FEBRUARY 25, 2015

PRESIDENT'S FISCAL YEAR 2016 BUDGET REQUEST FOR COAST GUARD AND MARITIME TRANSPORTATION PROGRAMS

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

ONE HUNDRED FOURTEENTH CONGRESS, FIRST SESSION

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Commandant, United States Coast Guard

Steven Cantrell *[view PDF]*
Master Chief Petty Officer of the Coast Guard, United States Coast Guard

Paul Jaenichen *[view PDF]*
Administrator, Maritime Administration

Mario Cordero *[view PDF]*
Chairman, Federal Maritime Commission

AVAILABLE WEBCAST(S):*

- Full Hearing:
  https://www.youtube.com/watch?feature=player_embedded&v=hbQVb4qhO5o

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Chairman Duncan Hunter (R-CA)
Subcommittee on Coast Guard and Maritime Transportation
Hearing on "President's Fiscal Year 2016 Budget Request For Coast Guard and Maritime Transportation Programs"

February 25, 2015
Opening Statement
(Remarks as Prepared)

The Subcommittee is meeting today to hear testimony on the President's fiscal year 2016 budget request from the leaders of the Coast Guard, the Maritime Administration, and the Federal Maritime Commission.

The President sent Congress a budget that would increase spending by nearly $75 billion over the FY2016 spending cap. As a result, most federal agencies are slated to receive generous increases in spending over current levels, including a nearly 20 percent increase for the Maritime Administration and a 7 percent increase for the Federal Maritime Commission. Yet somehow, even with an additional $75 billion, the President still proposes to cut funding for the Coast Guard. This time by 4 percent below the current level.

The request would slash the Coast Guard's acquisition budget by 26 percent. The proposed level is at least a billion less than what is required to sustain the acquisition program of record. It will severely undermine efforts to recapitalize the Service's aging and failing legacy assets, increase acquisition costs for taxpayers, and seriously degrade mission effectiveness.

For the fourth year in a row, the Administration is playing a reckless game. They propose a budget that cuts funding for the Coast Guard so they can pay for increases at other agencies, betting that Congress will somehow restore the hundreds of millions of dollars needed to sustain Coast Guard acquisitions and front-line operations.

Quite frankly, we're getting tired of playing this game. Congress is running out of quarters. If the President is going to continue to propose these cuts year after year, he needs to tell us how he intends to rescope the missions of the Coast Guard to reflect his reduced budgets.

This is the first time Admiral Zukunft and Master Chief Cantrell appear before us. I want to commend both of them for their leadership and tremendous service to our Nation.   I fully understand the situation they've been put in with this budget and I appreciate their candor in describing what these cuts will mean for the ability of the Service to successfully conduct its missions.

I also understand the situation Saturday if Congress does not act on an FY 2015 budget for the Department of Homeland Security. I know there will be a lot of questions about the impact a shutdown or a CR may have on the Coast Guard. However, I want to remind everyone that the House passed a bill. It's now up to the Senate to act. Unfortunately, the Senate minority refuses to even allow a debate on the issue. I hope they understand the urgency of this issue and act as soon as possible.

The budget request for the Maritime Administration represents a nearly 20 percent increase over the current level. Much of the increase comes from a one-time payoff offered to the maritime industry in exchange for a permanent reduction in the number of U.S. mariner jobs carrying cargo under the hugely successful Food for Peace program.

Since 1954, the Food for Peace program has provided agricultural commodities grown by U.S. farmers and transported by U.S. mariners on U.S. flagged vessels to those threatened by starvation throughout the world. Unfortunately, for the third year in a row, the President proposes to restructure the Food for Peace program. This misguided proposal will eliminate a vital program for our farmers, put U.S. mariners out of work, and undermine our national security by reducing the domestic sealift capacity on which our military depends.

Republicans and Democrats have repeatedly come together to vote down this flawed proposal. I hope my colleagues will join me once again in rejecting the President's proposal and work with me on efforts to strengthen our merchant marine. I look forward to hearing from the Administrator on how he intends to move forward with his efforts to revitalize the U.S. flag fleet.

Finally, the budget request for the Federal Maritime Commission proposes a 7 percent increase in funding over current levels and a nearly 10 percent increase in the number of staff. While this budget increase amounts to less than $2 million, I think it sends the wrong signal. I encourage the Chairman to continue to find ways to operate the Commission as efficiently as possible.

Our nation is facing a very tough budget climate and the President's unrealistic request only makes things harder. I look forward to working with my colleagues to enact a responsible budget.

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

ON THE
COAST GUARD FISCAL YEAR 2016 BUDGET REQUEST

BEFORE THE
HOUSE COAST GUARD AND MARITIME TRANSPORTATION SUBCOMMITTEE

FEBRUARY 25, 2015

INTRODUCTION

Good morning Mr. Chairman and distinguished members of the Committee. Thank you for the continued support you have shown to the 88,000 active duty, civilian, reservists, and auxiliary personnel of the United States Coast Guard, through funding investment in our people, the recapitalization of our aging fleet, and sustainment of our front-line operations.

At all times an Armed Force, a regulatory agency, a humanitarian service, a federal law enforcement agency and a member of the intelligence community, the Coast Guard protects, defends, and promotes National interests on the high seas, in our Exclusive Economic Zone, near our coasts, and in our ports and inland waterways. The Service leverages more than 60 bilateral agreements and arrangements to address counter narcotics, illegal migration, fisheries enforcement and weapons proliferation – not only in international waters, but in many cases, extending jurisdictional reach into the territorial waters of signatory nations.

We are a maritime law enforcement service without peer and a unique instrument of international diplomacy. Many nations model their maritime forces after the U. S. Coast Guard to address transnational crime, human smuggling and foreign incursions into their respective waters. The Coast Guard uses our broad authorities, capabilities, and expansive partnerships to sustain an effective and persistent presence to ensure the most vital National interests in the maritime operating environment are met.

The U.S. Coast Guard operates in a complex, diverse and rapidly changing world. To ensure we meet the demands of today while preparing for tomorrow, the Service aligns its actions and investments with other components of the Department of Homeland Security (DHS) and national strategies. The Fiscal Year 2016 Budget continues the sound stewardship of fiscal resources to invest in the 21st Century Coast Guard. Investments in the Offshore Patrol Cutter (OPC) acquisition, improved aviation capabilities, integrated command and control systems and a proficient workforce are all critical to our future success. We remain an adaptable force, firmly committed to prioritizing operations and resources to maximize service to the Nation.

Our extraordinary people deserve America's investment in a 21st century Coast Guard. In 2016, we will bring special focus to four maritime concerns that support the Nation's interests, security, and prosperity:

(1) Combating Transnational Organized Crime networks and securing our borders;
(2) Safeguarding commerce;
(3) Enhancing our internal IT security and promoting cyber security within ports; and
(4) Maintaining our presence in the Polar Regions.

As part of the President's strategy to enhance stability, prosperity, and governance in Central America, the Coast Guard is repositioning legacy forces and investing in the people and platforms necessary to carry out an offensive strategy that targets Transnational Organized Crime networks, operating with impunity throughout the Central American region, and disrupts these criminal network operations where they are most vulnerable – at sea. For example, Coast Guard Cutter BOUTWELL returned to Naval Base San Diego this past October after completing a 90-day counter-drug patrol in the Eastern Pacific. On deck, she carried over 28,000 pounds of uncut, pure cocaine with a street value of more than half a billion dollars. It was the result of 18 different interdictions by U.S. forces. Our Helicopter Interdiction Tactical Squadron (HITRON) set a record in 2014, with 46 at sea interdictions netting over 31 metric tons of cocaine and 27 tons of marijuana. The increase in illicit trafficking of humans, drugs, and weapons into our transit zones and southern approaches is the direct result of Transnational Organized Crime networks operating with impunity throughout the Central American region. These organizations are vying for power through drug-fueled violence, the effects of which are destabilizing governments, undermining the rule of law, terrorizing citizens, and driving illegal migration from Central America to the United States, including the inhumane and perilous migration of unaccompanied children.

We continue to replace High Endurance Cutters, such as BOUTWELL, with the more capable National Security Cutters. In 2016, we will continue construction of the final three NSCs. In the future, acquisition of an affordable and capable offshore patrol cutter will also be a critical piece of the Coast Guard's Western Hemisphere Strategy to combat these networks. The OPC will be the backbone of Coast Guard offshore presence and the manifestation of Coast Guard authorities. It is essential to interdicting drug smugglers at sea, as well as for interdicting undocumented migrants, rescuing mariners, enforcing fisheries laws, responding to disasters, and protecting our ports. As the Coast Guard completes acquisition of the NSC, the OPC will become Coast Guard's number one acquisition priority.

In 2013, a new tank barge entered the stream of commerce every day in America, moving product on our maritime highways to fuel the United States economy. There has been a significant increase in barge transits carrying oil and natural gas on the Mississippi River in the last five years. The Coast guard plays an important role in ensuring the safe and secure movement of commerce on the Nation's waterways. Changes in U.S. energy production have increased the traffic levels at some of our ports. Larger tanker vessels, greater complexity of port operations and expanded movement of energy and hazardous materials increase the overall risk of an incident that could have severe environmental consequences. To keep pace with the maritime industry we regulate, the Coast Guard will continue ongoing initiatives to improve our marine safety workforce, and support innovative technologies to improve waterways management and the aids to navigation system.

In 2016, we will remain in lockstep with other components of DHS and Department of Defense (DOD) efforts to enhance cyber security to defend our own network and work with port partners to protect maritime critical infrastructure and operators.

The Coast Guard cutter POLAR STAR is underway, returning from Operation Deep Freeze in Antarctica. Her mission consists of breaking out a channel, and escorting petroleum and break bulk carriers, to resupply the United States base of operations in McMurdo Sound. That vital mission has enabled the U.S. to conduct scientific research and to implement the Antarctic treaty – a strategic necessity for our Nation. POLAR STAR is the only heavy ice breaker in the United States fleet capable of conducting this mission and providing assured access. In 2016, we continue the pre-acquisition work for procurement of a new polar icebreaker including development of a request for proposal.

In 2016, the Coast Guard will continue mobile and seasonal operations and partner with the coast guards of all Arctic nations through the Arctic Coast Guard Forum. We will continue to cooperate with the Department of State and other federal and international partners as the U.S. assumes the Chairmanship of the Arctic Council in 2015. Mobile and seasonal operations - the summer deployment of assets during Operation Arctic Shield – will continue to better understand the operational demands of the region and inform the timing and extent of any infrastructure needs based on human and economic activity in the region. Operation Arctic Shield is geared towards assessing the operational capabilities of cutters, boats, and aircraft in the Arctic while strengthening relationships with state, local, and tribal stakeholders. Research operations will continue on Coast Guard's medium ice breaker, HEALY. In addition to providing a research platform for U.S. scientists, HEALY provides a vessel of opportunity to help manage increasing human and economic activity in the Arctic. For example, last summer Coast Guard Cutter HEALY was diverted to rescue a 36-foot sailing vessel trapped in ice forty miles north of Barrow, Alaska.

The Coast Guard's daily activities support nearly every facet of the Nation's maritime interests, protect our homeland and secure our economic prosperity. The past year of Coast Guard operations was no exception. The Coast Guard responded to over 17,500 search-and-rescue cases, saving more than 3,400 lives; seized over 91 metric tons of cocaine and 48.9 metric tons of marijuana destined for the United States, worth an estimated $3 billion; detained over 340 suspected drug smugglers; interdicted more than 3,500 undocumented migrants; conducted over 25,000 container inspections; completed over 9,600 Safety of Life at Sea (SOLAS) safety exams on foreign vessels; and responded to approximately 8,000 reports of pollution incidents.

You will not find a better return on investment than the U.S. Coast Guard. As careful stewards, the Service was the first military service to earn an unqualified audit opinion, and has done so two years running. Due to exceptional commitment and innovation, the Coast Guard has ships sailing today that are 60 years old. The Medium Endurance Cutters that make up the backbone of the offshore fleet are reaching 50 years of age. As part of the Coast Guard's plan to recapitalize for the next half century, the Service created an acquisition workforce that won five federal-level awards in 2014.

As the Service approaches 225 years of service, history has proven that a responsive, capable, and agile Coast Guard is an indispensable instrument of national security, and investing in 21st century Coast Guard platforms and people is a prudent choice despite the challenging fiscal environment.

No other investment will return more operational value on every dollar than the 88,000 extraordinary men and women of the U.S. Coast Guard. The Coast Guard will remain *Semper Paratus* – Always Ready.

FY 2016 REQUEST:

The Coast Guard's FY 2016 budget preserves Coast Guard operations, invests in Coast Guard personnel and continues recapitalization efforts for our cutters, boats, aircraft, systems and infrastructure. The budget also efficiently allocates resources to optimize Coast Guard mission performance. The Coast Guard must continue meeting today's operational requirements while investing in future capability to best serve the Nation.

The Coast Guard's FY 2016 budget priorities are to:

1. Invest in the 21st Century Coast Guard;
2. Sustain mission excellence; and
3. Maximize service to nation.

Invest in the 21st Century Coast Guard

Coast Guard mission demands continue to grow and evolve. The complexities and challenges facing the 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 existing assets, future mission success relies on continued recapitalization of Coast Guard boats, cutters, aircraft, systems, and infrastructure. Similar to the Medium Endurance Cutter it replaces, the Offshore Patrol Cutter will provide the majority of the Coast Guard's offshore surface capacity essential to stopping drug smugglers at sea in addition to interdicting undocumented migrants, rescuing mariners in distress, deploying alongside the Navy, enforcing U.S. fisheries laws, responding to disasters, and protecting our ports. They are an important component of enhancing security as outlined in the U.S. Strategy for Engagement in Central America.

In support of the DHS's strategic objectives, the FY 2016 budget provides for the acquisition of six Fast Response Cutters, continues to invest in acquisition activities for an affordable Offshore Patrol Cutter and funds vessel sustainment projects for two 140-foot WTGB Ice-breaking Tugs and a 225-foot Seagoing Buoy Tender. The budget also continues sustainment and conversion work on legacy fixed and rotary wing aircraft, missionization of the C-27J aircraft received from the Air Force, and investment in Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) systems.

Sustain Mission Excellence

The FY 2016 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. In 2016, the Coast Guard will decommission two 110-foot Patrol Boats that are being replaced by more capable Fast Response Cutters. The Coast Guard will also decommission three HC-130 aircraft and corresponding support personnel while accepting the delivery of new C-130J aircraft and C-27J aircraft. The FY 2016 budget sustains the Coast Guard's highest priority operations with current operational assets and the necessary workforce.

Maximize Service to Nation
The Coast Guard's authorities extend well beyond our territorial sea, requiring us to meet evolving mission requirements stemming from national priorities, while remaining a trusted steward of public resources.

The FY 2016 budget sustains critical frontline operations by efficiently allocating resources across all mission programs. Coast Guard operational commanders will continue maintaining search and rescue coverage, protecting critical infrastructure, countering illicit threats from entering the United States, facilitating the proper function of the MTS to minimize disruptions to the transit of maritime commerce, safeguarding the maritime environment, and supporting foreign policy objectives and defense operations.

FY 2016 Highlights:

Invest in the 21st Century Coast Guard

- **Surface Assets.. $533.9M (0 FTE)**
  The budget provides $533.9 million for the following surface asset recapitalization and sustainment initiatives:

  - **National Security Cutter (NSC)** – Provides funding for the Structural Enhancement Drydock Availability (SEDA) for the NSC and post delivery activities for the fifth through eighth NSCs, completing the recapitalization of the Coast Guard's High Endurance Cutter fleet. The acquisition of the NSC is vital to performing DHS missions in the far off-shore regions, including the harsh operating environment of the Pacific Ocean, Bering Sea, and Arctic;
  - **Fast Response Cutter (FRC)** – Provides funding to procure six FRCs. These assets replace the aging fleet of 110-foot patrol boats that provide the coastal capability to conduct Search and Rescue operations, enforce border security, interdict drugs, uphold immigration laws, prevent terrorism, and enhance resiliency to disasters;
  - **Offshore Patrol Cutter (OPC)** – Supports technical review and analysis of preliminary and contract design phase deliverables for the OPC project. The Administration's request includes a general provision permitting a transfer to the OPC project if the program is ready to award the next phase of vessel acquisition in FY 2016. The OPC will replace the Medium Endurance Cutter classes that conduct missions on the high seas and coastal approaches;
  - **Polar Ice Breaker (WAGB)** – Continues pre-acquisition activities for a new polar icebreaker;
  - **Cutter Boats** – Continues funding for production of multi-mission cutter small boats that will be fielded on the Coast Guard's major cutter fleet beginning with the NSC;
  - **In-Service Vessel Sustainment** – Continues funding for sustainment projects on 140-foot ice breaking tugs (WTGB), 225-foot seagoing buoy tenders, the training Barque EAGLE (WIX), and initial sustainment activities for the 47-foot motor lifeboats (MLB);
  - **Survey and Design** – Continues funding for multi-year engineering and design work for multiple cutter classes in support of future sustainment and acquisition projects.

- **Air Assets .... $200.0M (0 FTE)**
The budget provides $200.0 million for the following air asset recapitalization or enhancement initiatives:

    - **HC-144A** – Funds spare parts required to maintain the operational availability of the HC-144A Ocean Sentry aircraft;
    - **HC-27J** – Funds continued activities of the C-27J Asset Project Office (APO). The APO organizes logistics, training, maintenance support and ensures these newly acquired aircraft are ready for induction into the operational fleet. Funds aircraft regeneration, spares, initial training, mission system development, ground support equipment to stand up first operational unit;
    - **HH-65** – Continues modernization and sustainment of the Coast Guard's fleet of HH-65 helicopters, converting them to MH-65 Short Range Recovery (SRR) helicopters. The modernization effort includes reliability and sustainability improvements, where obsolete components are replaced with modernized sub-systems, including an integrated cockpit and sensor suite;
    - **C-130J** – Funds initial spare parts required for stand up of the second operational HC-130J unit.

- **Other Acquisition, Construction, and Improvements Initiatives……. $65.1M (0 FTE)**
The budget provides $65.1 million for other initiatives funded under the Acquisition, Construction and Improvements account, including the following equipment and services:

    - **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;
    - **Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR)** – Provides design, development, upgrades, and assistance on C4ISR hardware and software, creating a common operational picture and ensuring interoperability of all new and in-service assets;
    - **CG-Logistics Information Management System** – Continues development and deployment of a unified logistics system for Coast Guard operational assets.

- **Shore Units and Aids to Navigation (ATON)...................................... $101.4M (0 FTE)**
The budget provides $101.4 million to recapitalize shore infrastructure for safe, functional, and modern facilities that support Coast Guard assets and personnel:

    - **Specific Projects –** Pier improvements in Little Creek, VA, to facilitate a 210' WMEC homeport shift; renovation and restoration of electrical system at Air Station Barbers Point, HI; the first phase of the replacement of aging dry-dock facilities at the Coast Guard Yard; erosion control work at Station Siuslaw River, OR; and construction of permanent facilities at Station Vallejo, CA;
    - **ATON Infrastructure –** Construction and improvements to short-range aids and infrastructure to improve the safety of maritime transportation.
    - **Major Acquisition System Infrastructure –** Modification and construction of facilities to support newly delivered acquisitions. Includes upgrades and construction for NSC homeports, Medium Range Surveillance aircraft operational

and maintenance facilities, and engineering, feasibility, and environmental studies for future projects.

- **Personnel and Management.. $116.9M (881 FTE)**
  The budget provides $116.9 million for pay and benefits of the Coast Guard's acquisition workforce.

<u>Sustain Mission Excellence</u>

- Operational Adjustments
  - **Cyber Security Remediation.. +$5.2M (0 FTE)**
    This increase reflects a portion of a DHS-wide plan to address identified vulnerabilities related to a component controlled system, and the Department will track remediation of these vulnerabilities commencing in FY 2015.
  - **Support Structure Review and Rebalancing...........................-$2.5M (-18 FTE)**
    A thorough review of the Coast Guard's support delivery structure identified personnel reductions at various locations that can be taken with no direct operational impacts and a minimal loss of current service delivery;
  - **National Capital Region Footprint Consolidation..................... -$3.0M (0 FTE)**
    Reduces the Coast Guard's physical footprint in the National Capital Region through consolidation of personnel and offices into the Douglas A. Munro Coast Guard Headquarters building at St. Elizabeths;
  - **Professional Services Contract Reduction................................ -$44.9M (0 FTE)**
    Reduces or scales professional services contracts and redirects savings to higher priorities;
  - **Manual Continuous Monitoring Reduction .... -$1.2M (0 FTE)**
    Due to increased capabilities of the Continuous Diagnostics and Mitigation (CDM) program, the need for manual cyber security monitoring is reduced and the Coast Guard is able to achieve savings with no loss of IT system security;
  - **Headquarters Directorate Reduction.. -$5.0M (0 FTE)**
    Reduces funding for the overhead costs of Coast Guard headquarters directorates through a focused effort to minimize duplicative spending on consumable supplies and materials.

- **Asset Decommissioning and Retirement**
  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 or retired.

  - **Patrol Boat (WPB) ....-$1.1 M (-14 FTE)**
    Decommissions two 110-ft WPB patrol boats. These assets will be replaced with Fast Response Cutters (FRCs) in the Seventh Coast Guard District.
  - **HC-130 Aircraft Retirement...-$11.7M (-53 FTE)**
    Eliminates funding and personnel associated with the retirement of three HC-130H to the Air Force for transfer to the U.S. Forest Service as outlined in the FY 2014 National Defense Authorization Act. Newly acquired HC-130J and C-27J aircraft will provide increased operational reliability.

Maximize Service to the Nation

- **Operating and Maintenance Funds for New Assets .... +$89.9M (222 FTE)** Provides funding for operations and maintenance of shore facilities, as well as cutters, boats, aircraft, and associated C4ISR subsystems delivered through acquisition efforts.
  - **Shore Facilities** – Funds operation and maintenance of shore facility projects scheduled for completion by FY 2016;
  - **Response Boat-Medium** – Funds operation, maintenance and support of 4 RB-Ms;
  - **FRC** – Funds operation and maintenance of FRCs #18-21 and provides funding for personnel to operate and maintain hulls #19-22, including the shore-side support personnel;
  - **NSC –** Funds personnel for NSC #6, and costs for shore side support personnel for NSCs #4-5 (to be homeported in Charleston, SC);
  - **C-27JA Aircraft** – Funds operations, maintenance, and personnel funding for the first four C-27J aircraft that will be assigned to Air Station Sacramento, CA.

- **Pay & Allowances .... +$80.8 (0 FTE)** Maintains parity with DOD for military pay, allowances, and health care, and for civilian pay raise 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.

CONCLUSION

In closing, I will stress that you will not find a better return on investment than the United States Coast Guard. As the service approaches its 225th year, history has proven us responsive, capable, and agile. The Service provides tremendous operational results for every dollar provided to the extraordinary men and women of the United States Coast Guard. We have been and will remain *Semper Paratus* – Always Ready.

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The Coast Guard cutter POLAR STAR is underway, returning from Operation Deep Freeze in Antarctica. Her mission consists of breaking out a channel, and escorting petroleum and break bulk carriers, to resupply the United States base of operations in McMurdo Sound. That vital mission has enabled the U.S. to conduct scientific research and to implement the Antarctic treaty – a strategic necessity for our Nation. POLAR STAR is the only heavy ice breaker in the United States fleet capable of conducting this mission and providing assured access. In 2016, we continue the pre-acquisition work for procurement of a new polar icebreaker including development of a request for proposal.

In 2016, the Coast Guard will continue mobile and seasonal operations and partner with the coast guards of all Arctic nations through the Arctic Coast Guard Forum. We will continue to cooperate with the Department of State and other federal and international partners as the U.S. assumes the Chairmanship of the Arctic Council in 2015. Mobile and seasonal operations - the summer deployment of assets during Operation Arctic Shield – will continue to better understand the operational demands of the region and inform the timing and extent of any infrastructure needs based on human and economic activity in the region. Operation Arctic Shield is geared towards assessing the operational capabilities of cutters, boats, and aircraft in the Arctic while strengthening relationships with state, local, and tribal stakeholders. Research operations will continue on Coast Guard's medium ice breaker, HEALY. In addition to providing a research platform for U.S. scientists, HEALY provides a vessel of opportunity to help manage increasing human and economic activity in the Arctic. For example, last summer Coast Guard Cutter HEALY was diverted to rescue a 36-foot sailing vessel trapped in ice forty miles north of Barrow, Alaska.

The Coast Guard's daily activities support nearly every facet of the Nation's maritime interests, protect our homeland and secure our economic prosperity. The past year of Coast Guard operations was no exception. The Coast Guard responded to over 17,500 search-and-rescue cases, saving more than 3,400 lives; seized over 91 metric tons of cocaine and 48.9 metric tons of marijuana destined for the United States, worth an estimated $3 billion; detained over 340 suspected drug smugglers; interdicted more than 3,500 undocumented migrants; conducted over 25,000 container inspections; completed over 9,600 Safety of Life at Sea (SOLAS) safety exams on foreign vessels; and responded to approximately 8,000 reports of pollution incidents.

You will not find a better return on investment than the U.S. Coast Guard. As careful stewards, the Service was the first military service to earn an unqualified audit opinion, and has done so two years running. Due to exceptional commitment and innovation, the Coast Guard has ships sailing today that are 60 years old. The Medium Endurance Cutters that make up the backbone of the offshore fleet are reaching 50 years of age. As part of the Coast Guard's plan to recapitalize for the next half century, the Service created an acquisition workforce that won five federal-level awards in 2014.

As the Service approaches 225 years of service, history has proven that a responsive, capable, and agile Coast Guard is an indispensable instrument of national security, and investing in 21st century Coast Guard platforms and people is a prudent choice despite the challenging fiscal environment.

No other investment will return more operational value on every dollar than the 88,000 extraordinary men and women of the U.S. Coast Guard. The Coast Guard will remain *Semper Paratus* – Always Ready.

FY 2016 REQUEST:

The Coast Guard's FY 2016 budget preserves Coast Guard operations, invests in Coast Guard personnel and continues recapitalization efforts for our cutters, boats, aircraft, systems and infrastructure. The budget also efficiently allocates resources to optimize Coast Guard mission performance. The Coast Guard must continue meeting today's operational requirements while investing in future capability to best serve the Nation.

The Coast Guard's FY 2016 budget priorities are to:

1. Invest in the 21st Century Coast Guard;
2. Sustain mission excellence; and
3. Maximize service to nation.

Invest in the 21st Century Coast Guard

Coast Guard mission demands continue to grow and evolve. The complexities and challenges facing the 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 existing assets, future mission success relies on continued recapitalization of Coast Guard boats, cutters, aircraft, systems, and infrastructure. Similar to the Medium Endurance Cutter it replaces, the Offshore Patrol Cutter will provide the majority of the Coast Guard's offshore surface capacity essential to stopping drug smugglers at sea in addition to interdicting undocumented migrants, rescuing mariners in distress, deploying alongside the Navy, enforcing U.S. fisheries laws, responding to disasters, and protecting our ports. They are an important component of enhancing security as outlined in the U.S. Strategy for Engagement in Central America.

In support of the DHS's strategic objectives, the FY 2016 budget provides for the acquisition of six Fast Response Cutters, continues to invest in acquisition activities for an affordable Offshore Patrol Cutter and funds vessel sustainment projects for two 140-foot WTGB Ice-breaking Tugs and a 225-foot Seagoing Buoy Tender. The budget also continues sustainment and conversion work on legacy fixed and rotary wing aircraft, missionization of the C-27J aircraft received from the Air Force, and investment in Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) systems.

Sustain Mission Excellence

The FY 2016 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. In 2016, the Coast Guard will decommission two 110-foot Patrol Boats that are being replaced by more capable Fast Response Cutters. The Coast Guard will also decommission three HC-130 aircraft and corresponding support personnel while accepting the delivery of new C-130J aircraft and C-27J aircraft. The FY 2016 budget sustains the Coast Guard's highest priority operations with current operational assets and the necessary workforce.

Maximize Service to Nation
The Coast Guard's authorities extend well beyond our territorial sea, requiring us to meet evolving mission requirements stemming from national priorities, while remaining a trusted steward of public resources.

The FY 2016 budget sustains critical frontline operations by efficiently allocating resources across all mission programs. Coast Guard operational commanders will continue maintaining search and rescue coverage, protecting critical infrastructure, countering illicit threats from entering the United States, facilitating the proper function of the MTS to minimize disruptions to the transit of maritime commerce, safeguarding the maritime environment, and supporting foreign policy objectives and defense operations.

FY 2016 Highlights:

Invest in the 21st Century Coast Guard

- **Surface Assets.. $533.9M (0 FTE)**
  The budget provides $533.9 million for the following surface asset recapitalization and sustainment initiatives:

  - **National Security Cutter (NSC)** – Provides funding for the Structural Enhancement Drydock Availability (SEDA) for the NSC and post delivery activities for the fifth through eighth NSCs, completing the recapitalization of the Coast Guard's High Endurance Cutter fleet. The acquisition of the NSC is vital to performing DHS missions in the far off-shore regions, including the harsh operating environment of the Pacific Ocean, Bering Sea, and Arctic;
  - **Fast Response Cutter (FRC)** – Provides funding to procure six FRCs. These assets replace the aging fleet of 110-foot patrol boats that provide the coastal capability to conduct Search and Rescue operations, enforce border security, interdict drugs, uphold immigration laws, prevent terrorism, and enhance resiliency to disasters;
  - **Offshore Patrol Cutter (OPC)** – Supports technical review and analysis of preliminary and contract design phase deliverables for the OPC project. The Administration's request includes a general provision permitting a transfer to the OPC project if the program is ready to award the next phase of vessel acquisition in FY 2016. The OPC will replace the Medium Endurance Cutter classes that conduct missions on the high seas and coastal approaches;
  - **Polar Ice Breaker (WAGB)** – Continues pre-acquisition activities for a new polar icebreaker;
  - **Cutter Boats** – Continues funding for production of multi-mission cutter small boats that will be fielded on the Coast Guard's major cutter fleet beginning with the NSC;
  - **In-Service Vessel Sustainment** – Continues funding for sustainment projects on 140-foot ice breaking tugs (WTGB), 225-foot seagoing buoy tenders, the training Barque EAGLE (WIX), and initial sustainment activities for the 47-foot motor lifeboats (MLB);
  - **Survey and Design** – Continues funding for multi-year engineering and design work for multiple cutter classes in support of future sustainment and acquisition projects.

- **Air Assets .... $200.0M (0 FTE)**
  The budget provides $200.0 million for the following air asset recapitalization or enhancement initiatives:

  - **HC-144A** – Funds spare parts required to maintain the operational availability of the HC-144A Ocean Sentry aircraft;
  - **HC-27J** – Funds continued activities of the C-27J Asset Project Office (APO). The APO organizes logistics, training, maintenance support and ensures these newly acquired aircraft are ready for induction into the operational fleet. Funds aircraft regeneration, spares, initial training, mission system development, ground support equipment to stand up first operational unit;
  - **HH-65** – Continues modernization and sustainment of the Coast Guard's fleet of HH-65 helicopters, converting them to MH-65 Short Range Recovery (SRR) helicopters. The modernization effort includes reliability and sustainability improvements, where obsolete components are replaced with modernized sub-systems, including an integrated cockpit and sensor suite;
  - **C-130J** – Funds initial spare parts required for stand up of the second operational HC-130J unit.

- **Other Acquisition, Construction, and Improvements Initiatives……. $65.1M (0 FTE)**
  The budget provides $65.1 million for other initiatives funded under the Acquisition, Construction and Improvements account, including the following equipment and services:

  - **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;
  - **Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR)** – Provides design, development, upgrades, and assistance on C4ISR hardware and software, creating a common operational picture and ensuring interoperability of all new and in-service assets;
  - **CG-Logistics Information Management System** – Continues development and deployment of a unified logistics system for Coast Guard operational assets.

- **Shore Units and Aids to Navigation (ATON)...................................... $101.4M (0 FTE)**
  The budget provides $101.4 million to recapitalize shore infrastructure for safe, functional, and modern facilities that support Coast Guard assets and personnel:

  - **Specific Projects –** Pier improvements in Little Creek, VA, to facilitate a 210' WMEC homeport shift; renovation and restoration of electrical system at Air Station Barbers Point, HI; the first phase of the replacement of aging dry-dock facilities at the Coast Guard Yard; erosion control work at Station Siuslaw River, OR; and construction of permanent facilities at Station Vallejo, CA;
  - **ATON Infrastructure –** Construction and improvements to short-range aids and infrastructure to improve the safety of maritime transportation.
  - **Major Acquisition System Infrastructure –** Modification and construction of facilities to support newly delivered acquisitions. Includes upgrades and construction for NSC homeports, Medium Range Surveillance aircraft operational

and maintenance facilities, and engineering, feasibility, and environmental studies for future projects.

- **Personnel and Management.. $116.9M (881 FTE)**
The budget provides $116.9 million for pay and benefits of the Coast Guard's acquisition workforce.

<u>Sustain Mission Excellence</u>

- Operational Adjustments
  - **Cyber Security Remediation.. +$5.2M (0 FTE)**
  This increase reflects a portion of a DHS-wide plan to address identified vulnerabilities related to a component controlled system, and the Department will track remediation of these vulnerabilities commencing in FY 2015.
  - **Support Structure Review and Rebalancing...........................-$2.5M (-18 FTE)**
  A thorough review of the Coast Guard's support delivery structure identified personnel reductions at various locations that can be taken with no direct operational impacts and a minimal loss of current service delivery;
  - **National Capital Region Footprint Consolidation..................... -$3.0M (0 FTE)**
  Reduces the Coast Guard's physical footprint in the National Capital Region through consolidation of personnel and offices into the Douglas A. Munro Coast Guard Headquarters building at St. Elizabeths;
  - **Professional Services Contract Reduction................................ -$44.9M (0 FTE)**
  Reduces or scales professional services contracts and redirects savings to higher priorities;
  - **Manual Continuous Monitoring Reduction .... -$1.2M (0 FTE)**
  Due to increased capabilities of the Continuous Diagnostics and Mitigation (CDM) program, the need for manual cyber security monitoring is reduced and the Coast Guard is able to achieve savings with no loss of IT system security;
  - **Headquarters Directorate Reduction.. -$5.0M (0 FTE)**
  Reduces funding for the overhead costs of Coast Guard headquarters directorates through a focused effort to minimize duplicative spending on consumable supplies and materials.

- **Asset Decommissioning and Retirement**
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 or retired.

  - **Patrol Boat (WPB) ....-$1.1 M (-14 FTE)**
  Decommissions two 110-ft WPB patrol boats. These assets will be replaced with Fast Response Cutters (FRCs) in the Seventh Coast Guard District.
  - **HC-130 Aircraft Retirement...-$11.7M (-53 FTE)**
  Eliminates funding and personnel associated with the retirement of three HC-130H to the Air Force for transfer to the U.S. Forest Service as outlined in the FY 2014 National Defense Authorization Act. Newly acquired HC-130J and C-27J aircraft will provide increased operational reliability.

<u>Maximize Service to the Nation</u>

- **Operating and Maintenance Funds for New Assets .... +$89.9M (222 FTE)** Provides funding for operations and maintenance of shore facilities, as well as cutters, boats, aircraft, and associated C4ISR subsystems delivered through acquisition efforts.
    - **Shore Facilities** – Funds operation and maintenance of shore facility projects scheduled for completion by FY 2016;
    - **Response Boat-Medium** – Funds operation, maintenance and support of 4 RB-Ms;
    - **FRC** – Funds operation and maintenance of FRCs #18-21 and provides funding for personnel to operate and maintain hulls #19-22, including the shore-side support personnel;
    - **NSC –** Funds personnel for NSC #6, and costs for shore side support personnel for NSCs #4-5 (to be homeported in Charleston, SC);
    - **C-27JA Aircraft** – Funds operations, maintenance, and personnel funding for the first four C-27J aircraft that will be assigned to Air Station Sacramento, CA.

- **Pay & Allowances .... +$80.8 (0 FTE)** Maintains parity with DOD for military pay, allowances, and health care, and for civilian pay raise 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.

<u>CONCLUSION</u>

In closing, I will stress that you will not find a better return on investment than the United States Coast Guard. As the service approaches its 225th year, history has proven us responsive, capable, and agile. The Service provides tremendous operational results for every dollar provided to the extraordinary men and women of the United States Coast Guard. We have been and will remain *Semper Paratus* – Always Ready.

STATEMENT OF
PAUL N. JAENICHEN
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

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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STATEMENT OF
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BEFORE THE
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
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MARITIME TRANSPORTATION
UNITED STATES HOUSE OF REPRESENTATIVES

February 25, 2015

Mr. Chairman, Ranking Member Garamendi, and members of the Subcommittee, thank you for this opportunity to discuss the Federal Maritime Commission's (Commission or FMC) important accomplishments and our planned activities within the funding provided in the President's Fiscal Year (FY) 2016 budget.

Commission Activities

The Commission continues to play an integral role in implementing a regulatory system that ensures a competitive playing field, facilitates commerce, and encourages reliable service to U.S. exporters and importers, while minimizing government intervention and costs. The Commission is focused on supporting U.S. exports and the country's continued economic growth. In its role as a regulator of marine terminal operators, ocean common carriers, and ocean transportation intermediaries, the Commission's mission is to foster a fair, efficient, and reliable international ocean transportation system, and to protect the public from unfair and deceptive practices. The international industry that the agency oversees is responsible for moving approximately $900 billion annually worth of containerized goods to and from American shores. In this regard, the Commission provides an exceptional return on the taxpayer's investment.

I believe that the three most important ways the Commission promotes economic growth are: (1) working to facilitate the competitiveness of our Nation's ports and maritime transportation system to support growth in exports; (2) ensuring that cargo moves as efficiently as possible, and addressing nationwide issues such as port congestion; and (3) providing regulatory relief so businesses and their customers can hire more American workers.

The Commission remains alert to foreign activities that have the potential to harm the U.S. maritime industry, American importers, exporters, and consumers. The Commission acquires information not only through its own monitoring responsibilities and constant contacts with the industry, but also from its relationships with other Federal agencies including the U.S. Coast Guard, the Maritime Administration, the U.S. Customs and Border Protection and other Department of Homeland Security components.

The Commission also continues to look for opportunities, consistent with the Commission's statutory authority, to work with all sectors and users of the international maritime industry to encourage efficient and sustainable growth.

The Commission's strategic plan provides a roadmap to achieve its statutory mission and sets forth two broad goals: (1) to maintain an efficient and competitive international ocean transportation system; and (2) to protect the public from unlawful, unfair, and deceptive ocean transportation practices, and to resolve shipping disputes. Each of my fellow Commissioners understands the importance of the agency's objectives, and we will continue working in an efficient, cooperative, and bipartisan manner to accomplish them. I will continue to lead the agency to address those goals while making sure the agency's resources are used efficiently.

During the past year, the Commission has taken several important actions to accomplish these goals:

1. Supporting U.S. Exports and Economic Growth

Two of the Shipping Act objectives call for the Commission 1) to foster an efficient and economic transportation system in the ocean commerce of the U.S. and 2) to promote the growth of U.S. exports. The competitiveness of our Nation's ports rests upon an efficient transportation system, which includes entities the Commission regulates: marine terminal operators, ocean common carriers, and ocean transportation intermediaries. The vast majority of our nation's exports and 80% of global trade, in goods by volume, move via ports.

The Commission monitors the Nation's ports, including marine terminal operators' efficient stewardship of resources and their focus on productivity. For example, the Commission has made the ongoing congestion troubling the West, East and Gulf coast ports a particular focus during 2014. The Commission will continue that focus during 2015. Congestion at our ports has had severe adverse effects on U.S. exports, including shipping delays, lost export sales and increased costs for cargo that is moved. U.S imports have also been seriously affected. As you will recall, U.S. imports for the holiday peak season were delayed at U.S. West Coast ports due the inability of the ports to handle the large number of containers that are unloaded from vessels that are able to be carried on 16,000 TEU vessels. The holiday season delays resulted in lost retail sales or sales at reduced prices.

This past fall, the Commission held four congestion forums at major gateway ports to foster dialogue between industry stakeholders, regulators, and the general public on the causes, impacts and possible solutions for the current port congestion experienced around the country. In September 2014, I hosted a forum in Los Angeles. In October, Commissioners Lidinsky and Doyle hosted a forum in Baltimore and Commissioner Khouri hosted one in Charleston, South Carolina. Commissioner Dye held the final forum in New Orleans in November.

There are many factors contributing to the current congestion, including the unavailability of chassis at the ports. Ocean carriers serving Los Angeles-Long Beach, New Your-New Jersey, Baltimore, and other ports have been withdrawing from owning and providing chassis in order to reduce costs. Other companies have been buying chassis and leasing them to merchants or truck drivers. This has led to increased focus on chassis pools and equipment sharing agreements at U.S. ports and inland terminals. Tour many of the nation's ports, and you will hear that there are issues in finding available chassis.

Equipment sharing agreements filed with the Commission such as the Consolidated Chassis Management Agreement (CCM), facilitate chassis pools that aim to enhance the efficiency of intermodal chassis operations in the United States. CCM, which is comprised of ocean common carriers, operates six cooperative chassis pools in the South and Midwest sectors of the United States. Chassis leasing companies, motor carriers, and others can contribute chassis to the CCM pools, but the pools themselves are managed by the ocean common carriers. At this stage of the transition, leasing companies are the primary owners and contributors of chassis in the CCM pools. The Commission will continue to monitor the availability of chassis in the marketplace with an eye toward whether the structure of chassis ownership and management is contributing to congestion.

At the Port events, and through additional discussions, the Commission has heard significant concerns with how marine terminal operators and ocean common carriers are assessing demurrage charges when shippers are not able to retrieve containers from the terminals due to congestion delays through no fault of their own. With disappointing frequency, the Commission is receiving complaints by shippers about how shippers are repeatedly told that they may not retrieve a container due to on-dock congestion or delays at the gate. Worse yet, some shippers find out that once the container is finally made available, the carrier and marine terminal operator will not release it until the shipper pays demurrage for not picking up the container before free-time expires. The Commission is currently evaluating these practices, which many shippers allege are unfair, and will continue to watch out for American shippers and consumers.

The Commission monitors some agreements that aim to drive industry innovations in the operations of the Nation's international ocean ports. As an example, PierPASS is an agreement originally created in 2005 among marine terminal operators in the ports of Los Angeles and Long Beach. Filed with the FMC, PierPASS addresses multi-terminal issues such as congestion, security, and air quality. Under this program, all international container terminals in the Nation's largest port complex established new gate hours, with the incentive to use off-peak shifts and to cover the added cost through a traffic mitigation fee collected from peak shift cargo movement. A few months ago, I met with PierPASS executives to discuss congestion issues at the Ports of Los Angeles and Long Beach. The managers of PierPASS are aware of the Commission's interest in how the agreement operates and the impact it has on truck congestion in Southern California, and my fellow Commissioners and I will further examine PierPASS in 2015.

We will also continue our efforts to assist U.S. exporters. The Commission will monitor rate discussion agreements in the Transpacific, the nation's largest trade lane, to ensure that those agreements do not impede U.S. exports and imports through anticompetitive practices that impact rates or services. The Commission will likewise continue to coordinate efforts with the United States Department of Agricultural (USDA) Ocean Shipping Container Availability Report (OSCAR) to provide shippers, particularly those in the agriculture sector, with the participating carriers' estimates of equipment availability for the current week, and projected weekly container availability for the subsequent two weeks.

The Commission's Office of Consumer Affairs and Dispute Resolution Services (CADRS) assists parties to informally resolve shipping disputes including those arising from congestion issues at ports. These services are available to the public without charge and can assist parties in disputes relating to commercial shipments, shipments of household goods, privately-owned vehicles and effects, as well as problems that may arise between passengers and cruise lines. During Fiscal Year 2014, CADRS handled 1,664 requests for ombudsman services, an increase of 453 such requests from Fiscal Year 2013. These included 77 passenger complaints about cruise line issues, 1,449 complaints with respect to household goods shipments, 136 complaints involving other cargo shipment matters, and 2 matters involving other maritime related issues. Cargo shipment complaints continued to be of increasing complexity, especially those involving specific shipments affected by port congestion issues. It is a pleasure to report that the industry has embraced our CADRS objectives.

2. Reducing Regulatory Burdens

The Commission has made regulatory relief and modernization pursuant to the President's Executive Order 13563 a top priority. During the past year, we re-evaluated several of our regulations in the interest of reducing regulatory burdens and identifying potential cost savings and flexibility to the shipping industry and the customers they serve.

I am happy to report that the Commission revised provisions from its Advance Notice of Proposed Rulemaking (ANPRM) to its Ocean Transportation Intermediary (OTI) rules, following the comments from industry regarding the ANPRM and members of Congress. Based on that feedback, the Commission issued a Notice of Proposed Rulemaking that would lengthen the time period for OTIs to renew their licenses to three years, free of charge.

The Commission plans to review its Marine Terminal Operator regulations in FY 2015 and review its Carrier Automated Tariff regulations in FY 2016. In the meantime, Commission staff is working on developing recommendations on its regulations governing service contracts and Non-Vessel-Operating Common Carrier service arrangements for Commission review.

3. Foreign Shipping Practices, International Activities, and Global Alliances

The Commission continues to watch for restrictive or unfair foreign shipping practices pursuant to Section 19 of the Merchant Marine Act, 1920; the Foreign Shipping Practices Act (FSPA) of 1988; and the Controlled Carrier Act of 1978. Section 19 empowers the Commission to issue rules and regulations to address conditions unfavorable to shipping in our foreign trades; FSPA allows the Commission to address adverse conditions affecting U.S. carriers in our foreign trades that do not exist for foreign carriers in the United States. The Commission has had substantive discussions regarding activities that may raise concerns under Section 19 and the FSPA, and will continue to pursue informal solutions to potential problems.

Four large carrier operational agreements were established or expanded in 2014. These agreements include the six-member *G6 Alliance Agreement* (G6); the two member *2M Vessel Sharing Agreement* (2M); the three member *Ocean 3 Vessel Sharing Agreement* (Ocean 3); and the five member *CKYHE Vessel Sharing Agreement* (CKYHE).[1] The Commission will continue to closely monitor the impacts of these and other agreement on ocean commerce and the American shipping community.

4. Protecting American Consumers

As noted above, the Commission's mission includes ensuring service and providing protection for members of the public. The Commission seeks to provide this protection to all participants in the transportation system — including those who are not sophisticated shippers, or those who may travel on cruise ships or deal with international shipping only infrequently, for example, when they ship personal belongings or household goods abroad. Aggrieved parties can file complaints with the Commission that are heard by Administrative Law Judges, and ultimately reviewed by the Commission. Thus, if parties believe that they have been harmed and the conduct runs afoul of the prohibited acts in the Shipping Act of 1984, the Commission provides a forum for the parties to seek review of the complaint. Through the formal complaint process, and the informal complaint resolution process administered by CADRS, the Commission serves as a knowledgeable, respected source for resolving complaints relating to ocean shipping practices.

CADRS also receives a significant number of requests from passengers and from members of Congress on behalf of their constituents for assistance with cruise lines. Though not a compulsory process, CADRS facilitates discussions between consumers and the cruise lines to resolve such disputes. The most common examples of these complaints are cruise cancellations, changes of itinerary, difficulties encountered with connecting transportation (*e.g.*, flight cancellations), reports of discrepancies in cruise advertising, and problems with passenger

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[1] *G6* consists of American President Lines, Hapag Lloyd, Hyundai, Mitsui O.S.K Lines, Nippon Yusen Kaisha, and Orient Overseas Container Line and serves the transatlantic and transpacific U.S. East and West Coast trades, as well as the U.S. Mediterranean trades. *G6* accounts for 32.6 percent of the U.S. West Coast/Asia trade, 30.7 percent of the U.S. East Coast/Asia trade, 39.9 percent of the U.S./North Europe trade, and 20.1 percent of the U.S./Mediterranean trade.

The *2M* Vessel Sharing Agreement is comprised of Maersk Line and Mediterranean Shipping Company, the top 2 largest container carriers in the world, and accounts for 15.2 percent of the U.S. West Coast/Asia trade, 23.5 percent of the U.S. East Coast/Asia trade, 31.4 percent of the U.S./North Europe trade, and 48 percent of the U.S./Mediterranean trade. *Ocean 3* is composed of CMA CGM, China Shipping Container Line, and United Arab Shipping and accounts for 12.1 percent of the U.S. West Coast/Asia trade, 13.6 percent of the U.S. East Coast/Asia trade, 5.8 percent of the U.S./North Europe trade, and 12.6 percent of the U.S./Mediterranean trade. *CKYH*E contains China Ocean Shipping Company, K-Line, Yang Ming, Hanjin, and Evergreen and accounts for 36.9 percent of the U.S. West Coast/Asia trade, 27.4 percent of the U.S. East Coast/Asia trade, 8.6 percent of the U.S./North Europe trade, and 4.2 percent of the U.S./Mediterranean trade.

documentation (*e.g.*, refused boarding due to failure to have appropriate type of personal identification).

5. Sustainability and Efficiency

Environmental sustainability concerns continue to play an important role in the agreements and shipping practices the Commission regulates. As ports and ocean common carriers modernize their business practices, equipment, and facilities to increase efficiency and grow in a sustainable manner, the Commission will work diligently to be a helpful partner.

Today, "slow steaming" continues as a widespread industry practice that is beginning to affect future engine designs and carriers' service network configurations. Sustainable practices are part of a business model in the maritime industry. As a result, the Commission has monitored changes to fuel surcharges made by the major rate discussion agreements in the Transpacific trades. The Commission's internal Maritime Environmental Committee continues to seek best practices and environmental initiatives in the industry to highlight innovation in this area that benefit the bottom line.

6. Enforcement: Stopping Fraud, Market Distortions, and Threats to Safety and Security

The Commission's Bureau of Enforcement, Area Representatives, and investigative staff continue to address shipping practices that are unfair, unlawful or deceptive. Targeted violations have included illegal or unfiled agreements among ocean common carriers; unfair or fraudulent practices affecting household goods shippers; and misdescription of cargo, which not only affects shipment costs, but can also pose a serious safety and security risk by preventing vessel operators and port officials from knowing what goods are being transported on vessels into the United States. In FY 2014, the Commission collected $2,400,000 in civil penalties for Shipping Act violations.

7. National Security

The Commission's oversight of ocean common carriers, ocean transportation intermediaries, and marine terminal operators is an important element in the effort to protect our Nation's seaports. Unique among federal agencies, the FMC regulates virtually all entities involved in liner shipping that receive, handle, and transport cargo and passengers in foreign commerce. The FMC's central mission affords it the opportunity to assist front-line security efforts by providing information regarding the backgrounds of parties using our Nation's supply chain, including those with direct access to our seaports.

The FMC continues to share Automated Commercial Environment-International Trade Data System (ACE-ITDS) data pursuant to the memorandum of understanding it signed with U.S. Customs and Border Protection (CBP) in 2013. The data sharing between the FMC and CBP strengthens the balance of facilitation of commerce with enforcement of the regulation of ocean carriers and other entities involved in ocean trade and ensure compliance with the SAFE Port Act.

The FMC is a also partner with the National Intellectual Property Rights Coordination Center, a Department of Homeland Security lead partnership comprised of 21 Federal and international agencies targeting crimes related to intellectual property and trade. Counterfeit goods can cause serious, life-threatening consequences to American consumers, and the Commission is proud to play a role in attempting to combat these issues with our partner agencies.

Cooperation with other agencies has expanded into joint field operations to investigate entities suspected of violating both agencies' statutes and regulations. Such cooperation often involves local police, U.S. Citizenship and Immigration Services officers, Immigration and Customs Enforcement officers, the Federal Bureau of Investigation and the U.S Coast Guard.

8. Modernization and Technology

On behalf of the Commission, I thank Congress for providing the Commission with funds allowing it to update its outdated computer systems. Increased funding for fiscal years 2014 and 2015 allowed the FMC to make significant progress in enhancing cybersecurity and information technology infrastructure. The Commission's dated systems were taking a toll on its ability to communicate and interact with regulated entities and the shipping public. With Congress' support, we have been able to take the first steps toward creating a modern, user-friendly, and (most importantly), efficient system that can make the agency more productive. As reflected in the Commission's FY2016 Budget Request, in fiscal years 2015 and 2016, the FMC will continue the multiyear enhancement of its IT systems. Much of this work involves a transition to the use of Enterprise Content Management or ECM technology. The new technology will greatly streamline the Commission's internal business processes, research and analysis capabilities, external user's filing processes, and public access to FMC information. In connection with increasing the public's accessibility to FMC information, the Commission will begin implementing a plan to upgrade its website and document repository in fiscal year 2015.

Planned FMC IT actions for FY 2015 and 2016 include efforts to:

- Continue transitioning infrastructure components to a cloud environment;
- Further develop and deploy ECM technology, which will enhance the ability of applicants to file electronically, which will result in faster processing times for license applications;
- Build and deploy a new Service Contract Filing System;
- Design and deploy an updated Automated Tariff Registration System (Form-1);
- Automate the filing of applications for certificates by passenger vessel operators;
- Continue to implement an updated CADRS case tracking system for responsive handling of consumer complaints;
- Migrate IT security standards from the Certification and Accreditation process to the FedRAMP process for all applicable systems;
- Streamline internal business processes with enhanced IT systems with respect to agreement filing and trade monitoring programs; and
- Establish the FMC Disaster Recovery (DR) infrastructure in order to meet recovery points, times, and objectives.

9. Human Capital Management

Like all agencies, we understand that employees are a critical asset. Over half of FMC's executives are eligible for optional retirement. Accordingly, our Human Capital Plan is vital in order to guide our actions in planning for succession. In addition to providing training opportunities to develop a new generation of leaders, the proposed 2016 funding level will allow the Commission to provide training opportunities to all employees in order to provide better service to regulated parties, and increase the efficiency of each employee's work.

Vacancies, which currently represent about 8% of the current staff, have compromised the Commission's ability to carry out many of its functions, including responding to shipping disputes, resolving complaints, and addressing industry concerns. Filling those positions will also allow the FMC to provide oversight of the economic impact of Marine Terminal Operators and ocean common carriers, including anti-competitive effects such as higher transportation costs and reductions in transportation service.

Funding

The President's Budget for the Commission provides $27,387,000 for FY 2016. This figure includes funds for salaries and benefits for 135 full-time equivalent employees as well as mandatory rent, interagency services, and critical commercial services. Our FY 2016 budget request contains $19.8 million for salaries and benefits to support the Commission's programs.

Official travel has been held at the 2015 enacted level of $200,000. The ability of our staff to travel is essential to accomplish our oversight, investigation, and enforcement duties more effectively. Travel also enables the Commission to engage with our foreign counterparts, which is an essential part of our effort to provide better service to the ocean transportation industry.

Administrative expenses are funded at $7.4 million in FY 2016 to support our usual and customary business expenses, such as rent, security, telephones, postage, commercial and government contracts, and supplies. This represents a net increase of just $84,000 over 2015. The requested funding level includes slight increases for office space, and commercial and government contracts, including the cost of facilities and data security, shared government services. These increases are offset partially by reduced funding for consulting services. The Commission is improving technology to enhance Commission services and facilitate public interaction while adding greater efficiencies to Commission business practices.

In summary, the Commission's budget represents minimal spending levels necessary to conduct the Commission's basic day-to-day operations and to meet the responsibilities Congress has entrusted to the agency. The continued growth in international trade, the size and complexity of agreements among the largest container carriers in the world, and in the number of Ocean Transportation Intermediaries, present correspondingly greater challenges on the manpower resources of the Commission. The President's Budget for 2016 would allow the Commission to create staff efficiencies in order to operate at the authorized 135 FTE level. The Commission will continue to use its limited resources wisely.

State of the U.S. Liner Trades

Since 1916, the Commission and its predecessor agencies have effectively administered Congress' directives for oversight of the liner shipping industry. The Commission was established as an independent agency over fifty years ago. Throughout those years, we have worked to develop a regulatory system that ensures competition, facilitates commerce, and ensures reliable service for U.S. exporters and importers, while minimizing government intervention and regulatory costs. To recognize the impacts of global commerce, I would like to give a brief overview of the state of major U.S. foreign oceanborne trades, and highlight significant developments.

The recovery in the U.S. liner trades continued in 2014 with U.S. container exports and imports worldwide reaching 31 million twenty-foot equivalent units (TEUs) in Fiscal Year 2014, as compared to 30.5 million TEUs in 2013. In Fiscal Year 2014, as compared to 2013, U.S. container exports worldwide rose slightly by 1 percent, and U.S. container imports grew by 4.7 percent.

The global containership fleet continued to expand in Fiscal Year 2014. The fleet's nominal capacity grew by approximately five percent. At the end of Fiscal Year 2014, 5,017 containerships, with a total fleet capacity of 18.1million TEUs, were available to serve the world's container trades. Globally, as of September 2014, there were orders for 488 new containerships with an aggregate capacity of 3.6 million TEUs, which is equivalent to 19.7 percent of the existing fleet capacity.

As Fiscal Year 2014 came to a close, 131 containerships lay idle, representing 1.1percent of the total fleet capacity measured in TEUs. In comparison, 235 ships representing 4.5 percent of the containership fleet capacity lay idle at the end of 2013. In terms of concentration, at the close of Fiscal Year 2014, the top ten container carriers controlled 64 percent of the world's containership capacity, the top five controlled nearly 47 percent; and the top three controlled 37 percent.

In the U.S. trades, several major alliance agreements were filed in 2014, which represent a substantial amount of service cooperation between carriers. Carrier members of the Grand Alliance and the New World Alliance agreements continued the *G6 Alliance Agreement* to collectively operate six liner services between the U.S. Atlantic Coast and Asia. In December 2014, *CKYHE Vessel Sharing Agreement*, comprised of five large carriers formed to operate liner services between the U.S. and Asia, Northern Europe, and the Mediterranean.

The Commission is also monitoring the growth of chassis agreements, which impact the movement of cargo from vessels to the trucks or rails, and ultimately impacts U.S. exports and imports. These chassis agreements supply chassis to marine terminals at nine ports and numerous inland terminals in the United States.

At the close of 2014 there were six such agreements on file with the Commission, several of which are specific to individual ports, states or pairs of states, and one of which operates six regional chassis pools

While experiencing growth overall, U.S. container ports saw very mixed results in 2014. Container volumes in the Port of Los Angeles in 2014 increased 6 percent compared with 2013 levels. At the neighboring Port of Long Beach year-over-year container volumes increased by 1.3 percent despite a 2.6 decline in December volumes. Import and export volumes for Seattle and Tacoma, combined, both declined in 2014. Combined exports fell by 1.6 percent from 2013 levels, while imports decreased by 4.1 percent. Serious concerns have been expressed by ports, the carrier industry, marine terminal operators, importers and exporters regarding the impacts of port congestion on the Nation's port gateways and on intermodal facilities at those gateways. The Commission will continue to assist efforts to find solutions to the current port congestion.

Transpacific Trades

In terms of container cargo volumes, Asia remains our primary trading region. In Fiscal Year 2014, Asia accounted for 62.3 percent of the total U.S. container cargo volume (export and import containers combined), amounting to 19.2 million TEUs. Northeast Asia accounted for 53.3 percent of the total U.S. container cargo, and Southeast Asia accounted for nine percent. In Fiscal Year 2014, compared to 2013, U.S. container exports to Asia increased by less than one percent, and imports from Asia also rose by 4.6 percent. Container imports exceeded exports by a ratio of two to one.

The *Transpacific Stabilization Agreement* (TSA) is the major discussion agreement in the trade. Under TSA, fifteen carrier members are authorized to discuss and agree voluntarily on ocean freight rates, charges and other terms.

Also notable is an agreement among the top 3 largest container vessel operators (Maersk, MSC and CMA-CGM) that was filed in 2014, but never implemented. The agreement formed the *P3 Network Vessel Sharing Agreement*. The P3 Network agreement provided for six services between the U.S. Pacific Coast and Asia, along with the four services between the U.S. Atlantic/Gulf Coasts and Asia via the Panama or Suez Canal. The P3 agreement would have also enabled the parties to share vessels and have cooperative working arrangements in the trades between the U.S. North Europe, and the Mediterranean.

The agreement was terminated on September 2, 2014, after taking effect March 24, 2014. Nonetheless, it provides an example of the carrier industry's continued desire to achieve further efficiencies of scale that help them. These vessel operator efficiencies are also exacerbating the congestion problems I have highlighted.

U.S. – North Europe Trades

In Fiscal Year 2014, container exports and imports between the U.S. and North Europe both grew by five percent, compared to the preceding fiscal year. By the end of the fiscal year, vessel capacity in the trade also increased by approximately five percent in each direction, and the average utilization of capacity was reported to have been 83 percent in the outbound direction, and 94 percent in the inbound direction. The volume of container cargo amounted to 3.4 million TEUs, and accounted for approximately 11 percent of the total U.S. container volume in Fiscal Year 2014.

In the transatlantic trade, the P3 operated three services between North Europe and the U.S. Atlantic and Gulf Coasts, in addition to a pendulum service between ports in Asia, the U.S. Pacific Coast, and North Europe, before the agreement ended on September 2, 2014. The G6 carriers expanded their service to North Europe and combined their operations to form three services between North Europe and the U.S. Atlantic and Gulf Coasts, and two pendulum services between ports in Asia, the U.S. and North Europe.

U.S. – Latin America Trades

Economic ties have strengthened between the U.S. and the region of Latin America, which includes nations in South and Central America. The U.S. has eight free trade agreements in the region representing an increase from five such agreements last year. These agreement involve Colombia, Chile, Peru, and several Central American countries. In Fiscal Year 2014, compared to 2013, U.S. container exports to South America declined by 5.7 percent. U.S. container exports to Central America fell by 2.3 percent. U.S. container imports from Central America declined by .16 percent and imports from South America fell by .46 percent. Overall, the volume of container cargo amounted to 3.1 million TEUs for 2014.

Trade between the U.S. and South America comprised about 58 percent of container cargo from the region, amounting to million TEUs. South America is divided into two distinct service sectors between the East and West Coasts. Ocean carriers serving the East Coast of South America do not participate in a dedicated discussion agreement for that service sector. In the West Coast service sector, eleven carriers participate in a discussion agreement with voluntary rate authority, the *West Coast of South America Discussion Agreement* (WCSADA).

U.S.-Mediterranean Trades

The liner trade between the U.S. and southern Europe was more robust than other trades. In Fiscal Year 2014, U.S. container exports and imports to and from the Mediterranean grew by ten percent. Overall, the volume of container cargo amounted to 1.4 million TEUs, or 4.5percent of the total U.S. container volume for Fiscal Year 2014.

U.S. – Oceania Trades

The Oceania trade includes the nations and territories of Australia, New Zealand, and the Pacific Islands. In Fiscal Year 2014, as compared to 2013, container cargo growth improved. U.S. container exports improved by 3 percent, and imports from the region grew by ten percent. The ratio of export to import containers in the trade was 1.6 to one. The leading export commodities were auto parts, general merchandise, grocery products, paper and tires. The top two container import commodities were meat and wine. The volume of container cargo in the Oceania trade was 474,000 TEUs, which equated to about 1.5 percent of the total U.S. container volume for Fiscal Year 2014.

Carriers providing direct service in the trade are linked through agreements. Two main rate discussion agreements cover the trade. Six carriers participate in the *United States/Australia Discussion Agreement* (USADA) in the outbound direction, and six carriers participate in the *Australia and New Zealand-United States Discussion Agreement* (ANZUSDA) in the inbound direction. Most of the carriers that serve the trade directly operate collective services through several vessel sharing agreements. Further, a number of major carriers serve the trade through transshipment arrangements. In addition, five carriers serving the Pacific Islands participate in the *Pacific Island Discussion Agreement.* Given the extent of cooperation in agreements among a limited number of carriers, the Commission closely monitors the carriers' activities in this trade.

The Commission's responsibilities under the Shipping Act and its regulations require monitoring agreements among the world's largest container vessel operators and highlights the vital role the Commission plays in today's international trade and globalized world. The importance of this role is reflected in the fact that the four large vessel operator agreements discussed above, the G6 Alliance, 2M, Ocean 3 and CKYHE agreements, account for 96.8 percent of the containerized trade in the Asia – U.S. West Coast trades. The Commission is taking all appropriate steps to obtain information from the parties to these agreements that will provide early warning of adverse effects that may harm the public.

CONCLUSION

Mr. Chairman and members of the Subcommittee, I hope that these comments give you a clear indication of the state of the industry serving the Nation's foreign oceanborne trade, and the important mission of the Federal Maritime Commission. I thank the Subcommittee for its support of the Commission through the years and respectfully request favorable funding consideration for Fiscal Year 2016 and beyond, so that the agency may continue to perform these vital statutory functions, and so that the public and shipping industry may continue to be served reliably, efficiently and effectively.