

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

**THE MARITIME ADMINISTRATION'S
FISCAL YEAR 2016 BUDGET REQUEST**

February 25, 2015

Good morning, Chairman Hunter, Ranking Member Garamendi and Members of the Subcommittee. I appreciate this opportunity to discuss the President's vision for Fiscal Year (FY) 2016 budget priorities and initiatives for the Maritime Administration (MARAD). This budget request supports MARAD's mission to foster, promote and develop the U.S. Merchant Marine, and reflects MARAD's priorities of maintaining security and preparedness, investing in mariner training, and fostering environmental sustainability.

FY 2016 BUDGET REQUEST

The President's Fiscal year 2016 Budget for the Department of Transportation (DOT) provides a total of \$94.7 billion to make the critical investments we need in infrastructure to promote long-term economic growth, enhance safety and efficiency and support jobs for the 21st Century. The Budget shows what we can do if we invest in America's future and commit to an economy that rewards hard work, generates rising incomes, and allows everyone to share in the prosperity of a growing America. It lays out a strategy to strengthen our middle class and help America's hard-working families get ahead in a time of relentless economic and technological change.

MARAD's portion of the FY 2016 Budget Request is \$406.8 million, which funds activities supporting ships and shipping, port operations, vessel operations, national security and strategic mobility, ship disposal, environmental sustainability, safety, and education. One highlight of the budget request is an increase for our mariner training programs to ensure that we can continue to produce highly skilled U.S. Coast Guard (USCG) credentialed officers in the U.S. Merchant Marine to support America's defense and national security needs. A summary of the FY 2016 request is provided below.

SECURITY AND PREPAREDNESS

Maritime Security Program (MSP)

For FY 2016, \$186 million is requested for the MSP, which is the level of funding authorized in the National Defense Authorization Act of FY 2013, P.L. 112-239. Funding at this level will enable DOT to continue to maintain a U.S.-flag merchant fleet operating in international trade, crewed by U.S. mariners, and available to serve the nation's homeland and national security needs.

The MSP provides operating assistance funds to a fleet of 60 commercial privately-owned, militarily useful, U.S.-flagged, and U.S.-crewed ships. The MSP fleet ensures military access to a global fleet of ships in ocean-borne foreign commerce with the necessary intermodal logistics capability to move military equipment and supplies during armed conflict or national emergency. MSP vessels have been key contributors to our nation's efforts in Afghanistan and Iraq over the last decade, moving over 50 percent of all military cargo – over 26 million tons – to the Middle East. Since 2009, MSP carriers have moved over 90 percent of the ocean-borne cargo needed to support U.S. military operations and rebuilding programs in both countries. The MSP also provides critical employment for 2,400 U.S. merchant mariners, creating a reliable pool of mariners ready to support the activation of the government's sealift fleets. Without MSP, there would likely be a significant reduction in the number of U.S.-flag vessels and U.S. mariner jobs. The result would be fewer U.S. mariners available to crew the U.S. Government's (Ready Reserve Fleet) surge sealift vessels.

The most significant challenge facing the MSP is the declining Department of Defense (DoD) cargo due to the drawdown of operations in Iraq and Afghanistan coupled with the over 80 percent reduction in personnel and military bases overseas since 1990. Current levels of DoD-impelled cargos appear to be returning to levels of the late 1990s.

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

MARAD manages and maintains a fleet of government-owned merchant ships in the NDRF, which includes a component of 46 RRF vessels that are maintained in an advanced state of surge sealift readiness for the ocean transport of cargo to a specific area of operation to satisfy Combatant Commanders' critical war fighting requirements. The level of surge sealift readiness maintained allows MARAD to complete RRF vessel activation in five days or less to support military requirements. The RRF vessels and NDRF school ships may also be called upon to provide relief effort and humanitarian assistance in times of national emergency, as was the case when one of the RRF ships was activated to provide support relief efforts following the November 2012 Hurricane Sandy and to support the medical mission to Liberia for the Ebola Virus response in late 2014. Additionally, each vessel can be configured to support other emergent situations as was the case in

mobilizing the CAPE RAY for use in the international effort to destroy the Syrian Government's declared chemical weapons, which was completed in August of 2014.

Funding provided by a reimbursable agreement from DOD will allow MARAD to continue to provide ready surge sealift support in FY 2016 in the areas of activating, operating, deactivating and special mission requirements for RRF vessels and maintaining MARAD's NDRF fleet sites.

OTHER PROGRAMS

Food Aid Reform

The President's FY 2016 Budget Request includes \$25 million as a component of Food Aid reforms proposed for P.L. 480 Title II food aid that would provide flexibility to deliver emergency food where appropriate such as in conflict situations and logistically difficult crises. If the reform is enacted, the vast majority of P.L. 480 Title II food aid would continue to be sourced and shipped from the U.S. The additional funding would mitigate the impact that such reforms could have on mariner jobs. Most of the request would be devoted to provide direct stipend payments to operators of vessels in foreign trade, separate from MSP payments. Additionally, some of the request would support training programs to retain and educate U.S. mariners for critical occupations to preserve mariner employment on U.S.-flag vessels.

Maritime Training Programs

MARAD's training programs (U.S. Merchant Marine Academy and the State Maritime Academies) provide highly trained, USCG-credentialed officers for the U.S. Merchant Marine. These programs graduate the majority of new highly skilled, merchant marine officers who hold a USCG credential with the highest entry-level officer endorsement available to support our national maritime industry infrastructure. These graduates ensure our nation has a cadre of well-educated and trained merchant mariners in the event of a contingency or national emergency, as well as to meet national security needs in support of military emergency and humanitarian missions.

United States Merchant Marine Academy (USMMA or Academy)

The President's FY 2016 Budget Request includes \$96 million for USMMA. Of this, \$71.3 million will support Academy operations and \$24.7 million will fund major capital improvements and repairs to the Academy's physical campus. The FY 2016 request will maintain a sufficient base budget to support mission-essential program requirements and security priority areas. Funding includes an increase to support necessary simulator program upgrades, physical and information technology security enhancements, and Academy training ship maintenance and repair. This request will enable the Academy to effectively achieve its core

responsibility of providing the highest caliber academic study with state of the art learning facilities for the nation's future merchant marine officers and maritime transportation professionals. The Academy anticipates graduating 235 licensed merchant marine officers for service in the maritime industry and the U.S. Armed Forces in 2016. Nearly all of USMMA graduates receive either an active duty or reserve commission in the U.S. Armed Forces or one of the uniformed services (National Oceanic and Atmospheric Administration or Public Health Service) and provide a guaranteed source of mariners to crew government surge sealift vessels.

There has been significant progress made to improving institutional management and oversight, and strengthening internal controls at the Academy, over the last several years. A broad range of corrective actions, controls, and process improvements were implemented at the Academy, in addition to an organizational restructuring and leadership changes. Of note, the Government Accountability Office (GAO) has confirmed that all 47 recommendations in the 2009 audit report have been closed. Strengthening internal controls at the Academy will continue to be an area of priority emphasis in FY 2016.

In addition, Academy leadership has taken a number of actions to prevent and respond to incidents of sexual harassment and sexual assault at the Academy, including hiring a new Sexual Assault Response Coordinator, establishing an Action Plan to address sexual harassment and sexual assault, and improving oversight of the implementation of that plan. Academy procedures for reporting incidents that occur while Midshipmen are at sea have also been updated, as well as improving campus security and establishing a 24/7 reporting hotline.

State Maritime Academies (SMA)

The President's FY 2016 Budget Request includes \$34.6 million for the SMA program. This request includes \$5 million for National Security Multi-Mission Vessel (NSMV) planning and design to support the replacement of the 53-year-old training vessel EMPIRE STATE and \$22 million to fund maintenance and repair costs for federally owned training ships on loan from MARAD to the SMAs. Additionally, the request provides \$2.4 million to fund the Student Incentive Payment (SIP) program, enabling enrollment of 300 students per year (75 graduates annually) who maintain a USCG Mariner Credential and fulfill a service obligation through active or reserve duty in the U.S. Armed Forces or through employment in the maritime industry. Funding also includes \$3 million for annual direct payments to provide for operational support to each of the six SMAs and \$1.8 million for training ship fuel.

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. MARAD anticipates approximately 660 students in the license program will graduate from the SMAs in 2016. The SMA program contributes more than two thirds of the entry-level

licensed mariners trained annually that begin working in various positions within the maritime industry.

Maritime Guaranteed Loan Program (Title XI)

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

The current portfolio is \$1.5 billion in Title XI outstanding loan guarantees and 38 individual loan guarantee contracts, representing 21 companies covering approximately 250 vessels. The loan guarantees are intended to foster efficiency, competitive operations, and quality ship construction, repair, and reconstruction. The President's FY 2016 Budget Request includes \$3.1 million for administration of the loan portfolio to ensure agency compliance with the Federal Credit Reform Act requirements, borrower compliance with loan terms, and to process new loan applications. The current Title XI subsidy balance for new loan applicants is \$42 million. This will support approximately \$454 million in shipyard projects, assuming average risk category subsidy rates.

ENVIRONMENTAL SUSTAINABILITY

Ship Disposal

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

The FY 2016 Budget Request for the Ship Disposal Program is \$5 million to support the continued priority emphasis on the disposal of non-retention NDRF vessels in the worst condition. MARAD currently has 19 obsolete vessels not yet under contract for disposal, which is a historic low. During FY 2015, we anticipate removing 10 obsolete vessels from the Reserve Fleet sites. With the requested funding level in FY 2016, MARAD plans to remove up to eight additional obsolete ships through competitive vessel sales from the James River, Beaumont, and Suisan Bay Reserve Fleets (SBRF). The level of competition and available capacity, however, have decreased significantly as a result of the U.S. Navy award of recycling contracts for four

aircraft carriers in FY 2014 and FY 2015. Currently, three aircraft carriers are undergoing dismantlement, with the fourth carrier scheduled to arrive for disposal in June 2015. The contracts for dismantlement of the aircraft carriers have a two-year period of performance and, as such, will take up capacity at qualified recycling facilities, which is expected to increase MARAD's cost to dispose of ships in FYs 2016 and 2017.

MARAD is currently two years ahead of the SBRF vessel removal schedule required by the court-ordered settlement with California. With 52 of the 57 vessels already removed, MARAD expects to dispose of an additional three vessels from the SBRF in FY 2015 primarily with carryover funding. The requested funding in FY 2016 will allow MARAD to dispose of the two remaining SBRF vessels. Funding in the President's FY 2016 Budget Request will also cover the costs related to risk mitigation for compliance with the National Invasive Species Act and Clean Water Act, as well as lessen the environmental risk at the fleet sites and recycling facilities.

Nuclear Ship SAVANNAH

The President's FY 2016 Budget Request includes \$3 million for the inactive Nuclear Ship SAVANNAH (NSS), providing for the continuation of support activities, including nuclear license compliance, radiological protection, ship maintenance and custodial care, and planning and preparation for decommissioning.

Maritime Environment and Technology Assistance

The President's FY 2016 Budget Request includes \$4 million for energy and environmental technology initiatives designed to enhance maritime sustainability and affordability. The program will focus on ongoing research initiatives in areas such as reducing air pollution from vessels and port operations, invasive species control through ballast water treatment and underwater hull cleaning and inspection, improved and diversified marine propulsion systems, and increased energy efficiency at sea.

CONCLUSION

The above items represent the key policy proposals and initiatives highlighted in the President's FY 2016 Budget. We will continue to keep this Committee apprised of the progress of our program activities and initiatives in these areas in the coming year.

Mr. Chairman, thank you for the opportunity to present and discuss the President's FY 2016 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 am happy to respond to any questions you and the members of the Subcommittee may have.

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