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HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE
COAST GUARD AND MARITIME TRANSPORTATION SUBCOMMITTEE

HEARING ON MARITIME TRANSPORTATION: THE ROLE OF U.S. SHIPS AND
MARINERS

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Good morning, Chairman Hunter, Ranking Member Garamendi and members of the subcommittee.

On behalf of the Seafarers International Union thank you for conducting this hearing and on allowing me the opportunity to testify. I would also like to thank Chairman Hunter specifically for his excellent piece in the Washington Times addressing the importance of the Maritime Security Program and our merchant marine to America.

Tomorrow is National Maritime Day. Each year, on the anniversary of the first transatlantic voyage by steamship, we commemorate the importance of the American merchant marine to our national life. It is altogether fitting that we are here on the eve of National Maritime Day to discuss the role of U.S. ships and U.S. mariners to America's maritime transportation system.

Since our founding in 1938, the Seafarers International Union has represented mariners engaged in waterborne transportation in the United States. Over the last 75 years, we have continually expanded, and today we crew ships in every aspect of the domestic and international trades both here in the United States and in Canada. You can find SIU members in the domestic Jones Act fleet, the deep-sea international fleet, on the inland waterways and on the Great Lakes. We crew government owned vessels in MARAD's Ready Reserve Fleet, on vessels belonging to the Military Sealift Command, and on NOAA's oceanographic fleet. Our members see the impact of the merchant marine on America each and every day. Unfortunately, not every American can say the same.

Like many industries in the United States today, the maritime industry is faced with global competition. Yet unlike many industries, the competition between American companies and foreign companies never happens on a level playing field. Foreign ship operators are not subject to the same safety standards American operators are subject to,

our mariners do not benefit from the highly favorable tax regimes and nationalized health care of many of our largest competitors, and our companies do not receive the generous tax breaks and special treatment many of their competitors enjoy.

In similar circumstances, other industries that have faced unfair competition have simply faded away. But unlike those industries, the American maritime industry is a critical component of our defense capability. Because of that fact, the United States simply cannot allow the merchant marine to fade away. Without a U.S.-Flag merchant marine – both ships and mariners – our nation would cease to be a superpower, would not be able to project power around the globe, and we could not meet our many foreign commitments. The last ten years have proven that fact, with over 95% of the war materiel and hardware for our troops in Afghanistan and Iraq traveling on commercial U.S.-Flag ships. Without those ships – and more importantly without the mariners who crew them – the United States would have been faced with the daunting task of trying to move millions of tons of supplies into a war zone and not having the ability to do so.

Congress has recognized this fact, and that's why it has been the policy of the United States Government for almost a century to support the American Merchant Marine.

Over the years, Congress has created a number of programs designed to support the U.S. Merchant Marine. In the 1880s Congress passed the Passenger Vessel Services Act, and followed it up in the 1920s with the Jones Act. Both laws are designed to reserve domestic shipment of cargo and passengers to American built and American flagged ships with American crews owned by American citizen companies. In 1904, Congress passed the first Cargo Preference Act, which reserved all military cargoes for American ships. In 1954, Congress expanded the Cargo Preference Act to include foreign food aid and other civilian cargoes. In 1996, Congress created the Maritime Security Program. MSP created a fleet of militarily useful commercial ships that would be provided a stipend to help offset the costs of remaining under the U.S.-flag in the international trades. In return, the Defense Department has access to those ships when needed in time of war or national emergency, and DOD only pays for that portion of the vessel it needs, ensuring every tax dollar spent is spent wisely. The program worked so well it was expanded in 2003. And in 2004, Congress created the tonnage tax, which allowed American ship operators to elect a tax regime that was far closer to the tax systems of their foreign competitors and helped level the playing field for them internationally.

These programs all have a lot in common – they are all designed to ensure that the U.S. Merchant Marine continues to exist. They are all interconnected – the entire system is designed to work together, with each piece functioning alongside the others to make the entire system work. And the other thing they all have in common is that each piece has been targeted for reform or repeal in the last few years. Since 2010, we have seen an unprecedented number of attacks on each of these fundamental programs, and unfortunately some of these attacks have been successful.

Enough is enough. We cannot allow the continued death-by-a-thousand-cuts dismantlement of the foundational programs that make the American merchant marine

possible.

If the United States is going to maintain a merchant marine capable of carrying our waterborne commerce and capable of serving as part of our defense sealift in times of crisis, we must stop this destructive trend. The constant attacks on the merchant marine must end and we must start using our energies to expand our maritime industry, not shrink it.

On the Jones Act, we've seen a unprecedented level of attacks over the last year. Most recently the Jones Act was blamed for a spike in gas prices in the Northeast following Super Storm Sandy. Later, as gas prices rose nationally, the Jones Act was again blamed for those increases. As is usually the case with these kinds of nonsensical attacks on the Jones Act, these claims were completely unfounded and were easily refuted. Industry analysts in both the transportation and energy sectors confirmed that the rising cost of crude oil was to blame for the increase in gas prices, and that transportation costs played a minimal role. In a recent study commissioned by the Transportation Institute, the cost of waterborne transportation was proven to have a negligible impact on the cost of fuel at the pump.

In addition to attacks from those ideologically opposed to the Jones Act, we've also had to focus our attention on the large number of Jones Act waivers – many we considered unnecessary – that have occurred within the last two years. We supported legislative language sponsored by members of this committee that would require greater transparency in the waiver process so the industry can be sure that we only waive the Jones Act when critically necessary.

On Cargo Preference, we have seen two major attacks, including one that was successful. The first came last year on the MAP-21 transportation law. In that law, Congress cut by a third the percentage of foreign food aid cargo reserved for American-flag ships, ostensibly to offset the costs of the overall law. Since 1985, American ships have carried 75% of all PL-480 Food For Peace program cargoes. That percentage is now 50%. What's worse is that the cost savings for reducing the percentage were incorrectly estimated by the Congressional Budget Office, a fact which has since been acknowledged by CBO. Our industry lost a third of our cargo with little benefit to anyone, including the American taxpayer.

At the same time, overall funding for PL-480 itself has seen drastic cuts over the last few years. As recently as 2008, the program had funding levels of over \$2 billion a year. Today, funding levels have fallen to \$1.4 billion in 2013, even as worldwide food prices have increased significantly. Between the cargo preference cut in MAP-21, the significant cuts in appropriations, and the rising cost of food, the program is significantly smaller than it has been in the past, despite the fact that its importance to the Merchant Marine is steadily increasing.

As the wars in Iraq and Afghanistan continue to wind down, the industry is seeing a major reduction in defense cargoes. That reduction has placed renewed emphasis on non-

defense preference cargo, such as food aid and Export-Import Bank financed cargoes. Unfortunately, despite needing that cargo now more than ever, we are faced with the stark reality of losing the PL-480 program entirely.

Earlier this year, the Administration proposed a radical reform of PL-480 – a “reform” that would effectively result in the complete dismantling of that program. Despite being America’s flagship foreign aid program – one that has endured and thrived for almost 60 years – the Administration is seeking to make major modifications that would be disastrous for the U.S.-Flag fleet. Instead of the current in-kind aid program where American agricultural commodities are purchased and shipped on American ships overseas, the Administration is proposing to instead move to a system based on buying food abroad, providing food vouchers and even cash transfers.

This “reform” threatens the long-term viability of the program. When originally enacted, PL-480 was designed with multiple goals in mind – as a diplomatic tool, as a humanitarian assistance tool, as a way to support American farmers and advertise the quality of our commodities, and as a way to support the merchant marine. The Administration’s proposal would wipe out all of the domestic benefits of this program. We are very concerned that in the current budget environment, ending the domestic benefits of Food Aid would quickly put the program on a path to extinction. That is why we have worked hard to educate Congress on the need to maintain PL-480 in its current form.

Budget battles have also struck the Maritime Security Program. Despite being one of the most effective public-private partnerships in government, as scored by the Office of Management and Budget and others, MSP was subject to cuts totaling over \$17 million through sequestration. We remain very concerned that the sequestration cuts to MSP may cause disruption in the program and we remain committed to working with Congress to avert those cuts.

All that being said, thanks to concerned members of Congress, we have seen some positive legislative action, and I am confident that we stand poised to expand on that action.

Earlier this year, Congress reauthorized the Maritime Security Program for an additional ten years, keeping the program running through 2025. This was critical as it allows for the stability and long-term contracts that make the MSP so successful. The additional ten years will continue the recapitalization of the fleet, which has been one of the key goals of the program since its inception. It also provides reassurance to thousands of mariners that even as the wars in Iraq and Afghanistan wind down, their jobs will still be there for another decade.

We also saw the release of a Government Accountability Office study of the Jones Act and its impact on Puerto Rico. The GAO study confirmed what we in maritime have been saying for a long time – the Jones Act ensures that Puerto Rico has efficient and reliable maritime transportation service and that the Jones Act is a critical part of our

national security. The GAO report also confirmed that past studies and claims that the Jones Act drastically increased costs in Puerto Rico were indefensible.

In terms of our existing programs, we continue to push for full funding of the Maritime Security Program each year. The benefits MSP provides to DOD are immense, and the cost of replicating those benefits is almost incalculable. The ships and intermodal connections alone would cost billions, and the manpower pool – in terms of both time and money – is a priceless resource. We must not let sequestration put the Maritime Security Program at risk.

On the cargo preference front, we are actively working with Congress to restore the cuts made in MAP-21. Congressman Elijah Cummings, a former Chairman of this subcommittee, and Congressman Scott Rigell of Virginia have co-sponsored legislation in this Congress that would restore those cuts. We hope Congress acts swiftly on this legislation. Restoring these cuts will help maintain our competitiveness and keep the U.S.-Flag fleet moving.

We are also monitoring the Water Resources Development Act legislation that has passed the Senate and is still in the drafting stages here in the House. The Senate-passed legislation includes the RAMP Act, legislation designed to ensure that the money collected into the Harbor Maintenance Trust Fund is used for the purpose for which it was intended. Adequate dredging and maintenance of our inland waterways and ports is critical to keeping commerce flowing freely, will have a positive impact on jobs and will help us prepare for the opening of the Panama Canal next year – an opening that has the potential to see significant increases in cargo flow through our ports.

On the Jones Act front, we continue to support an expansion of America's Marine Highway initiative begun by the Maritime Administration. Increasing the flow of domestic cargo by ship would provide a variety of benefits, including easing traffic congestion, reducing fuel consumption and air pollution, enhancing opportunities for domestic shipbuilding all while creating thousands of good jobs here at home. MARAD should continue to work with operators to define routes, and Congress should adequately fund the Title XI shipbuilding program to ensure that short-sea Jones Act qualified vessels can be built in an economically viable way.

As we look to the future, our future must be one in which America's merchant marine is expanding, not shrinking. We cannot afford to simply protect and defend our current programs, because as long as we remain on defense we can't move forward. That is why the SIU and the rest of the maritime industry are actively working together to promote an expanded merchant marine and an expanded industry. We stand on the cusp of some exciting new developments and we want to ensure we are ready to take advantage of those developments. American mariners and American ships can play an expanding role in our maritime transportation system if we seize those opportunities and U.S. citizen mariners should play a part in these opportunities.

There are a number of areas in which we see the potential for growth for the industry, and

we are actively working to take advantage of them. One major area for growth we see is in the energy sector. Given the abundant natural gas resources in the United States and the significant international demand for natural gas, we expect to see a number of new liquefied natural gas export terminals built across the United States in the next ten years. The American merchant marine has ample experience in the safe and effective shipping of LNG, and given the need for trained and professional crews to carry this hazardous cargo, we are encouraged by the potential opportunities in this expanding sector of the industry. Just this month, Crowley Maritime, one of the largest Jones Act operators, announced they will be entering the LNG export trade, and we look forward to working with them to make those efforts successful.

LNG isn't just a commodity for ships to carry, it's also a fuel. Given that LNG is one of the cheapest, most abundant and cleanest fuels available today, using LNG to fuel ships is viewed as the future of our industry. And that future is happening now, as we have seen two contracts with American shipyards to build LNG powered ships for the Jones Act trades. America is leading the push for LNG as vessel fuel, and the two container ships being built at NASSCO for TOTE, Inc. will be the largest LNG powered container ships in the world. As has historically been true, the United States is continuing our solid track record of innovation and environmental stewardship when it comes to maritime transportation.

We are also encouraged by the push for increased use of wind power. Wind farms off the east and west coasts have the potential to create thousands of good maritime jobs both in the construction of wind farm fields as well as in the on-going maintenance of those fields. As America continues to explore the potential benefits of alternative energy, we must be ready to take advantage of any opportunities in both the domestic and international trades for an expansion of our Merchant Marine.

Providing incentives, in the form of preferences or tax credits for companies willing to use U.S.-Flag ships and mariners in the energy sector could spur job creation and lead existing companies to take advantage of this expanding trade.

One traditional area of the maritime industry that has a potential for growth is in the cruise ship arena. As this committee is well aware, the cruise industry has almost completely left the U.S.-Flag. Right now, of the major cruise lines in the world, only Norwegian Cruise Lines operates a U.S.-Flag vessel. The recent serious incidents at sea on cruise ships have highlighted the need for well-trained crews, solid maintenance procedures, and effective ship inspections – areas in which the American maritime industry has long excelled. We hope that these recent incidents will cause the foreign flag cruise industry to rethink their unwillingness to hire American mariners, thus opening a potential area for growth.

As we continue to look to the future, one thing will never change: the U.S. merchant marine is critical to the economic, national and homeland security of our country. It is high time that we, as a nation, rededicate ourselves to the principles that have kept our maritime industry afloat since the founding of the Republic.

In conclusion, as we continue to move forward, I strongly believe that American ships and American jobs are going to be at the center of our maritime transportation system for many, many years to come.

Mr. Chairman, again I thank you for this opportunity and I look forward to working with you and the rest of the subcommittee in the future.

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