STATEMENT OF

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SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION
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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 TEUs[1] 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

Rank	Operator	TEU	Share (%)
1	Maersk	2,422,110	18.1
2	MSC	2,016,197	15.1
3	CMA CGM	1,291,816	9.7
4	COSCO	624,353	4.7
5	Hapag-Lloyd	622,799	4.7
6	Evergreen	614,115	4.6
7	APL*	580,658	4.3
8	CSAV*	525,483	3.9
9	Hanjin*	511,661	3.8
10	CSCL*	510,958	3.8
11	MOL*	420,821	3.2
12	OOCL	415,638	3.1
13	NYK*	398,667	3.0
14	Hamburg Süd*	394,652	3.0
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

January 2018

Rank	Operator	TEU	Share (%)
1	Maersk	4,151,807	22.7
2	MSC	3,147,525	17.2
3	CMA CGM	2,514,170	13.7
4	COSCO	2,490,361	13.6
5	Hapag-Lloyd	1,547,865	8.4
6	ONE	1,483,371	8.1
7	Evergreen	1,060,224	5.8
8	Yang Ming	594,806	3.2
9	PIL	384,807	2.1
10	Zim	366,292	2.0
11	Hyundai (HMM)	347,136	1.9
12	Wan Hai	235,591	1.3
	Total	18,323,955	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.

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[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 enhance 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 agreements[5] 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. Delayered 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.