thank you for the support received in other important focus areas, such as professional credentialing and VOW [Veterans Opportunity to Work] to Hire Heroes Act requirements for our Coast Guard personnel.

We look at our new ships and aircraft that are the result of this committee's commitment to our Service. However, the efforts that we invest in our people are what breathes life into these awesome assets and allows our families to continue to support us.

These investments should be nonnegotiable in budget discussions. Investment and modernizing our aging accession points, along with our other shore infrastructure, should be a priority as it is just as crucial to Coast Guard mission success as new modern ships and aircraft. I ask that you ensure our fiscal year 2019 appropriation reflects your commitment to them.

I know you are keenly aware of these challenges, and I am grateful for the support from this committee as we continue to address

each of them. While our recruiting efforts continue to be stronger than any time in the last decade, and we are meeting our goals, I reiterate that we must continue to invest smartly if we want to retain the talent that is lining up at our recruiting offices.

Mr. Chairman, members of the committee, on behalf of the servicemembers of your United States Coast Guard and their families, I thank you for your continued and very public support and for the opportunity to highlight some of our successes and challenges.

And as this will be my last opportunity to testify before you before I retire, let me personally say thank you. It has been a true honor to wear this uniform for nearly 35 years in service to our great country and such a remarkable opportunity to appear before you over the last 4 years to tell you about the needs of some pretty amazing Americans, United States coastguardsmen. Thank you.

Mr. HUNTER. Thank you, Master Chief.

Admiral Buzby, you are recognized.

Admiral BUZBY. Good morning, Chairman Hunter, Ranking Member Garamendi, distinguished members of the subcommittee. I appreciate the opportunity to discuss the President's fiscal year 2019 budget priorities for the Maritime Administration.

The President's \$696.4 million budget request for MARAD is focused on strengthening the U.S.-flag fleet, investing in the education and training of the next generation of merchant mariners, and supporting our Nation's commercial and national security objectives.

In 2014, U.S. maritime freight activity supported \$4.6 trillion of economic activity, providing access to the world's markets and generating revenues equivalent to 26 percent of our GDP.

The U.S.-flag fleet in international trade, however, currently carries less than 2 percent of our annual foreign trade, and the U.S.-flag presence in international commercial trade is at a historic low of 81 ships. We must grow our share of overseas maritime commerce to remain economically viable globally.

As the U.S.-flagged deep-sea fleet dwindles and the U.S. becomes increasingly reliant on foreign-flagged shipping, we also negatively impact national security. The pool of U.S. merchant mariners who crew our ships in peacetime commerce are the same dedicated Americans we depend upon to answer the call to man our surge sealift fleet in times of national emergency.

The refusal of some foreign-flagged ships to deliver DoD cargo during Operation Desert Shield and Storm illustrates the danger of relying on another nation's shipping to move our military cargo in a crisis.

The Maritime Security Program, or MSP, provides direct annual stipends for 60 active, militarily useful, privately owned U.S.-flagged vessels and crews in international trade. This program ensures access to U.S.-flagged ships in international trade and, critically, the intermodal networks needed to move military equipment and supplies in national emergencies.

The President's budget requests \$214 million, or \$3.6 million for each ship enrolled in the MSP. This request is recognized as less than the fully authorized level for MSP. It reflects hard choices that had to be made as the administration pursues rebuilding DoD

capabilities. The Department and MARAD strongly support MSP and recognize the critical contribution it plays in the Nation's security.

Funding from the Department of Defense in fiscal year 2019 will allow MARAD to maintain 46 surge sealift support and special mission vessels from the Ready Reserve Force in a 5-day readiness status and begin service life extensions for several ships as part of a comprehensive recapitalization program for this fleet, which has an average age of 43 years.

Survival of the U.S.-flag fleet and our ability to crew the surge sealift force, depend, deploy and sustain our military, requires an adequate pool of U.S. merchant mariners. Most U.S. Coast Guard credentialed officers who crew these ships graduate from the United States Merchant Marine Academy and the six State maritime academies.

The President's budget request includes \$74.6 million for Kings Point, \$70.6 million of it to support academy operations, and \$4 million to fund capital building and infrastructure improvements for this 75-year-old institution.

Budget requests also includes \$24.4 million to support State maritime academies, \$2.4 million of which is to provide financial assistance to 75 cadets who agree to incur a Government service obligation and \$22 million for the maintenance and repair of our aging fleet of federally owned training ships.

The administration is amending the President's budget request to include \$300 million to replace two of the oldest training vessels to ensure the availability of safe and efficient vessels to meet critical mariner training needs now and in the future.

Finally, the budget requests \$30 million for the MARAD ship disposal program, the majority of which will be used to continue the required decommissioning of Nuclear Ship *Savannah* while in protective storage.

These programs, supported by the President's fiscal year 2019 budget request, represent MARAD's top priorities. We will keep this subcommittee apprised of the progress of our program activities and initiatives throughout the coming year.

I appreciate the subcommittee's continuing support for maritime programs, and I look forward to working with you on strengthening our Nation's maritime transportation system and bolstering our fundamental, foundational Jones Act.

I request that my written statement be entered into the written record of this hearing. I am standing by for your questions, sir.

Mr. HUNTER. Thank you, Admiral.

I would like to recognize Mr. Khouri, but before I do, I want to recognize Rebecca Dye, sitting behind you, and Dan Maffei. Rebecca was also a committee staffer and a coastie. You have got the trifecta.

So welcome.

Mr. Khouri, you are recognized.

Mr. KHOURI. Thank you. Chairman Hunter, Ranking Member Garamendi, and members of the subcommittee, thank you for the invitation to appear today. With permission, I will summarize my written remarks and request that the written testimony and a copy of our fiscal year 2017 annual report be included in the record.

[The fiscal year 2017 annual report of the Federal Maritime Commission is available online at <https://www.fmc.gov/assets/1/Page/AnnualReportFY17.pdf>.]

Mr. KHOURI [continuing]. I also recognize and thank Commissioner Dye and Commissioner Maffei for joining me today.

The FMC's mission is to ensure a competitive and reliable international ocean transportation supply system that supports the U.S. economy and protects the public from unfair and deceptive practices.

As the Commission monitors and regulates key sectors of the container shipping industry to assure competition and integrity for America's ocean supply chain, the Commission is meeting its mission, and our U.S. exporters, importers, and consumers are the ultimate beneficiaries.

We have seen significant change in the ocean transportation system over the last few years. The number of major global shipping companies decreased from 21 to 12. With new construction, global fleet capacity has increased to 5,200 containerships and 21 million TEUs [20-foot equivalent units] of capacity. This capacity increase outran global cargo demand, resulting in overcapacity in nearly all trade lanes.

Nine of the twelve major ocean carriers are members of three global vessel operation alliances. A reassuring data trend, however, shows us that even with the mergers and new carrier alliances, the individual ocean carriers continue to independently and vigorously compete on pricing and overall capacity decisions, providing evidence that healthy competition continues.

Industry analysts and shipper interests recognize that the alternative to well-regulated vessel alliances would be further consolidation in the industry with fewer ocean carriers and less service options.

Another positive development, carrier agreements that contain authority to discuss rates, have experienced a steady decline. Five such agreements terminated in the past few months.

The Commission has responded to these structural developments with new agreement negotiation practice and enhanced monitoring programs. We have insisted on narrower agreement authority and more clear, definite language.

For all agreements, our staff maintains a careful watch on industry trends, being vigilant for indications of anticompetitive behavior.

Marine terminals and port authorities have shown new interest in using cooperative agreements in their operations. Terminals are cooperating in new ways as they address the challenges of larger vessels unloading more containers at each port call and the related port infrastructure requirements and developing collective solutions to mitigate cargo bottlenecks.

On the regulatory front, the Commission continues to look for ways to aid compliance with statute and regulatory requirements for our stakeholders. Global supply chain operations benefit from less regulation through lower cost that pass through to our U.S. exporters, importers, and consumers.

Commissioner Dye recently presented the final report of the Supply Chain Innovation Team Initiative that highlighted the need for

greater information visibility across the ocean freight delivery system.

In December 2016, the Coalition for Fair Port Practices filed a petition asking the FMC to begin a new rulemaking proceeding to address practices by marine terminals and ocean carriers related to demurrage, detention, and related fees. We received numerous comments and then held 2 days of public hearings in January. The Commission recently voted to institute a formal investigation to develop a full factual record.

Following her experience with the Supply Chain Innovation Team Initiative, Commissioner Dye agreed to serve as the fact-finding officer. The investigation report is scheduled for December of this year.

Regarding our budget, our requested level of funding for fiscal year 2019 is \$27,490,000. The FMC is a small agency charged with a focused competition and commercial mission and a need for specialized staff, including a high percentage of economists and attorneys, career fields that tend to fall in the upper GS pay scales. The bulk of the Commission's budget, approximately 86 percent, is dedicated to these salaries and rents.

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

Mr. HUNTER. Thank you, Mr. Khouri.

I am going to now recognize Members for questions, starting with myself.

Commandant, as you look back over the last 4 years, just, if you would, highlight some things, lessons learned, saved rounds, and the biggest challenges that your successor is going to have to face, from your point of view.

Admiral ZUKUNFT. Thank you, Chairman.

So as I look back 4 years ago, we were very focused on two major acquisitions, and that is security cutter, but more importantly, the Offshore Patrol Cutter. But we didn't really look outside the scope of those major acquisition programs.

We started applying a strategy driving a budget approach to the United States Coast Guard, rather than coming to you asking you what we need, but explain why we need it, but how that fits within the national security framework.

As we look at where the Department of Defense is going within the national military strategy, but where are they not going? You don't see a national military strategy that addresses the Western Hemisphere, nor do you see one that addresses the Arctic. As an armed service, we can close those gaps, and then with the unique authorities that we have, we can play in all of those areas.

So with the support of this committee, we are now modernizing our entire fleet of Coast Guard cutters: the National Security Cutters, Offshore Patrol Cutters, the Fast Response Cutters, polar icebreakers, and now our Waterway Commerce Cutters.

We have created a cyber program of record. We have a Cyber Protection Team up and running. Next year, we will have a cyber curriculum at our United States Coast Guard Academy.

Daily we sail into harm's way. For the last 2 years, we have had record removals of cocaine. I have been able to meet with the Presidents of every country, except Nicaragua, in Central America, mul-

tiple times with President Santos, to put pressure on them to stop the movement of drugs coming through their country destined for the United States.

In 3 weeks, the United States Coast Guard, Mexican Navy, Colombian Navy, we will be patrolling together for the first time ever in the eastern Pacific.

But as we sail into harm's way, and as we saw during last year's hurricane season, in the last 4 years we have not lost one Coast Guard life in the conduct of conducting our hazardous operations. And to that, I owe great credit to our officers in charge, our commanding officers, to balance risk and at the same time carry out some of these, quite honestly, very heroic missions.

And as we are modernizing, we have not been doing it at the expense of force structure. We are growing the force and we are growing the fleet.

There is no better time to join the Coast Guard than right now, and we are seeing that at our recruiting stations, the people that not only want to join the Coast Guard, they want to stay in the Coast Guard.

So what concerns me as I look out beyond 2019? Uncertainty. We have got two tremendous at-bats, as I like to call it, in 2018 and 2019. But there are many more at-bats. And was mentioned, is this an anomaly? And so what we need is going to be predictable funding as we look in the out-years going forward.

That will be the most critical aspect, is to convey the value proposition of the United States Coast Guard, demonstrate that we can be accountable for these dollars, as we have had the last 5 years with clean financial audit opinions, with responsible acquisition programs that deliver on-time, on-budget programs that easily meet and many times these new assets exceed our operational requirements, as we have seen with the National Security Cutter.

So challenges ahead, but, again, with the tremendous support, and taking away some of those huge uncertainties, including what could have been a 14-percent reduction to our funding base. We would not have prevailed last year during Hurricanes Harvey, Irma, and Maria if we did not have that fiscal support.

So support here, challenges ahead, but we are clearly on the right trajectory. And really, since 2011, we are finally seeing an upward turn in our appropriation.

Thank you.

Mr. HUNTER. Thank you, Commandant.

Master Chief, same question, what do you see as the challenges for your successor? And I thought you guys did left-seat, right-seat carryover to the next Commandant, but you don't. The next Commandant brings in his own senior enlisted person, right?

Master Chief CANTRELL. That is right.

Mr. HUNTER. So what do you think, Master Chief?

Master Chief CANTRELL. Well, and I would like to talk about a couple of successes and accomplishments. First, we got—well, he has left—we got Congressman DeFazio out in a motor lifeboat out in the middle of a Columbia River bar last year and got him wet. So that was an opportunity for him to see the real good work that our folks did.

But over the last couple years, we have had a couple of housing areas that have opened up. We have made some modest investments in some of our older housing. We have been able to get our childcare reimbursement program enhanced so that our folks are getting their reimbursements a lot quicker. And with the help of this committee, particularly over the last 3 years, of being able to protect our Basic Allowance for Housing, particularly for dual military couples, and I appreciate that.

And we have really put our focus on leadership development from the time that they leave boot camp all the way through to where they are master chiefs, so that we are really training our reliefs and our reliefs' reliefs in the best possible way.

And one that we are really proud of is, as an armed service, 4 years ago, our recruits were not firing live ammunition at boot camp. They were using a simulator. And we were able to turn that around and get our folks and find resources to get them to where they are actually going to a range and shooting live ammunition and getting qualified before they go out. And as a leading maritime law enforcement agency, that was just really, really important, and we have been successful there.

For my relief, still got work to do. I think we still need some more childcare centers. And while we do have money for this year and next year to get a new child development center, we need to continue to work that, particularly in some of our remote areas that don't have access to DoD facilities.

A continued investment in our accession point. Our basic training facility in Cape May is old, it is in need of repair. There are some plans over the next 10 years to rehab that, and we just need to keep the pressure there.

And professional credentialing and licensing, which was required by the NDAA in 2015. We need to get after that and give that to our folks as they transition out of our Service and give them the things that they need.

And those are the things that I will pass along to my relief later this month, hopefully.

Mr. HUNTER. Thank you, Master Chief.

And, Commandant, again, the last 4 years, I realize this is my sixth budget hearing on this, the last 4 years I think was a sea change for the Coast Guard in the direction that you are going, and it has been an honor to be a part of it.

Mr. Garamendi.

Mr. GARAMENDI. Thank you, Mr. Chairman.

We have spent the last 4 years trying to figure out how we are going to get a heavy icebreaker. We are well on track to do that.

Admiral, could you bring us up to date on where we are with the heavy icebreaker and, specifically, the funding issues for the first, second, third?

Admiral ZUKUNFT. Thank you, Ranking Member. And as you know, as we look, it is not finalized yet, but certainly the 2019 budget, very optimistic, with an appropriation that gets us an icebreaker with DHS funding.

As we all know, there is language in the NDAA, the National Defense Authorization Act, that puts the onus on the Department of Defense to provide one icebreaker.

So there is still more work to be done in terms of how that funding is sequenced. We need more than one icebreaker. The program of record, it is six. And then going forward, we need to look at block buying these.

And there is language in the request for proposals for the five potential contractors to submit that as well so we can make an informed decision, because this is the highest risk mission that we have right now. I have nothing else I can send down to Antarctica in my inventory right now if our only heavy icebreaker should become beset in ice.

So that is the additional work that needs to happen going forward with our polar icebreaker program.

Mr. GARAMENDI. The budget augmentation has some \$700 million. My personal opinion of that, that is for the second and third icebreakers and we ought not relieve the Department of Defense from funding the first icebreaker.

That is where I am coming from on it. We will see how all that works out into the future as we put together the new NDAA and the appropriation, the omnibus now underway, then the 2019 appropriations.

I toss that out and say that is the bottom line, and hopefully that will be the way it is, so that that \$750 million doesn't relieve the Department of Defense from its current obligation to fund the first icebreaker.

Going forward, we have questions, really I want to get to MARAD and Admiral Buzby. And this has to do with the National Security Multimission Vessel. Once again, the addendum to the budget indicates that there is \$300 million to buy some laid-up, used, rusty foreign-built hulls, rather than the new National Security Multimission Vessel.

Let's get into it, Admiral Buzby. Where are we with this? And are you really serious as a representative of the administration to toss out all the work that has been done and the design? And by the way, where is the design of this new multimission vessel?

Admiral BUZBY. Thank you for the question, sir.

First, the design is alive and well. It is fairly mature and could be built.

Mr. GARAMENDI. Fairly mature is what I would call squishy words. Exactly where is the design? Is it completed?

Admiral BUZBY. It is not ready to build from. It would need to go one further step into detail design and advanced procurement. That would be the next step, which would—

Mr. GARAMENDI. So it is good to go to the next step. However, the administration is taking us to a bunch of rusty buckets.

Admiral BUZBY. Well, sir, the reason, I think, that the request was made the way it was, was due to the timeframe. Given the funds that are potentially in the fiscal year 2018 budget, which we don't know for sure yet, given the fact that we are bumping up against the stops with the *Empire State*, having to get something in place for her in 2019, the nearest path, now that we are kind of getting in against the stops, was to go on the open market to find, not necessarily a laid-up ship, a ship that is available.

And it could still be a U.S.-built ship. We are going to cast a very wide net to see what is available to then upgrade.

Mr. GARAMENDI. So if we follow that, what happens to the whole concept of a multimission vessel?

Admiral BUZBY. I think it is still alive.

Mr. GARAMENDI. I think it just sunk.

Admiral BUZBY. The business case is still there that a new ship should be procured. That still exists.

If money were to materialize and we could get started on a ship sooner, a new ship, we could build a new ship. We have the capability to do that. But the time is what is working against us right now.

Mr. GARAMENDI. Let me just be very clear: No way, no how are we going to allow you to go out and buy a bunch of rusty old hulks rather than continue with what we have been working on for the last several years, and that is the concept of a multimission vessel. So keep that in mind.

Admiral BUZBY. Yes, sir.

Mr. GARAMENDI. There is \$300 million that is somewhere out there. And I will do everything I can, and I think the committee may very well be supporting it, at least the ranking member indicated he did.

Admiral BUZBY. I look forward to working with you on that, sir.

Mr. GARAMENDI. My time has expired, and we are going to do the best we can to stay to our 5 minutes.

Thank you, Mr. Chairman. I yield back.

Mr. HUNTER. I thank the gentleman.

Mr. Mast is recognized.

Mr. MAST. Thank you, Chairman.

I will just start by saying, Master Chief, I think you are at about 2 months and a wakeup from what we talked about. Congratulations. Thank you for your service to this country. It is incredible. It has been an honor to be able to question you numerous times out here. And I am just very proud to have you join us numerous times on these panels here. So thank you for your service to this country.

Commandant, I have just got a couple of quick questions for you, one local, one more broad about airframes. But locally, at my level, you guys have been doing a great job doing a navigation feasibility study in my area on our big waterways. If you could just have your folks get me a completion date on that, it doesn't have to be in this hearing, but get me a completion date on that, I would appreciate that greatly. I just thought I would take the opportunity to ask for that.

Looking more at the airframes, what I wanted to ask was about this. And I understand that the Coast Guard is looking at a lot of different courses of action to keep the fleet of MH-60Ts up, operational, your workhorse for search and rescue. Love having them in the area. You know, I am a boater that gets out in Fort Pierce and Fort Lauderdale and Miami, so I like having you guys out there.

But if you are going to keep those flying until the 2030s, I am also told that those average flight hours on those airframe are about 15,000 hours, so it is a pretty good amount of time. And, of course, we all realize on this committee how the Coast Guard is really constrained in terms of resources.

And so in that, I was wondering if you could answer, have you guys been looking at the purchasing of new cabins or airframes that would basically zero-time those aircraft? Is that something that you all look at?

Admiral ZUKUNFT. Thank you, Congressman, and we will get those waterway studies to you as well.

So with our two helicopters, the H-60 Sikorsky, which is our long-range helicopter, we are actually taking what we call sunset airframes from the other armed services, and we completely renew these, re-engine them. And what we end up with is a like-new H-60 airframe. We reset the hours on it. And we are acquiring these at half the cost of a new airframe.

Our H-65 Dolphin model is now in its fifth spiral development, if you will. They have been re-engined. It is a composite airframe. And when I first deployed with these helicopters on my ships back in the late 1980s, when they first hit the fleet, they actually have a much greater reliability today than they did when the first generation of this airframe came out. And much of this is being done through self-help.

As we look at our 20-year investment plan, starting in about the year 2033 is when we start recapitalizing our short-range airframes. And then overlaid with that is going to be our long-range H-60 airframes.

And the key decision point at that point will be, what do we have in our unmanned aerial inventory? We are also working on manned aerial systems to include land-based. And then, do we look at a one-airframe model or do we look at a two-airframe model, recognizing there are great economies of scale, training, and the like, inventory, parts management, if you have one airframe?

And then looking across the Department of Homeland Security, especially within Customs and Border Protection, to look at commonality across the Service, but we are also part of a joint service, to make sure that we have interoperability there as well.

I feel quite comfortable with the timeline that we have set right now, just given the reliability and the work that we are doing organically within the Coast Guard to maintain these airframes.

Mr. MAST. So this helps you stretch the dollar, and you could easily say this is much more than a Band-Aid, this is good long term.

Admiral ZUKUNFT. Near term and long term. And these are more than Band-Aids. We are flying these 800 hours a year. The reliability rate, we had over 90 airframes down in Harvey, Irma, and Maria, not one of those airframes missed a mission. I think it is a testimony to the wrench turners that often don't get the due credit, the maintainers, if you will, of this squadron of aircraft.

Mr. MAST. Thank you. Thank you, Commandant.

And, Chairman, I yield back.

Mr. HUNTER. I thank the gentleman.

Ms. Plaskett.

Ms. PLASKETT. Thank you, Mr. Chairman.

And thank you, gentlemen, for being here.

Admiral, thank you so much for the work that you all have been doing in the Virgin Islands and the Caribbean. And you and I have had several encounters in both good and bad times, and I am grate-

ful for the support that you have given to the people of the Virgin Islands and Puerto Rico as well.

Following the passage of the Bipartisan Budget Act, for the fiscal year 2018, the administration delivered a wish list of how it would want to have that funding spending.

I guess my question to you would be, is that reflective of where the Coast Guard most needs additional funds for the rest of fiscal year 2018?

Admiral ZUKUNFT. Yes, ma'am. And what I am most encouraged by is the supplemental relief that we are seeing, especially from Hurricanes Irma and Maria.

As you well know, the U.S. Virgin Islands and Puerto Rico, these are Coast Guard communities as well. And so when you see the Coast Guard is still there, as these communities are still trying to get back on their feet, these are Coast Guard families in that very same predicament as well.

So what this supplemental relief does is, rather than build a house out of straw, let's build one out of brick and mortar. In other words, let's harden these facilities so they could withstand at least a category 3 hurricane.

We made a similar investment out of Great Inagua with our hurricane hangar out there. It experienced 155-knot winds during Hurricane Irma. It sustained no damage whatsoever.

So we need to use these dollars and invest smartly because we are in the U.S. Virgin Islands and Puerto Rico for the long haul. These are Coast Guard communities as well, and we are proud to be part of those communities.

Ms. PLASKETT. OK. I also wanted to ask you, the majority of the illegal contraband is being interdicted in the eastern Pacific, but you know there is a significant drug smuggling threat that reaches the U.S. Virgin Islands and Puerto Rico from South America.

How will the additional National Security Cutters and the future Offshore Patrol Cutters defend against this threat? And do you believe that it is the sufficient amount and the appropriate number? Would you want more vessels to be able to take on this threat in that area?

Admiral ZUKUNFT. So numbers do matter. And the National Security Cutter has clearly been a game-changer. We are seizing nearly a ton of cocaine a day, and that is between the Caribbean, the eastern Caribbean, and in the eastern Pacific today.

What has changed in the last year is we have seen a significant decrease in the number of Cuban migrants attempting to cross the Florida Straits. We have a fleet of Fast Response Cutters homeported in San Juan, and we have been able to repurpose those ships and apply a lot more pressure on the approaches to Puerto Rico, to the Dominican Republic, and to the U.S. Virgin Islands for shipments that are leaving the Guajira Peninsula on a direct run, because the flow rate coming into Puerto Rico right now has gone up over 30 percent.

Ms. PLASKETT. It has grown over 30 percent?

Admiral ZUKUNFT. It has grown over 30 percent over the last 2 years. It is not staying in Puerto Rico. It is being transshipped elsewhere, to include the U.S. Virgin Islands and to include the continental United States as well.

So we are repurposing resources. All this based on intelligence.

Ms. PLASKETT. And is it the sufficient amount that you need to be able to address this increasing threat in the area?

Admiral ZUKUNFT. The U.S. will never get in front of this problem by itself, which is why we need allies. The interagency is contributing as much. And as many ships as we have put out there, what we have soon run out of is surveillance aircraft, which is why we are looking and experimenting with land-based UAS. We have done a couple of prototypes out of Puerto Rico as well.

We need to look at state-of-the-art sensors to put into these unmanned aerial systems. But the intelligence is good. We do not have enough ships or aircraft to be fully effective in this mission.

Ms. PLASKETT. Thank you.

Administrator Buzby, thank you so much, sir, for your service. And I wanted to ask you, with regard to the Maritime Administration, can you tell us what, if any, activities or support that your agency and your group, particularly your Ready Reserve Forces and your own fleet, were able to provide during the hurricane season in the Caribbean?

Admiral BUZBY. Yes. Thank you, ma'am.

We were very proud to play a significant role, clearly not as significant as the Coast Guard who were heavily involved. We had three of our school ships and one of our Ready Reserve Force ships active, participating in hurricane relief for all three hurricanes. We were active in Texas, we were active in the gulf coast, in Florida, and most heavily in Puerto Rico and the Virgin Islands.

Ms. PLASKETT. Because I know that one of the issues that we had on the islands was that the inability to have cargo, particularly food relief and others, come in. I know that most of your support is not related to those things, but related to military equipment. But could your fleet also be used to support the additional food and other supplies and equipment that were needed in places like Puerto Rico and elsewhere?

Admiral BUZBY. Actually our Jones Act fleet of commercial ships, we had 24 ships that were providing support to Puerto Rico throughout the thing. So there was plenty of capacity.

But to directly answer your question, yes, there is additional capacity that could be brought into play with our Reserve ships to augment that should it be necessary.

Ms. PLASKETT. OK. Thank you.

Thank you very much. I yield back.

Mr. MAST [presiding]. The Chair is going to recognize the gentleman from Louisiana, Mr. Graves.

Mr. GRAVES OF LOUISIANA. Thank you, Mr. Chairman.

First of all, Admiral, I want to thank you very much for your service to the Coast Guard and to the Nation. I think we first started working together about 8 years ago when we were both in different capacities. And I remember one of us getting fairly excited and maybe yelling a good bit and things like that across the table at one another. And thankfully, your temper has subsided since then.

I am kidding. I might have been the one doing that.

No, but, again, I just want to thank you very much for your service to our Nation. I also know that your wife and family have sac-

rificed much for your service in the time away, and I do want to thank you.

I know that Chairman Hunter talked to you a little bit about some of your lessons learned and advice on the way out, and we are going to keep your cell phone number and keep bothering you as things progress to continue to get your advice on how we best handle maritime policy, maritime security, and many other challenges that our Nation is facing.

But your service to the Coast Guard was one, as we have discussed at the last few hearings, one of where the Coast Guard has evolved into sort of this Swiss army knife in this post-9/11 and evolving-threat era that we are in now, where the Coast Guard's presence on the water has just continued to evolve as the threats have. And you all are an extremely agile, multimission agency. And, again, your leadership during those challenging times has very much been appreciated. So thank you very much.

Admiral ZUKUNFT. Thank you.

Mr. GRAVES OF LOUISIANA. Chief, same to you. I always appreciate your absolute, unconditional support for the coasties out there and advocating on their behalf. You have been a great voice, a very passionate voice for the men and women of the Coast Guard. And have appreciated very much your fighting for the people that are on the ground, that are the people that are literally protecting our Nation on a daily basis. And I want to thank you for your service as well.

Admiral Buzby, before I jump back to Coast Guard, I want to jump over to you just for a minute. You have some pretty strong words for the importance of a domestic fleet in your testimony. You talked a little bit about the important role that Jones Act vessels play, U.S.-flagged vessels play in terms of ensuring that we have the capability to deliver our military men and women, our equipment around the globe.

And you also talked about some of the challenges associated with our increasing reliance upon foreign-flagged vessels. I believe you noted in your testimony that there were 177—give me a little leeway there—foreign vessels that were used. And I believe you noted that in at least 13 cases that those foreign vessels had apprehension, hesitation, or refused to go into some of these areas where there was tension or conflict. And that, obviously, is exactly where we need our military men and women and exactly where we need our equipment.

Do you care to expand or comment on that and just sort of your vision on how we ensure those types of situations don't happen in the future?

Admiral BUZBY. Thank you for that question, sir.

It really is critical to my way of thinking, and I think to most of the military, and certainly to General McDew of USTRANSCOM [U.S. Transportation Command], that we have reliable sealift for this country. And that has to come from a combination of Government-owned ships that we hold in reserve in our sealift fleet, but more importantly, from the U.S.-flag fleet. Those are the ships that we can rely upon.

And some of the cargo that we have to move is critical to whatever mission we have to do. And to entrust that to a foreign-flag

ship with an unknown crew, and as we have seen historically, some of those declined to do that. They declined to carry that to where we needed to go. And that is simply unacceptable. We depend on our sealift forces to move our military overseas, period.

Mr. GRAVES OF LOUISIANA. Thank you. And I do appreciate you providing us that feedback or guidance. And I just want to ask if we can continue to work perhaps offline a bit on steps we need to take here to ensure that we don't run into those reliability problems in the future. But I think it does, just to reinforce as this committee has on numerous occasions, the importance of having a robust U.S.-flag fleet that can deliver for us.

Admiral, coming back to you, Admiral Z, the icebreaker is something we have talked about a good bit over the last few years. We have had a number of meetings discussing that. I always get this mixed up—the *Polar Star* is the one that is still floating, right? All right.

So the *Polar Star*, we are in a situation now where the service life of the *Polar Star* is already, while you all did a phenomenal job with duct tape and bubble gum keeping that thing floating, the service life on it is somewhat tenuous, I think it is safe to say.

Yet, as I recall, the Coast Guard has indicated that a \$2 billion annual investment in a heavy is really what we need to get us to the place we need to be, to have the capabilities we need, and also to have a seamless transition from the *Polar Star* into a new heavy. I think it is fantastic that the budget request does have, was it \$725 million in there, for a heavy for fiscal year 2019.

Can you just comment on sort of how those things transition? Because if the \$2 billion figure was our target, if the service life is, what is it, 2023, I think, on the *Polar Star*, it seems like we are going to have a problem, if we are not fully investing in the program annually.

Admiral ZUKUNFT. Yeah, I am concerned, as I look at the 5-year budget bill, when I am asking for a \$2 billion floor, and we are seeing our acquisition budget continuing to be funded below that floor.

And icebreaking is clearly the biggest risk. There is a \$15 million annualized appropriation to keep the *Polar Star* in service, so there is a smooth hand-off between the *Polar Star* and the next heavy icebreaker.

That gets us right back to the status quo, though, and we are still only a Nation of one heavy icebreaker, which means we need to continue to build out that program of record. We need to provide predictability for our shipbuilders as well. Our shipyards have not built a ship of those scantlings, of that design, laying up that much steel since these ships were built over 40 years ago.

It is an investment in our industrial base at the same time. And this will be built in the United States and with United States steel as well.

So of all our appropriations, this is the one at greatest risk, and it does concern me. And there is going to be tension as we look at, how do we fund other priorities within the Department of Homeland Security?

And a concern that I will pass on to my relief is you may enter another cycle of flatline budgets at a point in time where our needs are continuing to grow, particularly in this domain.

Mr. GRAVES OF LOUISIANA. OK. Bottom line is, Mr. Chairman, I just want to highlight, I think we do have some problems with this current schedule in that the service life on the *Polar Star*, we are looking at 2023. Am I remembering that correctly?

Admiral ZUKUNFT. 2023 is when we anticipate taking delivery of the first heavy icebreaker. We want to sustain the *Polar Star* for 2 years beyond that to make sure as we go through sea trials we are fully mission ready.

Mr. GRAVES OF LOUISIANA. OK. So we have got major concerns with the *Polar Star* still floating by, I think, 2025 then.

Admiral ZUKUNFT. That is right.

Mr. GRAVES OF LOUISIANA. And actually having the ability to replace it with a new heavy. And then, of course, we have you, in discussions in another formal setting, the administration has indicated the need also to have medium capacity. And so that is going to need to come on. And if all we are doing is \$700 million, then we are not able to even deliver the heavy, much less coming behind on the medium, which is really important.

If I can change gears real quick. Patrol Forces Southwest Asia has six 110s right now. We certainly want to make sure that the men and women that are out there helping to support our military in that region, that they have the equipment they need, have the resources they need.

I am a little partial to the FRC [Fast Response Cutter], as you know, and I just am curious if you could talk at all about, perhaps, the need or timelines on replacing the 110s with FRC out there.

Admiral ZUKUNFT. Yes, Congressman. I have had a number of high-level engagements. I have written when we want to restore readiness, a letter that went through the Secretary of Homeland Security that I addressed to the Secretary of Defense, to the Chairman of the Joint Chiefs.

I have met with General Votel, CENTCOM [U.S. Central Command], I have met with Vice Admiral Aquilino, he was commander of the 5th Fleet in Bahrain, with the Secretary of the Navy, and with the CNO, and that we have a hot product line that are building these ships on time, on schedule, because the 110s that are there will time-out in 2022.

The PCs that the Navy operates, they will start timing out a year later. So there is an opportunity, using DoD funding, to keep this product line going, to reconstitute the fleet that is over there right now. And we need a decision by 2022 so we can make those informed decisions to keep that product line going, to roll out that next fleet of ships.

So, Congressman, that is where it stands right now. And it does have the highest level of attention from the Secretary of the Navy on down, to include the combatant commander in charge of that theater. The return on investment is huge. The mission is not going away. The demand signal remains high. And so that is where we stand right now.

But 2020 is where the shipbuilder needs to be informed that this order is coming in so they can keep that product line going.

Mr. GRAVES OF LOUISIANA. Great. Thank you.

Mr. Chairman, there is this weird clock thing in front of me, I am not sure what that is, but I want to yield back.

Mr. HUNTER [presiding]. The ranking member and I stayed under our time so that we could give everybody else a chance. We are just happy you are here.

Mr. GRAVES OF LOUISIANA. Well, thank you very much.

Mr. HUNTER. Mr. Lowenthal is recognized.

Dr. LOWENTHAL. It is a pleasure to join the Garret Graves show.

Admiral Buzby, I want to ask what to me has become kind of a conundrum, and let me lay it out. It has to do with the President's budget request for MARAD's Title XI, the loan guarantee program. You know, the program has been in operation for over 80 years. It guarantees financing for the construction of American-made U.S.-flagged vessels. It is a longstanding public-private partnership. It has helped to build the U.S.-flagged Ready Reserve Fleet, supported American shipyards.

These loans were crucial to help finance the construction of the world's first LNG-powered containership, which was built here in America.

President Trump talks about reviving American manufacturing and just last week announced tariffs under a rationale that certain industries are vital for our national security. I thought for years we have considered shipbuilding one of those vital industries.

My first question is, and let me ask the whole thing, is that still the case? And help me to understand the logic that if this program has an important role, which you say, and the President talks about American manufacturing, but the budget calls for no new authority to guarantee loans. That seems to me to be a contradiction. Can you respond to that, please?

Admiral BUZBY. Yes, sir, happy to.

We believe that it is an important program also. This really comes down to a funding issue in a very difficult budget year. It is a good program. It has built over 1,900 vessels for this country. It has done some good things. It has had some defaults in the recent past, which have been difficult to get through, but it has been a general benefit to the Nation.

Dr. LOWENTHAL. So you are very supportive of the program and the importance of the program?

Admiral BUZBY. I think it has made great benefit to our country.

Dr. LOWENTHAL. Thank you.

Acting Chairman Khouri, I have a question. Last year the subcommittee passed legislation to amend the Shipping Act to increase FMC's authority to oversee and enforce antitrust requirements that would prevent the ongoing consolidation among American—among foreign-flagged containers, not American, foreign-flagged containers, container carriers, from disadvantaging the U.S. maritime and port service industries.

And I have been told we expect Congress to clear this legislation later this year. So my question, when final agreement is reached, I think, on the Coast Guard Authorization Act—there are two questions.

One, what is the status of consolidation in the container trades? Are there now fewer carriers than there were in 2017?

And is there sufficient funding in the administration's request for the FMC to ensure that the Commission has the personnel and re-

sources necessary to conduct very effective oversight during this very kind of dynamic period of consolidation that is taking place?

If you can tell, do you have the resources? And what is the latest status on consolidation of the U.S. container trades?

Mr. KHOURI. Thank you for the question. Let me answer the second one first, if I may.

We do have the resources to continue our monitoring of the ocean industry, ocean container industry. We do have in our budget money for additional people, especially in our economist group. We just received notice that we are going to lose two economists via retirement. That area is sort of the heart and soul of everything that we do.

So we are actively getting ready. I think tomorrow we will have new notices for recruiting economists. These are somewhat specialized transportation economists. But I do feel confident that we can continue that mission and do it effectively.

On the status, as I said in my testimony, the number of major carriers has gone from 21 down to 12. There are a total of 36 different carriers that currently serve U.S. trades. Now, obviously, the smaller carriers are not up to a scale as a Maersk or Mediterranean Shipping. However, bear in mind to some extent, when you have a commoditized marketplace, that the smaller carriers do effectively, from a pricing standpoint, set a lid on how all of the other carriers react.

We watch like hawks, I can promise you, the pricing activities and all of this pricing and decision—excuse me, capacity decisions are regularly filed with the Commission. We follow that closely. We see where different carriers are making pricing decisions this way and that. They are making their short-term decisions on putting ships in or out of a trade lane.

And then there are long-term decisions, similar to the Coast Guard, when you build a ship you have got it for 30 years, that the long-term decisions that various carriers are making in terms of new-builds continues to show diversity.

So this is all evidence to us that you still have a very competitive marketplace.

Dr. LOWENTHAL. OK.

Mr. KHOURI. So I think, as we speak today, the Herfindahl-Hirschman Index, not to get technical, but this is the same type of analysis the Department of Justice uses to look at industries, et cetera, that our main East-West trades, Asia to U.S., and the Atlantic trades are still in a very comfortable, what is called safe harbor area, under HHI.

So we feel confident that it still has a very competitive marketplace overall to protect our exporters, our importers, our consumers, and the various service providers that you mentioned in terms of the tug companies. So we do feel confident. We would like to have full funding so that we can go ahead and hire some of these extra folks into the 2018 and 2019 budget periods.

So that is where we are at this point. Thank you, sir, for the question.

Dr. LOWENTHAL. Thank you. And I yield back.

Mr. HUNTER. I thank the gentleman.

We are going to start another round of the hearing by recognizing myself. This is more what it looks like usually here.

FMC questions really quick. We all raised concerns last year. And, by the way, we have a bipartisan FMC bill, that is a Senate bill as well, so it is bicameral, bipartisan, to help do the things that we talked about last year. I think you got yelled at by just about everybody up here.

So in regards to that, we talked last year about you agreeing to allow a group of international car carriers to collectively negotiate with U.S. tugboat service providers. In light of the concerns that we have raised, is the Commission now more closely overseeing negotiations between ocean common carriers and the U.S. domestic providers?

Mr. KHOURL. Thank you for the question. The very short answer is yes. And just perhaps another sentence or two.

It has been interesting that some of the alliances have visibly backed away from even pursuing some of that activity. So I think it was heard by everyone in the industry where the Congress stands on the issue, and I feel comfortable that it is in good shape.

And I think the other thing that is in the, if I may, in the pending bill, I mentioned in my testimony that five different price discussion—what we call price discussion agreements, agreements that allow for discussion of pricing, I just note, I am not going to say because of, but I note that they have filed agreement terminations at the Commission. So that is a very positive trend of eliminating price discussion through the trades.

Mr. HUNTER. Mr. Khouri, then, you have seen the legislation that we have put forward, right?

Mr. KHOURL. Oh, yes.

Mr. HUNTER. Do you think that gives you more tools in your toolbox?

Mr. KHOURL. Yes, I do. Yes.

Mr. HUNTER. OK.

Admiral Buzby, I would ask you more questions, but in the NDAA and our other committee, we are both on the Subcommittee on Seapower and Projection Forces, we are both, John and I, we are both on the Armed Services Committee. You get authorized by the NDAA for MSP, it gets paid out of DOT, and the difference, the delta between what we authorized, the \$300 million and your \$216 million that you are putting towards MSP with the old \$3.5 million number, instead of the \$5 million per ship, we are going to work that.

I am sure we are going to find the money in the Armed Services Committee, because even though DOT pays for that, the difference needs to be made up in the NDAA, from what I understand. So we will work that going forward.

I guess the one question I have is, do you expect if the number stays at \$3.5 million, you have 59 MSP ships now, right?

Admiral BUZBY. Sixty.

Mr. HUNTER. You have 60 now?

Admiral BUZBY. We are up to 60.

Mr. HUNTER. What do you expect that to go to? Because when we made this change it was for a reason. It was because ships were dropping out, right?

Admiral BUZBY. Right. We work very closely with our operators. They are very supportive of our program. I do not anticipate anybody that will drop immediately. We will be working very closely with them, however, if it has to stay at that lower number. It is a concern, no doubt. They have voiced their concerns. We are concerned about it. We would have liked to have absolutely funded it to the \$300 million level, but just budget-wise we were restrained.

Mr. HUNTER. But also it looks like you have got money in to build two merchant mariner training ships—not to build, to buy.

Admiral BUZBY. Right.

Mr. HUNTER. Right? And those would not be U.S. built?

Admiral BUZBY. They could be.

Mr. HUNTER. They could be U.S. built, but the numbers you have I don't think are.

Admiral BUZBY. Well, if we have to go out and get used ships, the estimate is that to purchase a used ship and then convert it, it would be about \$200 million or so to do that for a used ship to then modify it.

Mr. HUNTER. And right now you have two in there, right, you have the money for two?

Admiral BUZBY. Right now the language calls for two for \$300 million.

Mr. HUNTER. OK. But you could theoretically build one.

Admiral BUZBY. We could build—that same number, that 300 number—

Mr. HUNTER. And put the money back to MSP.

Admiral BUZBY. It is theoretical, but, yes, sir.

Mr. HUNTER. Those are all possibilities.

Admiral BUZBY. It is a possibility. And we look forward to working with Congress on this.

Mr. HUNTER. Thank you.

Mr. GARAMENDI.

Mr. GARAMENDI. Just to follow up on some questions the chairman raised.

How many ships would be in the MSP fleet if the 29-percent cut were to take place?

Admiral BUZBY. In other words, if we were to fund it to the \$3.5 million, we believe that all 60 ships would remain, sir, at this point at least.

Mr. GARAMENDI. So you intend to negotiate down the subsidy per ship?

Admiral BUZBY. That is something we would have to kind of look at. You know, that is a policy thing we would have to talk to the Secretary about for sure.

Mr. GARAMENDI. Well, you also talk to us about these things.

Admiral BUZBY. Certainly.

Mr. GARAMENDI. I think the chairman and I have made it clear where we are coming from on this. We think the MSP program is exceedingly important and that the subsidy level at \$5.2 million was necessary.

Also, I note that the administration proposes to end the Public Law 480 program, which I think directly affects the MSP issue. I don't see the logic of that. I think that I don't see the logic of most of that budget, to be quite frank about it, except we are happy to

have the additional money for the Coast Guard, as long as they spend that money appropriately on the things that we are talking about.

We talked earlier about the multimission training vessel and the \$300 million. I want to be very, very clear where I am coming from. I think this committee is supporting that position that we are not going to buy a foreign-built ship, we are not going to abandon the multimission.

So what does it cost to build those multimission ships?

Admiral BUZBY. A single vessel we estimate about \$302 million. If we were to build two or three, it drops down to about \$280 million to \$290 million.

Mr. GARAMENDI. So we would need somewhere around another \$300 million over the course of the next couple of years to build two of those multimission ships.

What is the purpose of a multimission ship? What is the multimissions?

Admiral BUZBY. The reason that we are building the ship and calling it a National Security Multimission Vessel is its primary mission will be as a training vessel for the State maritime academy that it would be assigned to.

Its secondary mission would be, as we have seen this past summer, it would be used in a natural disaster relief sort of role, and as designed would have good capability to perform that role even better than our ships that were not purpose-built.

Mr. GARAMENDI. And these rusty hulks that are being discussed to be purchased, would they be able to do the multimission?

Admiral BUZBY. They would have some capabilities, clearly not as much as a ship that was purpose-built for that mission, no, sir.

Mr. GARAMENDI. So we have got to find a couple hundred million dollars to build the two ships and do it right the first time, right? Correct?

Admiral BUZBY. That would be the best way to go forward, yes, sir.

Mr. GARAMENDI. I am sorry, that would be the——

Admiral BUZBY. The very best way to go forward.

Mr. GARAMENDI. The very best, most wonderful, beautiful way.

Admiral BUZBY. If we can all afford it, yes, sir.

Mr. GARAMENDI. I am learning the language of the administration.

We talked earlier about a big, beautiful, wonderful, border wall with steel that now has a 25-percent tariff on top of it, so the cost probably will end up some—but, in any case, that \$18 billion. Admiral Zukunft, you said there were how many metric tons of cocaine did you seize on the low seas, the high seas?

Admiral ZUKUNFT. 233 this past year.

Mr. GARAMENDI. My information that I have received recently is that on the entire land border about 20 metric tons were seized. That is about one-tenth of what you seized on the high seas.

Admiral ZUKUNFT. What is most vulnerable is where it moves in bulk, and that moves predominantly in the maritime domain way beyond our border.

Mr. GARAMENDI. So my message to the President is, from yesterday, he seemed to be really interested in stopping the importation

of drugs, the illicit drugs coming into the Nation. And if he really wanted to get the best for the money, he would fund the Coast Guard. It is 10 to 1. You don't need to comment, but I put that out there.

Mr. President, we want to stop illegal drugs entering the United States. You want to spend your money in the very best, most efficient way possible. Take the \$18 billion, spend some portion of it to rebuild the fences that we presently have. They can be big, beautiful fences or walls. But don't spend \$18 billion that way. Spend it where it has the most effect, which is the U.S. Coast Guard.

And you need autonomous vehicles, drones and the like. You need better capability. You continue to work with the Latin American countries. All of this takes money.

And so if we want to get the very best, most efficient way to stop drugs coming into the country, it is the U.S. Coast Guard, not a beautiful wall paid for by the American taxpayers.

Enough of that. I think I am out of time once again, Mr. Chairman. Excuse me for being so blatant.

Mr. HUNTER. We actually did great compared to the other Members today.

Admiral ZUKUNFT, I have one last question. The fiscal year 2017 approps, you had about \$1.3 billion. This year, even though you are under a CR [continuing resolution] still, it will be \$1.8 billion minus the months we have been in the CR, but it will be at \$1.8 billion level, if everything goes the way it is supposed to go; 2019, you are almost at \$1.9 billion. So you have 2 years at about \$1.8 billion, \$1.9 billion.

But 2020 it drops down to \$1.4 billion. It doesn't go above \$1.7 billion. It never reaches \$2 billion at all going forward. Is that because we are just looking out basically 2 years at a time, or is that because of some other reason?

That is a precipitous dropoff. That is a \$400 million drop.

Admiral ZUKUNFT. Right. Where you see the dropoff is in the polar icebreaker program. And this is at a point in time where we will have awarded final design, and we will be in a position to make an informed decision to do a block buy.

And so that is a concern when I see that precipitous of a drop, because that drop is mostly in the polar icebreaker building program. So that is a significant add-on that we are going to need going forward in order to look at—

Mr. HUNTER. So you are saying from 2020 forward, that does not include icebreaker funding?

Admiral ZUKUNFT. Well, where we see that significant drop, it really comes within the icebreaking account. That accounts for almost all of that reduction of nearly \$500 million.

Mr. HUNTER. Gotcha.

OK. That is all I have.

Mr. Garamendi.

Mr. GARAMENDI. Two more very quick questions.

This is kind of like your mantra, Mr. Chairman, and you have gone through all of the reports that we have not received in the timeliness of those, and I appreciate you continuing to stay on that issue.

However, Admiral Buzby, there is one other report that we authorized or asked for in 2014. The previous administration didn't get it done, although I understand there was a draft that was held up in OMB. So where is the National Maritime Strategy?

Admiral BUZBY. Thank you for that question.

I am pleased to report that the National Maritime Strategy, in its revised state, has left my desk. It is now routing through my staff, prior to going up to the Secretary. And I believe it will be going very quickly.

It was a good piece of work. It needed just some touching up. I participated in its construction as a contributor earlier, prior to this current position.

So it is moving along. My goal is to deliver it to you, sir.

Mr. GARAMENDI. I think I have heard this before, with no offense to your good efforts. But please understand that we await that. And your good efforts were repeated—actually you repeating the good efforts of your predecessor—and it got held up somewhere above your level.

Admiral BUZBY. Yes, sir.

Mr. GARAMENDI. We look forward to that.

Second question. It looks to me like the FMC isn't going to be able to have a quorum. This seems to be a problem that plagues the administration on appointments. I think Mr. Maffei's appointment ends in June and then you will be down to two people.

Mr. KHOURI. It is my understanding that even with two we still have a quorum. It is also my understanding that the Surface Transportation Board has operated with one and they continue to do business. I am not suggesting that that is recommended, optimal, or anything else, but our charter does not prevent us from continuing to operate.

I think each independent agency, you have to look at their individual charter to see what is required for a forum. But it is something we have thought about and looked into, Congressman.

Mr. GARAMENDI. I think by raising the question, I make my point. If one were to look at the White House, it appears as though there will be one person there also.

Thank you so very much. I yield back my time.

Mr. KHOURI. Thank you.

Mr. HUNTER. I thank the gentleman.

I thank all of you for being here and sharing with us and your testimony.

Admiral, again, Master Chief, whatever you guys say in the Coast Guard, fair wind, safe travels, good seas, all those things. Thank you very much for your service to this Nation. It will be remembered. Thank you.

We are now adjourned.

[Whereupon, at 12:35 p.m., the subcommittee was adjourned.]



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

**ON
“THE COAST GUARD’S FISCAL YEAR 2019 BUDGET REQUEST”
BEFORE THE
HOUSE COAST GUARD AND MARITIME TRANSPORTATION SUBCOMMITTEE
MARCH 14, 2018**

Introduction

Mr. Chairman and distinguished members of the Committee, I appreciate the opportunity to testify today. Thank you for your enduring support of the United States Coast Guard, particularly the significant investments provided in the FY 2017 Consolidated Appropriations Act, recent Hurricane Supplemental, and ongoing deliberations to support our FY 2018 and FY 2019 President’s Budget requests.

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 maritime border, combat transnational criminal organizations (TCO), and safeguard commerce on America’s waterways.

The Coast Guard’s combination of broad authorities and complementary capabilities squarely aligns with the President’s national security and economic prosperity priorities; furthermore, it offers an agile toolset to address the Nation’s most pressing challenges. 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 Force² and currently have forces assigned to each of the five geographic Combatant Commanders, as well as Cyber Command.

As demonstrated in the 2017 record hurricane season, the Coast Guard is the Nation’s “maritime first responder” and plays a leading role in executing the National Response Plan (NRP) for disaster situations. Our ability to rapidly surge in response to emerging threats or contingencies are critical to success across the spectrum of missions we prosecute.

We live in an increasingly volatile, uncertain, complex, and ambiguous world. Rapid technological advancement, increasing globalization, and intensifying threats from state and non-state actors alike challenge international norms and threaten global governance.

¹ 14 U.S.C. § 1; 10 U.S.C. § 101

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.

To ensure we meet the demands of today while preparing for tomorrow, the Coast Guard is guided by a five-year Strategic Intent and suite of regional and functional strategies that drive our Service's operations and investments.

These strategic efforts are informed by the National Security Strategy and applicable DHS strategies, and are coordinated to augment Department of Defense (DoD) priorities. Using these strategies as guideposts, leveraging the intelligence community, and employing a risk-based approach to focus our limited resources allows us to address maritime threats with the greatest precision and effect.

Strategic Effects

Fueled by the Service's unique authorities and capabilities, our Western Hemisphere Strategy continues to yield large-scale successes in our counter-drug mission. The Coast Guard's persistent offshore presence and associated interdiction efforts sever the supply lines of criminal networks where they are most vulnerable—at sea. Leveraging over 30 multilateral and bilateral agreements with a host of government organizations, the Coast Guard's long-term counter-TCO efforts promote stability and strengthen the rule of law throughout these regions. Working with interagency partners, the Coast Guard seized 223 metric tons of cocaine and detained and transferred 606 smugglers for criminal prosecution in FY 2017. Highlighting our record-breaking mission performance for drug interdiction was the STRATTON's offload of over 50,000 pounds of illicit narcotics, with an estimated street value of over \$6.1 billion. This was a result of collaborative efforts between four U.S. Coast Guard cutters, DHS maritime patrol aircraft, and a U.S. Navy ship in over 25 separate interdictions. Beyond the important task of removing cocaine from the illicit system that gets it to U.S. streets, prosecuting smugglers facilitates deeper understanding of TCOs and ultimately helps our unified efforts to dismantle them.

Without question, National Security Cutters (NSC) have been a game-changer not only for our drug interdiction and counter-TCO operations in the southern maritime transit zone, but also in contributing to other national security priorities, such as supporting DoD Combatant Commander requirements across the globe and projecting sovereign rights in the Arctic.

Looking forward, the Offshore Patrol Cutter (OPC) will provide the tools to more effectively enforce Federal laws, secure our maritime borders, disrupt TCOs, and respond to 21st century threats. Continued progress on this acquisition is absolutely vital to recapitalizing our aging fleet of Medium Endurance Cutters (MECs), some of which will be over 55 years old when the first OPC is delivered in 2021. In concert with the extended range and capability of the NSC and the enhanced coastal patrol capability of the Fast Response Cutter (FRC), OPCs will be the backbone of the Coast Guard's strategy to project and maintain offshore presence.

As one of the five Armed Forces, the Coast Guard deploys world-wide to execute our statutory Defense Operations mission in support of national security priorities. On any given day, 11 cutters, two maritime patrol aircraft, five helicopters, two specialized boarding teams, and an entire Port Security Unit are supporting DoD Combatant Commanders on all seven continents. In the Middle East, our squadron of six patrol boats continues to police the waters of the Northern Arabian Gulf in close cooperation with the U.S. Navy, promoting regional peace and stability. Likewise, as one of the principal Federal agencies performing detection and monitoring in the southern maritime transit zone, the Coast Guard provides more than 4,000 hours of maritime patrol aircraft support and 2,000 major cutter days to DoD's Southern Command each year.

In the high latitudes, the Arctic region is becoming increasingly accessible at a time when global interests in energy, clean water, and subsistence continue to intensify. The Coast Guard is committed to the safety, security, and environmental stewardship of the Arctic, and we will remain closely engaged with our partners, including Russia, via the Arctic Coast Guard Forum. By focusing on collaboration over conflict, we are promoting governance and building a shared approach to prevention and response challenges in the region.

Meanwhile, the 42-year old POLAR STAR recently completed another Operation DEEP FREEZE patrol in Antarctica. Just one major casualty away from leaving the Nation without any heavy icebreaking capability, POLAR STAR supported U.S. strategic interests and the National Science Foundation by breaking a navigable shipping lane to deliver fuel and critical supplies to the U.S. base at McMurdo Sound.

I appreciate your support for the \$150 million appropriated in Shipbuilding and Conversion, Navy (SCN) funding in the FY 2017 Omnibus. This is a great step forward to secure our future in the Polar Regions and finally recapitalize the Nation's icebreaker fleet. This funding coupled with the \$750 million in the FY 2019 President's Budget, would enable the Coast Guard to award a contract for detail design and construction and deliver the first new heavy polar icebreaker in 2023. These critical investments reflect our interests and standing as an Arctic Nation and affirm the Coast Guard's role in providing assured access to the Polar Regions.

At the same time the Service was conducting counter-drug missions in the Eastern Pacific and projecting sovereign rights in the Arctic, the Coast Guard also launched one of the largest responses in history during a historic 2017 hurricane season. Over a five week period, Hurricanes HARVEY, IRMA, MARIA, and NATE impacted over 2,540 miles of shoreline³, and Coast Guard men and women in helicopters, boats, cutters, vehicles and on foot rescued over 11,300 people and over 1,500 pets.

During our 2017 hurricane response, the Coast Guard resolved over 1,269 aids to navigation discrepancies, handled 290 pollution cases, located and assessed more than 3,623 grounded vessels, with more than 1,585 removed to date. Within hours after each storm's passage, Coast Guard damage and recovery assessment teams were on-scene determining the status of ports and waterways, leveraging electronic aids to navigation when feasible to facilitate the rapid reopening of key ports and waterways, and assessing impacts to Coast Guard facilities and capabilities. This enabled a vital portion of the country's waterways to reopen, helping maintain our Maritime Transportation System (MTS) which contributes \$4.6 trillion annually to our Gross Domestic Product.

The daily activities of Coast Guard men and women are heroic, as they support nearly every facet of the Nation's maritime interests, protect our homeland, and secure our economic prosperity. In addition to the hurricane responses, the Coast Guard prosecuted over 16,000 search-and-rescue cases and saved more than 4,200 lives; interdicted more than 2,500 undocumented migrants; completed over 9,100 Safety of Life at Sea safety exams on foreign vessels; and responded to over 12,200 reports of pollution incidents.

³ Using CRS method of Shoreline Measurement: Texas: 367 mi, Louisiana: 397 mi, Florida: 1,350 mi, Puerto Rico: 311 mi, USVI: 117 mi

Beyond operations, we earned our fifth consecutive clean financial audit opinion – the only Armed Service that can make such a claim. Further, our major acquisition programs and product lines are delivering new assets on schedule and on budget that have proven to meet our operational requirements. To better guide our modernization, we developed a Long Term Major Acquisitions Plan (LTMAP), a roadmap to field modern platforms to address 21st century threats. We have been working with the Administration to finalize the details of the LTMAP and are committed to delivering this report to Congress as soon as possible.

Our greatest strength is undoubtedly our people. Coast Guard operations require a resilient, capable workforce that draws upon the broad range of skills, talents, and experiences found in the American population. In FY 2019, the Coast Guard will maintain a proficient, diverse, and adaptable workforce that responds effectively to changing technology, an increasingly complex operating environment, and dynamic partnerships. Together, modern platforms and a strong, resilient workforce will maximize the Coast Guard's capacity to meet future challenges.

Conclusion

History has proven that a responsive, capable, and agile Coast Guard is an indispensable instrument of national security. Funding 21st century Coast Guard platforms and people are especially prudent investments given today's challenging fiscal environment. I firmly believe no other investment will return more operational value on every dollar than the extraordinary men and women of the U.S. Coast Guard—which includes 48,000 Active Duty and Reserve members, 8,500 civilians, and over 27,000 volunteer members of the Coast Guard Auxiliary. As illustrated by our sustained response to an historic hurricane season, another record year removing illicit narcotics from the maritime approaches, and unique support to Combatant Commanders around the globe; our ability to rapidly surge resources to emerging threats continues yield unprecedented results for the Nation.

With the continued support of the Administration and Congress, the Coast Guard will continue to live up to our motto - *Semper Paratus* – Always Ready. Thank you for all you do for the men and women of the Coast Guard.

FY 2019 BUDGET REQUEST

The FY 2019 President's Budget funds the most critical Coast Guard operations and continues our Service's highest priority recapitalization efforts. The budget efficiently allocates resources to optimize performance across all Coast Guard mission programs and activities. The Coast Guard must continue to meet today's operational requirements while investing in future capability to best serve the Nation.

The Coast Guard's FY 2019 budget request is focused on three main priorities:

1. Invest in the 21st Century Coast Guard
2. Sustain Mission Excellence
3. Maximize Value to Nation

Invest in the 21st Century Coast Guard

Coast Guard mission demands continue to grow and evolve. The complexities and challenges facing our Nation require well-trained Coast Guard men and women with capable platforms providing the persistent presence necessary to conduct operations. Given the age and condition of the Coast Guard's legacy assets, future mission success relies on continued recapitalization of Coast Guard boats, cutters, aircraft, systems, and infrastructure.

The FY 2019 President's Budget funds construction of the second OPC and long lead time material (LLTM) for the third. OPCs will be the cornerstone of our Service's future surface fleet and comprise 70 percent of the Coast Guard's offshore presence. To meet growing demands in the Polar Regions, the budget provides funding to award a contract for detail design and construction of polar icebreakers and maintains the critical path to deliver the first new heavy polar icebreaker in 2023. Just as critical, the budget funds the service life extension project for the POLAR STAR, the Nation's only heavy icebreaker in service. The budget also continues other vessel acquisition programs, providing funds for four FRCs, totaling 52 hulls of the complete program of record of 58 hulls. In addition to surface recapitalization efforts, the FY 2019 President's Budget continues sustainment and conversion work on in-service fixed and rotary wing aircraft, including missionization of the C-27J aircraft received from the Air Force, and investment in Small Unmanned Aircraft Systems (sUAS), which have proven to be highly successful in achieving strategic objectives in the Western Hemisphere.

Sustain Mission Excellence

The FY 2019 President's Budget ensures the Coast Guard can conduct today's highest priority operations in support of national objectives. Most importantly, it sustains the Coast Guard's workforce and supports proficiency, maximizing operational safety and effectiveness.

The FY 2019 President's Budget provides critical operations and maintenance funding for more capable, modernized assets delivered via the Coast Guard's acquisition programs, including one NSC, six FRCs, and two HC-130J aircraft. In all, the FY 2019 President's Budget increases the workforce by 93 FTE to support Coast Guard activities across all mission programs. The budget also maintains parity with DOD for military pay, allowances, and health care, and for civilian benefits and retirement contributions.

Maximize Value to Nation

In best serving the Nation, the Coast Guard must continue to meet evolving mission requirements stemming from national priorities and remain a trusted steward of public resources.

The 2019 President's Budget sustains the most critical frontline operations by efficiently allocating resources across all mission programs. Coast Guard Operational Commanders will maintain search and rescue coverage, protect critical infrastructure, counter illicit threats from entering the United States, facilitate safe navigation and commerce within the vital MTS, safeguard the maritime environment, support foreign policy objectives, and conduct defense operations in support of DOD Combatant Commander requirements.

FY 2019 BUDGET HIGHLIGHTS

Procurement, Construction, & Improvements (PC&I)

Surface Assets: The budget provides **\$1,544 million** for the following surface asset recapitalization and sustainment initiatives:

- NSC – Provides funding for post-delivery activities for the seventh through ninth NSCs, and test and evaluation activities. The acquisition of the NSC is vital to performing DHS missions in the far offshore regions, including the harsh operating environments of the Pacific Ocean, Bering Sea, and Arctic. The NSC also provides a robust command and control platform for homeland security and contingency operations.
- OPC – Provides funding for construction of the second and LLTM of the third OPC, which are scheduled for delivery in 2022 and 2023, respectively. The OPC will replace the Medium Endurance Cutter classes, now well beyond their service lives, which conduct missions on the high seas and coastal approaches.
- FRC – Funds procurement of four FRCs, totaling 52 of the complete program of record of 58. These assets replace the less capable 110-foot patrol boats, enhancing the Coast Guard's coastal capability to conduct Search and Rescue operations, enforce border security, interdict drugs, uphold immigration laws, prevent terrorism, and enhance resiliency to disasters.
- Polar Icebreaker – Provides funding to award a contract for detail design and construction of polar icebreakers in 2019, delivering the first new heavy polar icebreaker in 2023. New heavy polar icebreakers will provide the Nation with assured surface access to the Polar Regions for decades to come.
- Polar Sustainment – Supports program management activities, survey and design efforts, and LLTM purchases for a multi-year Service Life Extension Project for POLAR STAR to provide surface presence in the Polar Regions.
- Waterways Commerce Cutter (WCC) – Provides funding for acquisition planning activities to continue evaluation for the replacement of the multi-mission platform integral to the protection of maritime commerce on the inland rivers.
- Cutter Boats – Continues funding for the production of multi-mission cutter boats that will be fielded on the Coast Guard's major cutter fleet, including the NSC.
- In-Service Vessel Sustainment – Continues funding for sustainment projects on 140-foot Ice Breaking Tugs, 225-foot Seagoing Buoy Tenders, 270-foot Medium Endurance Cutters, and 47-foot Motor Lifeboats.
- Survey and Design – Continues funding for multi-year engineering and design work for multiple cutter classes in support of future sustainment projects. Funds are included to plan a Mid-Life Maintenance Availability (MMA) on the CGC HEALY.

Air Assets: The budget provides **\$148 million** for the following air asset recapitalization or enhancement initiatives:

- HC-27 – Funds continued missionization activities of the C-27J, including funding for spare parts, logistics, training, and mission system development.
- HC-144 – Funds continued Minotaur mission system retrofits and provides high-definition electro-optical infrared cameras to meet DHS Joint Operational Requirements.
- HH-65 – Continues modernization and sustainment of the Coast Guard's fleet of H-65 short range recovery helicopters, converting them to multi-mission MH-65E variants.

The modernization effort includes reliability and sustainability improvements, where obsolete components are replaced with modernized sub-systems, including an integrated cockpit and sensor suite. Initial funding is also included to extend aircraft service life for an additional 10,000 hours.

- MH-60 – Includes initial funding to extend aircraft service life for an additional 10,000 hours to better align with DOD’s H-60 replacement timeline.
- sUAS – Continues program funding to deploy sUAS onboard the NSC allowing increased interdiction through greater Intelligence, Surveillance, and Reconnaissance (ISR).

Shore Units and Aids to Navigation (ATON): The budget provides **\$135 million** to recapitalize shore infrastructure that supports Coast Guard assets and personnel, as well as construction and improvements to ensure public safety on waterways:

- Specific Projects – Funds continued renovation and modernization of Chase Hall Barracks at the Coast Guard Academy, site work and construction of a new residential complex in Wailupe, Hawaii, and other minor repairs and improvements.
- Major Acquisition Systems Infrastructure – Funds modification and construction of facilities to support newly arriving assets. Includes upgrades and construction for NSC, OPC, and FRC homeports and also supports upgrades for Air Station Barbers Point, Hawaii to transition to C-130Js.

Other (Asset Recapitalization): The budget provides **\$60 million** for other initiatives funded under the Procurement, Construction, and Improvements account, including the following equipment and services:

- Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) – Provides design, development, upgrades, and assistance on C4ISR hardware and software for new and in-service assets.
- Program Oversight and Management – Funds activities associated with the transition of the Coast Guard’s assets from acquisition to operations, including delivery, provision of logistics, training, and other services necessary to ensure seamless integration into the operational fleet.
- CG-Logistics Information Management System – Continues development and deployment of this system to Coast Guard operational assets.
- Other Equipment and Systems – Funds end-use items costing more than \$250,000 used to support Coast Guard missions, including equipment to support operation and maintenance of vessels, aircraft, and infrastructure.

Operations and Support (O&S)

Operation and Maintenance of New Assets: The budget provides **\$63 million and 189 FTE** to operate and maintain shore facilities and sustain new cutters, boats, aircraft, and associated C4ISR subsystems delivered through acquisition efforts:

- Shore Facilities – Funds operation and maintenance of shore facility projects scheduled for completion prior to FY 2019.
- FRC – Funds operation and maintenance of FRCs #31-36, as well as personnel for FRC crews #34-38 and shore-side support for FRC homeports in Cape May, NJ; Galveston, TX; Honolulu, HI; San Juan, PR; and San Pedro, CA.

- NSC – Funds operations and maintenance of NSC #8, as well as personnel for sensitive compartmented information facility (SCIF) crews and analytical support, and shore-side support for a third NSC homeport in Honolulu, HI.
- C-27J Aircraft – Funds fixed-wing aircraft maintenance support personnel.
- HC-130J Aircraft – Funds operations, maintenance, air crews, and pilots for HC-130J airframes #10-11.

Pay & Allowances: The budget provides **\$101 million** to maintain parity with DOD for military pay, allowances, and health care, and for civilian benefits and retirement contributions. As a branch of the Armed Forces of the United States, the Coast Guard is subject to the provisions of the National Defense Authorization Act, which include pay and personnel benefits for the military workforce.

Asset Decommissionings: The budget saves **\$16 million and 56 FTE** associated with the planned decommissioning of Coast Guard aircraft. As the Coast Guard recapitalizes its cutter and aircraft fleets and brings new assets into service, the older assets that are being replaced will be decommissioned:

- HC-130H Aircraft – The budget decommissions four HC-130H aircraft. These assets are being replaced with modernized and more capable HC-130J aircraft.

Operational Adjustments: In FY 2019, the Coast Guard will make sound, risk-based operational decisions while investing in critical recapitalization and new workforce initiatives:

- Aircraft Federal Aviation Administration (FAA) Compliance – The budget provides **\$20 million** to replace obsolete aircraft equipment and systems necessary to comply with FAA 2020 airspace requirements.
- Obsolete Equipment Replacement – The budget provides **\$11 million and 1 FTE** to replace obsolete equipment on cutters and aircraft, including: military satellite communications and cutter underway connectivity equipment.
- Mission Essential Systems – The budget provides **\$5 million** to sustain critical network infrastructure necessary to comply with DOD information network and cybersecurity requirements.
- Acquisition Personnel and Management – The budget provides **\$7 million and 46 FTE** to increase the Coast Guard's professional acquisition workforce to support new and existing recapitalization projects and programs.
- Elimination of the Crew Rotation Concept (CRC) Pilot Program – The budget saves **\$32 million and 231 FTE** associated with the elimination of CRC operations on NSC hulls 1-3 homeported in Alameda, California. Elimination of the CRC program standardizes operations across the NSC fleet and avoids costly and inefficient CRC implementation on other NSCs.

Question#:	1
Topic:	Request for Information
Hearing:	Review of Fiscal Year 2019 Budget Request for the Coast Guard and Maritime Transportation Programs
Primary:	The Honorable Duncan D. Hunter
Committee:	TRANSPORTATION (HOUSE)

Question: On March 1, 2017, the U.S. Coast Guard (USCG) issued a Request for Information (RFI) for commercially available Boat Crew Communications System (BCCS). THE RFI calls for an untethered, hands-free wireless intercom capability, hardened for the maritime environment. It is my understanding that USCG conducted demonstrations June 12-14, 2017. Please provide the Subcommittee with an overview of the results of that demonstration; a timeline for a formal Request for Proposal, and the anticipated evaluation and acquisition timeline.

Response: In response to the RFI, the Coast Guard received capability statements from seventeen companies. Twelve companies elected to present their solutions to the government. Many were able to demonstrate wireless systems that appear to meet the Coast Guard's need. Based on industry input, the Coast Guard was able to refine the requirements and plan for competitive procurement. The Coast Guard intends to release a Request for Proposal during the second half of 2018.

Question: The Coast Guard has issued other RFI's within the last two years for aviation platform (fixed wing and rotary wing) wireless intercom capability. Has USCG considered an effort to standardize hands-free wireless intercom capability across all or most of the USCG's maritime and aviation platforms?

Response: Yes. Standardization is considered as part of the normal engineering design process. The Coast Guard evaluates its requirements for crew communications capability as part of obsolescence management for each platform type, including aviation and afloat.

Question: If so, how does the planned BCCS program align with that effort?

Response: BCCS requirements will be compared to other enterprise requirements and solutions to determine potential for standardization and efficiency. Identifying existing enterprise solutions is a routine step in meeting the needs of emerging Coast Guard capabilities.

Question#:	2
Topic:	Suspect or Counterfeit Items
Hearing:	Review of Fiscal Year 2019 Budget Request for the Coast Guard and Maritime Transportation Programs
Primary:	The Honorable Rick Larsen
Committee:	TRANSPORTATION (HOUSE)

Question: During a recent investigation of a ferry propulsion failure, the Coast Guard discovered evidence of the use of falsely identified components. As a result, last April you issued a safety alert "strongly recommend[ing] that all vessel owners, operators, and technical personnel maintain awareness Suspect / Counterfeit Items (S/Cis) and to implement policies and procedures aimed at identifying them."

I recently met with a company in my district that offers high-resolution imaging technology used to detect counterfeit components in the military supply chain. Has the Coast Guard evaluated the use of such technologies in the maritime realm?

Response: The Coast Guard has not examined high resolution imaging technology for use in the maritime supply chain. With the exception of Coast Guard approved equipment, we do not directly audit the records of marine component manufacturers and suppliers. Vessel owners are responsible to ensure contracted suppliers of components meet original equipment manufacturer (OEM) or builders' drawing requirements.

Coast Guard approved lifesaving and firefighting equipment or systems must comply with strict procedures for their manufacture, modification, or repair. During vessel construction, or when a vessel undergoes significant repairs or modifications, the Coast Guard reviews and approves the plans for engineering systems and structural components to ensure they comply with an "as built" condition. The Coast Guard also verifies that engine or propulsion system components comply with design drawings and/or the OEM specifications. The Coast Guard encourages owners to use suppliers as authorized by the OEM.

Question: How would the President's fiscal year 2019 budget impact the Coast Guard's ability to proactively remove S/CIs from the maritime supply chain?

Response: The Coast Guard does not perform this function. Vessel owners are responsible to ensure the components they purchase for new construction or contracted repairs are proper OEM components.

Question#:	3
Topic:	Future UAS Use
Hearing:	Review of Fiscal Year 2019 Budget Request for the Coast Guard and Maritime Transportation Programs
Primary:	The Honorable Rick Larsen
Committee:	TRANSPORTATION (HOUSE)

Question: Last year in your State of the Coast Guard address, you highlighted the Coast Guard's lack of "eyes in the sky" as a major shortfall. With the emergence of new technology and the administration's interest in Unmanned Aircraft Systems (UAS) innovation, it is likely the Coast Guard's use of UAS will expand.

How will the President's proposed \$17.2 million (or 47.4 percent) cut for research and development impact the Coast Guard's current or future use of UAS?

Response: The funds requested for R&D in the FY 2019 President's Budget do not constitute a cut in R&D funding. The funds appropriated to the Coast Guard in FY 2017 for the Long Range/Ultra Long Range UAS project were above the Coast Guard's base R&D funding level and will remain available through FY 2019. Therefore, this work will continue as planned and the FY 2019 U.S. Coast Guard R&D request does not represent a change in the Coast Guard's UAS program.

**STATEMENT OF
MARK BUZBY
ADMINISTRATOR
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**

**HEARING ON "THE MARITIME ADMINISTRATION'S
FISCAL YEAR 2019 BUDGET REQUEST"**

March 14, 2018

Good morning, Chairman Hunter, Ranking Member Garamendi and members of the Subcommittee. I appreciate the opportunity to discuss the President's Fiscal Year (FY) 2019 budget priorities for the Maritime Administration (MARAD). MARAD's statutory mission to foster, promote, and develop the merchant maritime industry of the United States. This budget request furthers that mission by investing in U.S. mariner training, supporting programs that help U.S.-flag commercial vessels compete globally, and maintaining sealift readiness to meet national security requirements.

FY 2019 BUDGET REQUEST

The United States is a maritime Nation, with our country's economy highly dependent on viable coastal and ocean resources, and inland waterways. In 2014, U.S. maritime freight activity helped to support \$4.6 trillion of economic activity among the many non-maritime industries that depend on it for access to world markets and within the maritime industry itself, equivalent to 26 percent of our GDP¹. MARAD's programs seek to support both the maritime industry's commercial health and national security objectives.

The U.S.-flag fleet operating in international trade currently carries less than 2 percent of our annual foreign trade by tonnage². The U.S. commercial presence in the international maritime domain has been at historic lows over the past several years with only 81 ships remaining in those trades. As our national economy relies on foreign trade, we need to increase our capability to participate as a nation in maritime commerce to ensure we remain economically competitive. Without this capability, the U.S. economy would become reliant on foreign-flag shipping services. During Operation Desert Shield in 1991, DOD found it necessary to employ 177

¹ Martin Associates, "The 2014 National Economic Impact of the U.S. Coastal Port System," prepared for the American Association of Port Authorities, March 2015, p.6.

² MARAD calculation of tonnage based on business confidential data from CBP and Census combined with commercially available registry data for the 2016 calendar year.

foreign vessels to meet sealift needs in addition to approximately 170 U.S.-flagged vessels. However, 13 of the foreign vessels carrying essential supplies hesitated or refused to enter the area of operations, resulting in a loss of 34 transit days for ships carrying cargo for U.S. troops.³ Additionally, Commander, United States Transportation Command, recently testified regarding the critical importance of the availability of U.S.-flag vessels using this example stating, “foreign-flagged vessels declined to enter the area of operations, while U.S.-flagged vessels provided steadfast support, delivering the bulk of the Joint Force to the Middle East.”⁴ As the fleet dwindles, so does the base of U.S. Merchant Mariners and the shipbuilding and repair industry, which are all essential components of national security.

To ensure a strong domestic maritime industry and U.S. Merchant Marine into the future, the President’s FY 2019 Budget Request for MARAD of \$696.4 million is focused on increasing the competitiveness of the U.S.-flag fleet, and investing in the education and training of the next generation of merchant mariners. MARAD remains committed to marine transportation policies that improve security, address our Nation’s critical maritime infrastructure gaps, and leverage technology to meet the needs and challenges of the marine transportation industry. This request supports a variety of MARAD initiatives involving ships and shipping, vessel operations, national security and strategic mobility, ship disposal, and maritime education. A summary of the FY 2019 request is provided below.

NATIONAL SECURITY

By law, and pursuant to Presidential National Security Directive 28, DOD must rely on U.S.-flag ships crewed by volunteer, civilian U.S. mariners, to provide the sealift capacity to support military deployments and respond to national emergencies. MARAD is charged with ensuring that U.S.-flag ships and merchant mariners are available to meet DOD sealift 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 as needed, during times of conflict, humanitarian crises, and natural disasters such as those we witnessed last summer in the wake of Hurricanes Harvey, Irma, and Maria.

Maritime Security Program (MSP)

For FY 2019, \$214 million is requested for the MSP, providing for \$3.6 million for each of the 60 ships enrolled in the program. The Maritime Security Act of 1996 established the MSP, which ensures access to U.S.-flag ships in ocean-borne foreign commerce and the necessary intermodal logistics networks to move military equipment and supplies during armed conflict or

³ So Many, So Much, So Far, So Fast: United States Transportation Command and Strategic Deployment for Operation Desert Shield/Desert Storm/ James K. Matthews, Cora J. Holt, p. 136.

⁴ Statement of General Darren W. McDew, United States Air Force, Commander, United States Transportation Command before the Senate Armed Services Committee on the State of the Command, February 13, 2018. p. 11.

national emergency. This program also provides critical employment for up to 2,400 highly qualified U.S. merchant mariners and approximately 5,000 shore side maritime professionals each year. The MSP provides direct annual stipends for 60 active, commercially viable, militarily useful, privately owned U.S.-flag vessels and crews operating in the international trade. Participating operators commit their ships, crews, and global network of intermodal facilities and commercial transportation resources upon request by the Secretary of Defense during times of war or national emergency.

During FY 2018, MARAD restored the MSP fleet to the full, authorized level of 60 ships. Being at full capacity bolsters the ability of the U.S. merchant marine to meet DOD deployment and sustainment requirements. MARAD brought two new roll-on roll-off (RO/RO) vessels into the MSP fleet, which added more than 320,000 square feet in militarily useful cargo capacity, significantly improving DOD's ability to move and sustain the heaviest U.S. armored units. Entry of the new ships raised the overall fleet's militarily useful capacity to the highest level in the program's history. The MSP has supported every U.S. conflict since its inception in 1996, including Operations Enduring Freedom and Iraqi Freedom. These vessels stand ready to play a vital role in support of U.S. military operations worldwide.

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

MARAD maintains a fleet of government-owned merchant ships in the NDRF. This includes 46 RRF vessels that are maintained and ready for operation within five or ten days for transport of military cargo to critical areas of operation. 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. RRF and NDRF ships were activated to provide support to other government agencies for recent relief efforts following Hurricanes Harvey, Irma, and Maria. During these deployments, these vessels supplied first responders with housing, meals, logistical support, and relief supplies, including critical replacement of Federal Aviation Administration air navigation equipment that was delivered by one of the activated vessels to the Virgin Islands. Additionally, these vessels were previously activated for disaster relief following Hurricanes Katrina, Rita, and Sandy and the 2010 earthquake relief effort in Haiti.

In addition to hurricane response, this past year MARAD supported DOD with the largest round of ammunition cargo sealifts in decades, as well as a 57-day mission for an Army unit movement to Kuwait where five vessels were utilized to accomplish six distinct sealift missions. Along with cargo sealift activities, two MARAD vessels were utilized by the DOD's Missile Defense Agency for tracking multiple missile test launches.

Funding provided from DOD will allow MARAD to continue to provide ready surge sealift support in FY 2019 and special mission vessels from the RRF fleet, while maintaining

MARAD's NDRF fleet mooring sites. This request includes an additional increase in funding that will support readiness related maintenance and repair initiatives for service life extension work supporting the special mission vessels. MARAD is working with the U.S. Transportation Command (USTRANSCOM) and the U.S. Navy to address the urgent need for recapitalization of the RRF to ensure the readiness of these 46 ships, the average age of which is 43 years.

MARITIME TRAINING

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. It takes many years of training to develop the necessary mariner competencies for deck and engineering officer positions on large vessels in international trade. Therefore, maintaining an adequate pool of U.S. merchant mariners is vital to both the peacetime commercial success of the U.S.-flag fleet and to maintain the capacity needed to man Government-owned surge sealift forces to deploy and sustain US forces overseas in times of national emergency. The USMMA and SMAs graduate most of the USCG-credentialed officers who hold an unlimited tonnage or horsepower endorsement available to crew these U.S.-flag ocean-going ships. These graduates support our Nation with a cadre of well-educated and trained merchant mariners capable of serving in support of military operations, national emergencies, and humanitarian missions.

United States Merchant Marine Academy

The President's FY 2019 Budget Request includes \$74.6 million for USMMA. Of this, \$70.6 million will support Academy operations, and \$4 million will fund priority capital repairs and improvements to the Academy's buildings and infrastructure. This request will enable the Academy to effectively achieve its core responsibility to educate and train the next generation of outstanding leaders as shipboard officers at sea and commissioned officers in our active and reserve armed forces. The USMMA is an accredited institution of higher education operating under 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 (MCC) with an unlimited tonnage or horsepower officer endorsement, and a commission as an officer in the reserve or active Armed Forces. Distinctly, 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. If serving in the reserves, they must remain as a commissioned officer for eight years. In June 2019, 196 midshipmen are expected to graduate from the Academy.

DOT, MARAD, and the USMMA take sexual assault and sexual harassment at the Academy and at sea very seriously, and have worked collaboratively with industry stakeholders to facilitate a cultural change by disseminating a strong message against sexual assault and sexual harassment in the maritime sector. The Academy is implementing provisions included in both the Fiscal Year 2017 and Fiscal Year 2018 National Defense Authorization Act aimed at improving the

Academy's sexual assault and sexual harassment prevention and response efforts. Actions include enhancing prevention training, increasing campus security, initiating a Midshipman-driven on-campus culture change program, and expanding the Sexual Assault Prevention and Response Office. The FY 2019 funding will also provide for satellite communication devices that will be issued to midshipmen during Sea Year training and upgrading the 24/7 sexual assault hotline.

State Maritime Academies

In addition to providing oversight of the USMMA, MARAD provides funding assistance to six SMAs⁵, which collectively graduate more than three-fourths of the entry-level merchant marine officers annually. The President's FY 2019 Budget Request includes \$24.4 million for the SMA program. This request includes \$22 million to fund maintenance and repair costs for Federally owned school ships on loan from MARAD to the SMAs. Ensuring the continued availability of SMA training vessels is a critical need and high MARAD priority. Training ship maintenance work is increasingly critical and costly as the ships age, and approach or exceed their designed service life. MARAD will use the funds to address priority maintenance needs across all the training vessels.

Additionally, the request provides \$2.4 million to fund the Student Incentive Program (SIP), which provides financial assistance to 75 new cadets each year (across all SMAs) that participate in the program for a period of four years. The SIP program provides cadets with funds 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 in the maritime industry, and serve in a reserve unit of an Armed Forces or uniformed service for eight years. The SMAs regard the SIP program and support for their training ships as among the most important recruiting tools to encourage potential cadets to pursue careers as merchant marine officers. Approximately 991 Cadets are expected to graduate from the SMAs in May 2019.

School Ship Replacement

The President's FY 2019 Budget Request includes \$300 million to support the procurement and conversion of two used ships to replace aging and outdated training ships on loan from MARAD to the SMAs. Specifically, this funding will be prioritized for replacing the Training Ship (TS) EMPIRE STATE, currently assigned to the State University of New York (SUNY) Maritime College, and TS KENNEDY, currently assigned to the Massachusetts Maritime Academy. These two vessels are each more than 50 years old, and are now serving beyond their designed

⁵ 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.

service lives. Both ships combined provide nearly 68 percent of the state maritime training capacity.

Investment in school ship replacement is essential to foster the growth of the Nation's maritime transportation workforce needs, while addressing emerging workforce challenges facing a critical shortage of U.S. merchant mariners needed to crew the commercial and government-owned sealift ships to meet national security needs. The Department is working to update its 2019 Budget materials to reflect the \$300 million school ship request and will submit that revised information to Congress soon.

OTHER MARITIME TRANSPORTATION PROGRAMS

Ship Disposal Program

The President's FY 2019 Budget requests \$30 million for the ship disposal program, of which \$25 million is to continue, under Phase II, the radiological decontamination, dismantlement, and disposal of the defueled nuclear power plant on board the Nuclear Ship SAVANNAH (NSS). Funding also includes \$3 million to maintain the NSS in protective storage, which supports and manages the Nuclear Regulatory Commission (NRC) required licensed activities on board the ship, including radiological protection, vessel maintenance, lay berthing, and custodial care. The ship disposal funding request also includes \$2 million for salaries and administrative program costs.

As a Federal licensee, MARAD is responsible for continuing the required protective storage activities for the NSS until decommissioning and license termination are complete. The program received funding for decommissioning in FY 2017 to initiate and complete Phase I of a three-phased decommissioning project. Phase I is comprised of administrative and industrial activities that complete the prerequisites for commencement of the heavy engineering and industrial activities in Phase II. This FY 2019 request allows for a seamless decommissioning project transition, without shutdown interruption, into Phase II, which will be largely confined to activities involved with removing the reactor and major components. The NRC allows a maximum of 60 years from permanent nuclear power plant shutdown to license termination. All decommissioning and license termination activities must be completed by December 2031.

MARAD is also 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, with priority emphasis on the disposal of non-retention vessels in the worst condition. Currently, MARAD has 13 obsolete NDRF vessels not yet under contract for disposal, which is a historic low. In July 2017, MARAD completed the final removal of the remaining two non-retention vessels from the Suisun Bay Reserve Fleet, in

compliance with an April 2010 U.S. District Court consent decree requiring the removal of all 57 vessels from the fleet site by September 2017.

CONCLUSION

These programs represent MARAD priorities supported by the President's FY 2019 Budget request. We will continue to keep this Subcommittee apprised of the progress of our program activities and initiatives in these areas in the coming year.

Mr. Chairman, thank you for the opportunity to present and discuss the President's FY 2019 Budget Request for MARAD. I appreciate the Subcommittee's continuing support for maritime programs and I look forward to working with you on advancing maritime transportation in the United States. I will be happy to respond to any questions you and the members of the Subcommittee may have.

**"Review of Fiscal Year 2019 Budget Request for Coast Guard and Maritime Transportation Programs"
Subcommittee on Coast Guard and Maritime Transportation Hearing**

Wednesday, March 14, 2018

Washington, D.C.

Questions for the Record

QUESTION: The President's fiscal year 2019 budget eliminates the Small Shipyards Grants which supports facilities' modernization and repair efforts, and helps them compete globally. In the district I represent, Dakota Creek Industries in Anacortes received over \$280,000 through the program.

- 1. How is the administration able to find \$300 million in new funding for the procurement and retrofitting of used cargo ships (under the budget addendum), but cannot find simply three percent of that amount to continue the Small Shipyards grant program?**

RESPONSE: MARAD's mission is to support the U.S. maritime infrastructure which includes maintaining the health of the U.S. Merchant Marine as well as the ship building industry. MARAD has invested nearly \$187 million since FY 2008 to support shipyards such as Dakota Creek Industries through the Small Shipyards Grant program. An additional \$20 million was recently appropriated for the program for FY 2018. These new grant awards will be announced later this summer.

The FY 2019 budget request reflects the current budget environment which required the Administration to make some difficult programmatic funding decisions. One of the major unaddressed challenges to the U.S. maritime infrastructure is the need to replace the aging school ship fleet that provides training to our future merchant mariners at the State Maritime Academies. The largest ship, SUNY Maritime's *TS EMPIRE STATE* will age out in 2019. Massachusetts Maritime's *TS KENNEDY* will age out in 2024. Both of these vessels combined provide nearly 69 percent of the State Maritime mariner training capacity. The Administration has been working hard to find solutions to address this challenge, knowing that it potentially requires a large capital investment from the federal government. The recent passage of the Bipartisan Budget Act of 2018 (Public Law 115-123) provided an opportunity for the Administration to request the funding needed to begin addressing this significant unmet need.

- 2. How does the Maritime Administration plan to support the efforts of small shipyards in the absence of this vital federal funding source?**

RESPONSE: In FY 2018, MARAD will continue supporting the efforts of small shipyards with \$20 million for the Small Shipyards Grant program. The solicitation for applications has been posted on

the Federal Register, with applications from the shipyards due by May 22nd. MARAD will be awarding the grants later this summer.

In FY 2019, MARAD will continue to support the efforts of small shipyards by focusing on administering the existing grant portfolio of Small Shipyard Grant award recipients and providing the technical assistance they need to make their projects successful. Additionally, MARAD will continue to work with the entire U.S. maritime industry, including small shipyard owners, in identifying cost-effective solutions that support maintaining the maritime industry's commercial health and competitiveness around the world, and to advance marine transportation policies that improve security, address our Nation's critical maritime infrastructure gaps, and leverage technology to meet the needs and challenges of the marine transportation industry.

STATEMENT OF

Michael A. Khouri

**ACTING CHAIRMAN
FEDERAL MARITIME COMMISSION**

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

March 14, 2018

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. I appreciate the opportunity to share with you how the Commission works to safeguard competition in ocean transportation for the benefit of the American consumer. I want to acknowledge my fellow Commissioners here today – Commissioners Dye and Maffei.

The Federal Maritime Commission

The FMC is an independent agency with specialized expertise that administers an antitrust regulatory regime tailored to address the unique characteristics and issues affecting the international ocean liner trade. Since 1916, Congress has recognized that the ocean liner industry, which transports a large percentage of the exports and imports so essential to this Nation's commerce, requires particular consideration because of the sector's critical role in our economy, its international dimension, and the competing and potentially conflicting regulatory regimes and interests of our partners.

The Federal Maritime Commission is a competition enforcement agency with a mission to ensure a competitive and reliable international ocean transportation supply system that supports the U.S. economy and protects the public from unfair and deceptive practices. The Commission facilitates an open and free market for ocean shipping services and protects against anticompetitive behaviors. 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 ocean shipping marketplace.

Our Annual Report is scheduled to be submitted by April 1, 2018, and will provide you with a comprehensive summary of the Commission's activities and industry developments in Fiscal Year 2017 (FY 2017). I will briefly review our activities of the past year, address what we foresee as potential developments and trends in the coming months, and discuss our Fiscal Year 2019 (FY 2019) budget request.

Changes from 2016 to 2017 and Industry Oversight

The container shipping industry plays an integral role in America's international trade and commerce. In 2017, approximately 34 million TEUs¹ moved through our ports, a 4 percent increase from 2016. U.S. imports surged during the year and accounted for most of this increase. The U.S. imported over 22 million TEUs last year valued at \$754 billion. This was an increase of over 6 percent by volume from 2016. Meanwhile, the U.S. exported 12 million TEUs in 2017 with a value of \$266 billion, a 1 percent increase over 2016 by volume.

In 2016, there were significant changes to the ocean transportation services marketplace, marked by merger and acquisition activity among shipping lines and the bankruptcy of a top ten ocean carrier. As a result of these events, the number of major multi-trade lane shipping lines operating in the international trades has dropped from 21 in 2011 to 12 global carriers following the merger of the three Japanese carriers into Ocean Network Express (ONE) and COSCO's acquisition of OOCL. The table below lists the ocean carriers that serve the major east-west trade lanes. On a broader scale, thirty-six carriers serve the U.S. trades.²

Major Ocean Carriers by Operated Capacity					
August 2011			January 2018		
Rank	Operator	TEU Share (%)	Rank	Operator	TEU Share (%)
1	Maersk	2,422,110 18.1	1	Maersk	4,151,807 22.7
2	MSC	2,016,197 15.1	2	MSC	3,147,525 17.2
3	CMA CGM	1,291,816 9.7	3	CMA CGM	2,514,170 13.7
4	COSCO	624,353 4.7	4	COSCO	2,490,361 13.6
5	Hapag-Lloyd	622,799 4.7	5	Hapag-Lloyd	1,547,865 8.4
6	Evergreen	614,115 4.6	6	ONE	1,483,371 8.1
7	APL*	580,658 4.3	7	Evergreen	1,060,224 5.8
8	CSAV*	525,483 3.9	8	Yang Ming	594,806 3.2
9	Hanjin*	511,661 3.8	9	PIL	384,807 2.1
10	CSCL*	510,958 3.8	10	Zim	366,292 2.0
11	MOL*	420,821 3.2	11	Hyundai (HMM)	347,136 1.9
12	OOCL	415,638 3.1	12	Wan Hai	235,591 1.3
13	NYK*	398,667 3.0	Total		
14	Hamburg Süd*	394,652 3.0	18,323,955 100.0		
15	K Line*	342,763 2.6			
16	Zim	336,399 2.5			
17	Yang Ming	336,328 2.5			
18	Hyundai (HMM)	316,108 2.4			
19	PIL	265,919 2.0			
20	UASC*	234,815 1.8			
21	Wan Hai	171,423 1.3			
Total		13,353,683 100.0			

* These carriers no longer exist as independent operating and marketing entities

Data Source: ASX-Alphaliner Monthly Monitor, Top 30 Carriers, August 2011 & January 2018

¹ A Twenty-Foot Equivalent Unit (TEU) can be used to measure a ship's cargo carrying capacity. The dimensions of one TEU are equal to that of a standard 20 foot shipping container – 20 feet long and 8 feet tall. Two TEUs are equal to one forty-foot-equivalent unit (FEU).

² Ocean common carriers that transport at least 0.1 percent market share or higher with a minimum of 18,000 containers per year in U.S. trades.

Notwithstanding the reduction in the number of major shipping lines serving the international trades, the container industry remains very competitive. Using traditional antitrust analysis measures, the major transpacific and transatlantic trade lanes remain unconcentrated and competitive. These trade lanes have a Herfindahl-Hirschman Index (HHI) of 835 and 1,354, respectively.³ This also holds true when one further breaks out the transpacific trade by West Coast and East Coast, as well as the transatlantic Northern European trade. The other transatlantic trade lane, the Mediterranean, is moderately concentrated according to the index, although it is by far the smallest by volume of the noted trade lanes. None of the major trade lanes are highly concentrated using this measure.

Trade Lane	TEUs	HHI
Transpacific	22,594,058	835
Asia-WC	13,595,933	826
Asia-EC	8,907,327	943
Transatlantic	5,263,862	1,354
North Europe-U.S.	3,720,219	1,179
Mediterranean-U.S.	1,543,643	2,114

The global fleet has increased in size in recent years. At the beginning of 2018, ocean carriers deployed 21.1 million TEUs of ship capacity globally, a 70 percent increase from 2009. As the global fleet has increased, so has the capacity deployed on individual trade lanes. Overcapacity in nearly all trade lanes, including both major and minor lanes, has been an overarching theme for the container shipping industry in recent years, as carriers have increased capacity without a corresponding increase in demand. However, as consumer confidence and spending has grown, and the demand for ocean transportation services has increased, carriers have been able to fill their ships relatively close to capacity in the past year, despite having increased the total capacity on the major trade lanes.

FMC monitoring data indicates that ocean carriers regularly experienced capacity utilization of over 90 percent on the inbound major transpacific trade throughout 2017 and about 90 percent on the transatlantic. Each of these trade lanes saw capacity utilization rise toward the end of 2017 compared to earlier in the year. However, vessel utilization on the backhaul route to Asia is only about 50 percent with only slightly higher levels returning to Europe. Although ships are sailing relatively full, rates have remained comparatively low and are 22 percent below their peak in 2010. When adjusted for inflation, real rates are down 31 percent since 2010. According to FMC monitoring data, rates have remained level on the major transatlantic trades.

³ Concentration is assessed using the HHI. Theoretically, the greater the degree of market concentration and the fewer the competitors, the higher the HHI. In its merger guidelines, the Department of Justice's (DOJ) Antitrust Division regards markets as not concentrated if the HHI is below 1,500. Under DOJ guidelines, mergers, and other less problematical forms of horizontal collaborations, that do not result in concentrated markets are unlikely to produce adverse competitive effects and, ordinarily, do not require further government regulatory analysis.

There are some signs that the industry is moving towards a recovery from overcapacity and low freight rates. The percentage of the idled fleet has decreased. Many carriers have recently reported operating profits (i.e., covering operating costs but not necessarily covering capital costs). However, charter rates for vessels of all sizes remain substantially lower than their peaks prior to the recession. Additionally, there does not appear to be any indication that typical sailing speeds are increasing. Other factors that can affect moving to a recovery are continued economic growth in the United States and U.S. trade policies. However, an economic downturn and/or trade restrictions would have an adverse effect on demand for shipping and would slow down any recovery, thereby having a dampening effect on rates.

Nine of the remaining twelve ocean carriers are currently members of three global alliances—2M, OCEAN, and THE. These alliances – joint operating agreements of ocean carriers to discuss and agree on the supply of vessel capacity through the deployment of a specific service string or strings – each operate services in the major transpacific (Asia-U.S. and Canada), transatlantic (Europe – U.S. and Canada), and Asia-Europe trades and supply over 90 percent of the vessel capacity in each of these trade lanes. These three major alliances are not the only vessel sharing agreements in which these and other ocean carriers participate. Carriers can and do participate in multiple agreements filed at the FMC. These include various space charter agreements, vessel sharing agreements, vessel sharing alliances, joint service agreements, and cooperative working agreements. In addition to the three global vessel sharing alliances referenced above, ocean carriers participate in more than 325 agreements filed at the Commission.

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.⁴

A reassuring data trend show that even with the wave of mergers and acquisitions and new carrier alliance groupings, the individual ocean carriers within each alliance continue to independently and vigorously compete on pricing. Further, individual ocean carriers within the alliances continue to add and withdraw vessels from trades both inside and outside the alliances in which they participate, demonstrating that competition remains in both vessel capacity decisions and pricing decisions within the alliances. And over the last decade, the global vessel fleet has increased. The increase in capacity came from an increase in the number of vessels and an increase in the size of the new vessels entering the fleet. The increase in capacity occurred without a corresponding increase in cargo demand. Industry stakeholders have noted that the alternative to carrier alliances is further consolidation in the industry with fewer ocean carriers and less competition.

⁴ The Conference Report for the Shipping Act of 1984, H. Rept. 600, states as follows: “Another important potential benefit to be considered is any efficiency-creating aspects of an agreement. Agreements involving significant carrier integration are, if properly limited to achieve such important benefits, to be favorably considered by the Commission and the courts. Joint ventures and other cooperative agreements can enable carriers to raise necessary capital, attain economies of scale, and rationalize their services. Pooling arrangements can also offer significant benefits in reducing excess capacity and promoting efficiency.”

The Commission responded to the recent and ongoing structural changes in the international liner shipping industry with aggressive negotiations on proposed agreements and enhanced monitoring programs. With the increased size and market share of carrier alliances over the last four years, the FMC has insisted on narrower authorities, more specific language, and enhanced monitoring requirements. For several years now with respect to these larger alliances, the FMC has required more clear and definite authority language for alliances. Monitoring for these large alliances, entailing more details and timely filing of monitor reports has increased.

As alliances are ongoing cooperative agreements rather than mergers, the Commission is charged by Congress with continuous monitoring after the initial review and following the effective date of the agreements. The Commission examines for anticompetitive behaviors that would violate the Shipping Act. The Commission may challenge an agreement at any time after the effective date. Due to the constant monitoring role, industry and international trade expertise is important. The Commission is the expert agency on the ocean liner industry, dedicated to understanding the nuances of this important and complex industry.

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. The Commission is diligent in monitoring economic conditions and carrier agreement activities to identify potential anti-competitive concerns and the possible need for Commission action. The FMC will continue to monitor industry trends to identify when the industry enters a full recovery and vessel supply/ cargo demand equilibrium. This will be important for analyzing the extent to which rate increases at that time are attributable to the recovery or to coordinated action by carriers.

The FMC prioritizes all filed agreements⁵ on a *red-yellow-green* scale, with red being higher profile agreements with the highest probability of potentially adverse market effects based on the agreement's authority in combination with the underlying market. All global alliances are categorized as *red* agreements. For these alliances, FMC staff prepares scheduled briefings for management and conducts more detailed quarterly reviews. The FMC monitors these *red* agreements for any exercise of market power that could allow alliance members to raise and maintain prices above competitive levels.

The FMC conducts a four tiered-approach. The first tier is an immediate review of advance notifications of cancelled sailings or other changes in capacity that affect the supply of capacity of any individual alliance service by more than five percent of average weekly capacity. The second tier consists of a careful review of submitted minutes of most senior agreement committees that make vessel deployment decisions to assess the medium- to long-term outlook for capacity levels and how that could impact freight rates. Under the third tier, changes in individual alliance members' capacity and capacity projections and how that relates to changes in freight rates are analyzed. The final tier consists of reviewing and analyzing confidentially filed carrier data

⁵ At the end of FY 2017, there were 484 agreements on file.

submitted by the alliances for completeness and accuracy to determine if this data reveals any potential red flags.

The Commission also monitors trends in other carrier and marine terminal operator agreement filings. It is important to note that carrier agreements containing rate discussion authority have experienced a steady decline in membership and a number have been terminated. More specifically, of the sixteen rate discussion agreements, five have been terminated entirely in the past few months, including the Transpacific Stabilization Agreement, or TSA, which has served as the primary price discussion forum for the ocean trade from Asia to the United States since 1989. Carriers appear to be ending their participation in rate discussion agreements for a number of reasons. Overcapacity continues to define the major east-west container shipping markets, keeping downward pressure on rates and limiting the effectiveness of these agreements. We also note carrier concerns over potential changes in the regulatory environment in the U.S. and abroad.

Further, the Commission monitors and analyzes commercial contracts confidentially filed in the FMC's SERVCON System between vessel-operating common carriers (VOCCs) and shippers for the transport of U.S. exports and imports. SERVCON is the Commission's repository for all filed service contracts, excluding exempt commodities, in the U.S. waterborne foreign commerce. Service contracts contain the rates, terms, and other service requirements agreed upon by VOCCs and shippers for the carriage of cargo. Commission staff conducts focused research and analysis on service contract terms and conditions, such as chassis usage/fees, demurrage terms/fees, etc., in order to investigate or clarify industry reports, gain better insight into emerging industry issues, and better inform policy decisions.

Review and analysis of confidentially filed commercial contracts between VOCCs and shippers provide a valuable tool to evaluate the competitive dynamics at play between shippers seeking to leverage cargo volumes in the pursuit of lower freight rates and/or special service terms and VOCCs competing to obtain that cargo.

FMC staff also systematically monitors a sampling of service contracts for a number of beneficial cargo owner and non-vessel-operating common carrier (NVOCC) shippers on an ongoing basis to track overall competitive conditions in various trades. These reviews are designed to protect the shipping public from unfair and deceptive carrier practices by identifying and addressing potential concerted carrier activity under filed agreements found to have resulted in discriminatory practices involving rates or charges applied to any locality, port, or persons due to those persons' status as shippers' association or ocean transportation intermediary.

Carriers are operating in an environment where trade volumes are growing at a more sluggish rate than has been historically 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 ocean carrier industry 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 (MSC) 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 continue to look for any potential impact the carriers operating in the new alliances have on market dynamics, rates, and services.

While the United States’ international trade depends on the liner trade, unfortunately there is no substantial U.S.-flag presence in the major transpacific and transatlantic trade lanes. The three largest carriers in the U.S. trades are CMA CGM, MSC, and Maersk Line. 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. Some carriers receive government support, either directly or indirectly, or are owned in part by governments. The People’s Republic of China (PRC) is the United States’ largest trading partner in terms of cargo volume. The PRC actively invests in logistics, transportation, and infrastructure through initiatives such as Silk Road to advance strategic goals. The PRC-based COSCO Shipping and Hong Kong-based Orient Overseas Container Line (OOCL), will become the largest carrier of U.S. imports upon the two companies’ planned 2018 merger. For the moment, such links between governments and national carriers can provide lower freight costs and greater service choices for imports and exports.

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 Commission does not favor one competitor, sector, or industry stakeholder over another. We will continue to be attentive as we look for indications of rate increases that are products of market distorting, or 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.

The Commission continues to see marine terminal operators and port authorities’ increased interest in how to use cooperative agreements filed with and reviewed by the Commission to their benefit. The nature and complexity of marine terminal operator agreements have increased considerably in recent years and marine terminal operators are cooperating in novel ways in an attempt to address the demands of significantly larger vessels unloading substantially larger numbers of containers at each port call. As a result, marine terminal operators have filed agreements to combine aspects of their operations, finance necessary infrastructure improvements, increase terminal velocity, develop collective solutions to mitigate cargo bottlenecks, and a host of other activities, all aimed at enhancing their ability to compete against other ports for cargo. 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 would review with interest 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. Due to the unique nature of these types of agreements, monitoring of terminal agreements is specifically tailored to the agreement's authority and potential competitive impact of the agreement.

Regulatory Reform and Agency Actions

Regulatory Reform

Throughout FY 2017 and into FY 2018, the Commission actively pursues ways to reduce unnecessary regulatory burdens and costs on the regulated community as mandated by the Shipping Act of 1984. Implementing Executive Order 13777, the Commission designated a Regulatory Reform Officer to lead a Regulatory Reform Task Force, charged with identifying outdated, cumbersome, or expensive rules that can be amended or eliminated. While the work of the Task Force is ongoing, the Commission has already taken steps to amend regulations related to Service Contracts, Negotiated Rate Agreements, and NVOCC Service Arrangements to eliminate or reduce unnecessary filing obligations. These changes will make it easier and more efficient for shippers and carriers to do business. Global supply chain operations will benefit through lower costs, which should result in savings realized by our U.S. exporters and importers.

On an ongoing basis, the Commission aggressively looks for ways to make compliance with Commission requirements easier and more cost effective for shippers, carriers, and ocean transportation intermediaries. We at the Commission are committed to identifying rules that are outdated or impede the efficient operation of business, and eliminating them whenever possible.

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 both rates and rules in their tariffs, even though the overwhelming majority of cargo moving in most trade lanes does so under the terms of service contracts. In other words, current law and Commission regulations require companies to publish freight rates that have nothing to do with the actual market prices being charged to shippers. Continuing to mandate thousands of rate tariffs be published that do not reflect real market conditions, 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.

Supply Chain Innovation Team Initiative

The Shipping Act contemplates a regulatory process for the foreign commerce of the United States with a minimum of regulatory costs. The Supply Chain Innovation Team Initiative (SCITI) was led by my colleague, Commissioner Rebecca F. Dye. The FMC initiative made a meaningful contribution towards enhancing supply chain efficiency for America's exporters and importers.

Whenever possible, the Commission seeks to facilitate the cooperation by stakeholders to develop non-regulatory commercial solutions to address bottlenecks in the international supply chain.

The SCITI was an outgrowth of the Commission's previous work on port congestion issues in the fall of 2014. Launched in May of 2016 and focused 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, worked 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.

SCITI created two teams – one focused on import supply chains and the second focused on export supply chains. The work of both the import and export teams was summarized in a Final Report prepared by Commissioner Dye and presented to the Commission on December 5, 2017. *Supply Chain Innovation Teams Initiative: Final Report* presents the teams' view that greater visibility across the American freight delivery system was the one operational innovation likely to most increase U.S. international supply chain performance. The report also highlights the concept of a common National Seaport Information Portal for critical shipment information, possible organized by business dashboards tailored to the needs of each supply chain actor.

Petition P4-16 / Fact Finding 28

On December 7, 2016, the Coalition for Fair Port Practices, an organization of trade associations representing shippers, ocean transportation intermediaries, and domestic transportation companies, filed Petition (P4-16) asking the Commission to begin a new rulemaking proceeding to address practices by marine terminal operators (MTOs) and vessel operating common carriers (VOCCs) related to demurrage, detention, and related fees. Demurrage, detention, and related fees are charged by VOCCs and MTOs to compensate for the use of containers and terminal space and encourage the efficient movement of cargo through the terminals and the expeditious return of equipment. In P4-16, the petitioners claimed that the lack of any standards as to what constitutes unreasonable demurrage and detention practices under the Shipping Act of 1984 leads to unfair practices which undermine the integrity and efficiency of the U.S. ocean transportation system. The petitioners asked the Commission to issue a rule or alternatively a policy statement interpreting unreasonable demurrage and detention practices and provide industry with the tools it needs to more efficiently resolve demurrage and detention disputes.

The Commission received over a hundred comments on the Petition, and in January of this year held a two day public hearing that explored issues raised in the petition by soliciting testimony from shippers, ocean transportation intermediaries, ocean carriers, truckers, and marine terminal operators.

Based on the testimony heard in the public hearing, on March 5, 2018, the Commission voted to launch an investigation, headed by Commissioner Rebecca F. Dye, to examine practices of vessel

operating common carriers and marine terminal operators related to detention, demurrage, and per diem charges. The investigation will focus on how demurrage and detention practices can optimize, not diminish, the performance of the American international freight delivery system. As the designated Investigative Officer, Commissioner Dye will have broad authority to conduct an investigation, including the power to issue subpoenas, to hold public and non-public sessions, and to require reports. Under this Order, she is charged with making recommendations for Commission action including investigations of prohibited acts; enforcement priorities; policies; rulemaking proceedings; or other actions warranted by the record developed in the proceeding. A final report of Commissioner Dye's findings and recommendations is due to the Commission no later than December 2, 2018.

Protecting the Public

In furthering our mission to protect the public from unlawful, unfair and deceptive practices, the Commission crossed an important milestone in FY 2017 with the successful launch of the Ocean Transportation Intermediary triennial update process. An important program in which the Federal Maritime Commission meets its mission of protecting the shipping public and American consumers from financial harm is by investigating and approving who the qualified and actual service providers are. In terms of non-vessel-operating common carriers and freight forwarders, what are called Ocean Transportation Intermediaries (OTIs), the Commission achieves that goal by licensing these entities.

Several years ago, the Commission reviewed a survey of OTIs and discovered that a substantial number had moved to new addresses without informing the FMC, that the person whose qualifications were reviewed as the basis of granting the license (Qualified Individual) was no longer an employee of the company, and several other filing discrepancies. A simple matter of not having the correct address of an OTI on file hampers the ability to have proper service in a legal matter and bringing our records up to date was an important goal.

Given advances in information technology, the Commission determined that there existed an opportunity to improve the quality and accuracy of information it has on file concerning OTIs while doing so in a manner that was easy to comply with, and had minimal burden. This is an online process where the responsible parties of an OTI update information related to ownership, corporate officers, business locations, changes in affiliation or branch office. Moving to a web-based update structure not only aids the Commission in meeting its mandate to safeguard the public, it significantly reduces the compliance burdens and costs upon the regulated entities. This completely online and no fee process takes approximately five minutes to complete.

FY 2019 Budget Request, Strategic Plan, Management Reforms

Fiscal Year 2019 Budget

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 FY 2019 is \$27,490,000. Overall, the bulk of the Commission's budget, approximately 86 percent, is consumed by rent, salaries and benefits, and communications. Our staff includes 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 and is the heart of the agency's mission. Overhead costs such as interagency services, commercial services, travel and transportation, supplies, and equipment 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 economists and attorneys' competitive analysis and legal research cost more, and information technology (IT) 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.

Finding ways to conduct the Commission's business more efficiently is an important goal we share, Mr. Chairman. As such, the Commission works to find ways to make every dollar appropriated to us go as far as it can. A recent example of innovative cost-sharing is our agreement with another small, independent agency, the Surface Transportation Board (STB), to share the services and costs of a single Equal Employment Opportunity (EEO) Officer to ensure both agencies' responsibilities while maintaining solid support of our EEO principles.

As I mentioned earlier in this testimony, the Federal Maritime Commission continues to faithfully implement the purposes and mission of the Shipping Act. I am proud of the work the Commission's staff does each day to ensure a competitive and reliable international ocean transportation supply system that supports the U.S. economy and protects the public from unfair and deceptive practices.

Strategic Plan for 2018-2022

A proven method of achieving strong performance at an organizational level is through focused and meaningful strategic planning. Strategic planning is a driving force in an organization's success. Government agencies 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.

Early this year, the Commission finalized a new Strategic Plan for FY 2018-2022. This document will guide our work into the future as the Commission continues its important work that supports the U.S. economy and protects the public from unfair and deceptive practices.

Agency Reform and Long-Term Workforce Plan

The President has made reshaping the Federal government one of the key initiatives of his Administration. Through an Executive Order issued in March and a Memorandum issued in April 2017 by the Director of the Office of Management and Budget (OMB), the Administration instructed departments and agencies throughout the Federal government to include an Agency Reform and Long-Term Workforce Plan (Workforce Plan) as part of their FY 2019 budget submissions. A prime directive in the Executive Order and OMB Memorandum was for Federal agencies to explore, develop and implement plans to streamline, consolidate and flatten their organizational operations and structure.

Over the last year, the Commission developed a Workforce Plan as directed by OMB. In broad terms, our 5-year Workforce Plan will: reduce the number of SES positions; reduce the number of supervisory positions; establish a new two-tier SES structure to realign and control SES salary costs; realign and combine functions within the Commission (subject to Congressional approval); and continue our emphasis on achieving operational efficiencies and improving customer service through automation projects.

Our goal is to find ways to do more while controlling costs. Delayed work groups with broader spans of control and less hierarchy have been proven to improve both efficiency and employee engagement. We are working to reshape the FMC and improve operational effectiveness as required by the Administration while minimizing the impact to the 120 committed and vital employees of the FMC.

Conclusion

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