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**BEFORE THE
HOUSE ARMED SERVICES COMMITTEE
SUBCOMMITTEE ON SEAPOWER AND EXPEDITIONARY FORCES**

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Good afternoon Chairman Taylor, Ranking Member Akin, and Members of the Subcommittee. Thank you for the opportunity to discuss the Maritime Administration's (MARAD) priorities and initiatives. I am pleased to appear before you to provide a general update on our activities to sustain a U.S. Merchant Marine, including the Maritime Security Program, the Title XI shipbuilding loan guarantee program, and improvements we are making at the U.S. Merchant Marine Academy.

One of MARAD's primary missions is to develop and maintain a vital and viable U.S. merchant marine for domestic and international commerce and to support the Nation in times of natural or manmade disasters and threats to our national security. Specifically, MARAD supports the U.S. military's sealift needs by administering programs to ensure a readily-available pool of U.S. ships and skilled crewmembers. The Nation's sealift readiness is provided through both commercial- and Government-owned vessels that are crewed by civilian merchant mariners.

MARAD's programs help ensure the readiness of sealift capacity to respond to national and international crises and Department of Defense (DOD) mobilizations. The Maritime Security Program (MSP) sustains a small U.S.-flag fleet of 60 commercial vessels engaged in international commerce that has proven capabilities to meet national security and emergency response requirements. The MSP also ensures that we have a pool of highly-trained mariners ready and willing to support the activation of the Government surge fleet. A companion sealift readiness program, the Voluntary Intermodal Sealift Agreement (VISA), provides assured access to ships and related intermodal infrastructure and qualifies participants for priority award of DOD cargoes over non-participants. MARAD also owns, administers, and operates the Ready Reserve Force (RRF), a fleet of 49 vessels structured primarily to transport Army and Marine Corps unit equipment and to provide the initial re-supply for U.S. military forces. The U.S. Merchant Marine Academy and six State Maritime Academies educate and graduate merchant marine officers ready to serve the maritime industry at sea in a wide range of opportunities or in uniforms of the Armed Services. Finally, MARAD works with the maritime industry to support transport of Government impelled preference cargoes on U.S.-flag ships.

The capabilities supported by these programs were underscored recently with two major emergencies that gripped the Nation this year – the Haiti earthquake and the Deepwater Horizon oil spill in the Gulf of Mexico. The U.S. maritime industry has responded to

both in an unparalleled manner, underscoring the notion that maritime resources matter for disaster response.

MARAD initially activated a total of seven Government vessels in anticipation of providing support to the disaster relief efforts for Haiti, including five RRF vessels and two Title XI-financed high-speed ferries. Of these vessels, two of the RRF ships and one high-speed ferry were sent to Haiti to provide humanitarian assistance as part of the interagency effort. Overall, at least 25 U.S.-flag commercial and Government vessels were used to actively support Haiti relief operations by carrying United States Agency for International Development (USAID) food aid and DOD cargo/supplies obtained under the military universal services contract, and by providing ferry service for response workers. In all, nearly one thousand U.S. merchant mariners participated in the U.S. response effort (Operation Unified Response), crewing U.S. Government and commercial ships.

MARAD has also been active in the Deepwater Horizon oil spill response. Before I continue, I would like to take a moment to express my condolences to the families of the eleven Deepwater Horizon crewmembers who did not survive the explosion. We mourn their loss. In addition, two United States Merchant Marine Academy graduates, Darin Rupinski and James Mansfield, were aboard. Both are heroes.

From the beginning of the disaster response, MARAD offered the National Incident Command (NIC) and National Response Team access to our vessels and equipment, and have shared extensive information about industry resources for skimmers, tankers, and the like. Of the estimated 7,000 vessel flotilla involved in the spill response, the vast majority are U.S.-flag commercial vessels with U.S.-citizen crewmembers. Similarly, of the hundreds of vessels engaged in oil skimming, the vast majority are vessels documented in the United States. Furthermore, at the center of the response site, at least 18 U.S.-flag ships, assisted by foreign vessels, are combating the spill at the source.

MARAD today is in close contact with our Federal agency partners as a part of this massive response, completing prompt surveys of the U.S. maritime industry for specific resources needed for the oil spill response effort. At the local level, MARAD is involved with the Marine Transportation System Recovery Units. At the NIC level, MARAD assists in legal matters and helps to develop interagency solutions to spill-related requirements and problems.

UNITED STATES MERCHANT MARINE ACADEMY

Improving the profile and prestige of the U.S. Merchant Marine Academy (Academy) is one of Secretary of Transportation LaHood's top priorities. This past March, the Capital Improvements Advisory Panel that Secretary LaHood charged with providing insight into the needs of the Academy's facilities released an in-depth report. In response to this report and other information, President Obama's budget proposal requested \$100 million for the USMMA in fiscal year 2011, an increase of \$26 million above the 2010 level. This increase will support capital improvements, operational funding for necessary IT upgrades and academic program enhancements, and compensation for Midshipman Fee overcharges.

Of the President's 2011 request, \$15.9 million above the fiscal year 2010 budget is for capital improvements. These improvements include the priority renovation of the Delano Hall midshipman galley (where the Regiment receives all of its meals) and architecture and engineering studies for future renovation of Cleveland Hall and Rogers Hall (the two remaining Midshipmen barracks in need of major renovations). In addition, the Academy will install a new tug and barge simulator to improve educational opportunities for the Academy's midshipmen. There is also a need for critical IT infrastructure improvements required to meet Federal Information Security Management Act (FISMA) and Clinger-Cohen requirements and to enhance wireless campus capabilities. Further improvements and enhancements to the Academy's instruction program are also necessary, including four new instructor positions, upgraded classrooms and learning environment, and an initiative to improve diversity through recruitment.

MARAD is also developing the plan needed to repay students who attended the Academy during the past six years for possible Midshipman Fee overcharges. Through this plan, the Secretary will establish compensation levels that represent fair payments for the affected students and alumni.

The Government Accountability Office (GAO) released its own report with recommendations for action to correct the financial conditions at the Academy. Providing support and oversight to restore and strengthen USMMA programs and financial controls is a MARAD and U.S. Department of Transportation (DOT) management imperative. MARAD is making significant progress in implementing management and process improvements responding to the recommendations from the GAO audit report and from the Advisory Panel. Our plan is to successfully address all 47 GAO recommendations by the end of FY 2010. As of June 30, we have completed actions addressing 32 of the recommendations and are on target to implement the 15 remaining recommendations. We believe the improvements in fiscal management and physical plant at the Academy will help restore the USMMA to its place as a preeminent Federal Academy.

STATE MARITIME ACADEMIES

In addition to management of the Academy, MARAD provides financial support and training vessels to the State maritime academies. MARAD's partnership with the six State maritime academies consists of (1) annual direct payments to each of the academies, (2) the Student Incentive Payment (SIP) program, and (3) payment of maintenance and repair costs for the training ships (school ships) that are on loan from MARAD to the State academies. The State academies regard the SIP Program as an important recruiting tool available to encourage State Maritime Academy cadets to pursue careers in the U.S. merchant marine. Cadets enrolled in the SIP program receive \$8,000 annually, for a maximum of four years, to partially defray the cost of their education. In return, these cadets commit to the following post-graduation requirements: remain employed in the maritime industry for three years, maintain their U.S. Coast Guard license for six years, become an active member of a U.S. armed forces reserve unit for a minimum of six years, and report annually to MARAD.

MARAD also provides for the maintenance of the training ships in use by the USMMA at Kings Point, New York, and by each of the six State Maritime Academies (California Maritime Academy, Vallejo, California; Maine Maritime Academy, Castine, Maine; Massachusetts Maritime Academy, Buzzards Bay, MA; New York Maritime College, Fort Schuyler, Bronx, NY; Texas Maritime Academy of Texas A&M University at Galveston, TX; and the Great Lakes Maritime Academy of Northwestern Michigan College, Traverse City, MI).

The level of funding necessary to maintain the schoolship fleet in good repair and in compliance with statutory requirements for nautical schoolships can be expected to increase. Costs will escalate on the schoolships as they age, as regulatory bodies impose closer inspection requirements, and as new environmental protection processes are mandated. This will result in components and systems requiring greater maintenance, replacement, and upgrade. Recapitalization requirements of the training ships will be impacted by safety and environmental systems mandated by the Environmental Protection Agency (EPA), the International Maritime Organization (IMO), the treaty on Safety of Life at Sea (SOLAS), and the International Convention for the Prevention of Pollution from Ships (MARPOL) rules and regulations. Meeting these requirements will permit the training ships to comply with current IMO, MARPOL, EPA, State and local requirements regarding effluent discharges and air emissions. Ever-increasing portions of the world's oceans are now "zero-liquid discharge" and "zero-waste discharge" zones. Furthermore, MARPOL Annex VI limits sulphur and nitrogen oxide emissions from ship exhaust systems and prohibits the emissions of ozone depleting substances. Existing diesel engine propulsion and power generation plants will require re-engining with new diesel engines that meet these new standards. In addition, steam propulsion plants and boilers will require modifications to the fuel oil and storage tank to permit the utilization of low sulfur diesel fuel in order to reduce stack emissions. As part of these recapitalizations, "Green Initiatives" will demonstrate MARAD's dedication to environmental stewardship.

The EMPIRE STATE will exceed 50 years of age in 2012. In the near term, it will not be cost effective to accomplish necessary repairs and overhauls to retain the vessel to safe and reliable service. To meet the requirements of SUNY Maritime College, a replacement vessel, converted to meet Federal Regulations concerning Public Nautical School Ship requirements, must be identified and converted. Several potential vessels within the existing Navy and MARAD National Defense Reserve Fleet (NDRF) inventories are currently being evaluated for a replacement vessel with a 750-person capacity to support the school's requirements.

MARITIME GUARANTEED LOAN PROGRAM (TITLE XI)

Title XI offers loan guarantees for shipyard modernization projects and for building vessels in U.S. shipyards. This funding supports infrastructure investment and economic growth. The program provides approved applicants with long-term financing at stable interest rates, sustains efficient facilities for shipbuilding and ship repair within the U.S., improves system capacity, and sustains U.S. jobs.

The Title XI Loan Guarantee Program sustains jobs because it has the effect of leveraging a relatively small commitment of Federal budget authority (\$17.5 million in FY 2009) to generate a much larger amount of direct spending from loans (\$310 million in FY 2009). When added to additional private spending (\$44 million in FY 2009) associated with the loan guarantee projects, the FY 2009 Title XI program helped to support a total of \$354 million in business for U.S. shipyards – including 2,400 job-years associated with the shipbuilding industry and its suppliers and almost 1,400 job-years occurring within the broader economy.¹

As of June 30, 2010, MARAD's current Title XI portfolio was approximately \$2.1 billion. This portfolio consists of 60 loan guarantee contracts for more than 300 vessels and two shipyard modernizations. All of the outstanding loan guarantees have been approved since 1993, subsequent to the Federal Credit Reform Act of 1990, with 41 of the guarantees issued since FY 2000. During the last five years (since FY 2005), MARAD has approved only four transactions – Hawaii Superferry in FY 2005, Vessel Management Services and Canal Barge in FY 2009, and Foss Maritime Company in FY 2010.

MARAD is currently processing six applications for loan guarantees in excess of \$1.6 billion in total loan amounts. The six pending applications involve 11 shipyards in 9 States and are for a variety of vessels and projects including articulated tug barges, shuttle tankers, drill rigs, and platform supply vessels. MARAD currently has \$76.6

¹ Guidance provided by the White House Council of Economic Advisers in its May 2009 ("Estimates of Job Creation from the American Recovery and Reinvestment Act of 2009") indicates that each \$92,000 of spending would create or sustain one job in our economy. Thus, the total \$351 million in spending leveraged by the modest commitment of \$17.5 million in Title XI budget authority will create or sustain more than 3,800 job-years of employment in our economy. This is job creation associated with ship construction in the United States, without regard to flag registry; it does not factor in the eventual crewing of the ships, nor does it account for any job losses that may be associated with directing \$17.5 million in U.S. Government funds to this particular sector.

million in budget authority to cover the subsidy costs of the above loan requests. This amount would support approximately \$1.1 billion in new loan guarantees. Should the number of qualifying loan applications exceed this amount, MARAD regulations would require it to give priority to vessels that are capable of serving as a naval auxiliary in time of war or national emergency. Priority is also given to projects that would finance vessels or equipment less than one year old. Finally, MARAD cannot lawfully approve an export project if it would deny the funds for a domestic project.

Since 1993, the Title XI program has experienced a total of 13 defaults, including two defaults in FY 2009 (AQ Boat LLC and Riverbarge Excursions Lines) and two in FY 2010 (Hawaii Superferry, Inc. and AHL Shipping Company). Over the last decade, DOT and MARAD have implemented various actions to reduce the risk of loan default to the Government. Among these actions, a Department Credit Council was established in 2004 to provide oversight and policy guidance for all DOT credit programs, including the Maritime Loan Guarantee Program, and to make recommendations as to the financial viability of proposed projects or changes to existing projects. The Council is chaired by the Deputy Secretary of Transportation. MARAD also receives a first preferred mortgage on the vessels or shipyards as the primary collateral for the Title XI financing, and now requires that additional collateral be provided in the event that the company is not meeting their required financial tests.

Due to the strict financial requirements that applicants must meet, MARAD has found that it is difficult to guarantee the loans of vessels and projects associated with small or new companies that do not have the financial strength of larger companies. The ability to support these smaller companies could promote innovative services and ensure fairer access to Federal assistance. MARAD is exploring avenues to provide federal credit assistance for smaller vessel construction projects.

MARITIME SECURITY PROGRAM

The Maritime Security Program (MSP) is the Agency's largest appropriated program. The primary purpose of the MSP is to provide the Department of Defense (DOD) with assured access to commercial U.S.-flag ships and related intermodal systems, as well as a pool of trained U.S. mariners available to support national security requirements during war or national emergency. MSP vessel participants also deliver cargoes supporting overseas deployments of U.S. forces, and to date 72 MSP ships have contributed to Operations ENDURING FREEDOM/IRAQI FREEDOM.

The DOD Surface Deployment and Distribution Command reports that since September 11, 2001, U.S.-flag commercial ships have delivered more than 500,000 twenty foot equivalent units (TEUs) of containerized equipment and supplies to support U.S. troops in Iraq and Afghanistan. MSP ships have also supported the rebuilding of Iraq. For fiscal year 2011, MSP will fund 60 ships in the MSP fleet at the authorized level of \$2.9 million per ship. MARAD's MSP program enables the industry to maintain a U.S.-flag international trade merchant fleet crewed by U.S. citizens to serve the Nation's national security needs.

Since 1996, the MSP fleet has adapted to meet changing DOD sealift requirements while expanding from 47 to 60 ships. The commercial industry has answered the call to provide DOD with access to more roll-on/roll-off (RO/RO) vessels, tankers, and heavy lift ships. The RO/RO fleet has grown from 3 to 18 RO/ROs, adding more than 2.7 million square feet of cargo capacity. The number of MSP containerships has grown from 36 to 38 with an additional 13,000 TEUs of capacity.

MSP vessels are held to strict age requirements and MARAD has leveraged that program feature to increase military usefulness of the fleet. Since reauthorization of the MSP in FY 2006, the industry has replaced older MSP vessels with 28 newer and more efficient ships, resulting in an increase of more than 756,000 square feet and 400 TEUs. In addition, a number of commercial operators have added non-MSP vessels to the U.S. registry using procedures established by MARAD and the U.S. Coast Guard, under which ships determined to be MSP-eligible are given expedited consideration for reflagging to U.S. registry. A benefit to the Government from this reflagging procedure is a commitment to enroll those vessels in the VISA program with a pledge to apply for any future MSP vacancies. This benefit has resulted in 12 vessels entering the fleet. Those vessels employ more than 500 U.S. citizen mariners.

READY RESERVE FORCE

The Ready Reserve Force (RRF) was initiated in 1976 as a subset of the NDRF to support the rapid worldwide deployment of U.S. military forces. The RRF is a key element of strategic sealift and MARAD's strategic mobility responsibility in DOT. The RRF is specifically structured to transport Army and Marine Corps unit equipment and to provide the initial re-supply for U.S. military forces deploying anywhere in the world during the critical period before adequate numbers of commercially available ships can be marshaled to deliver equipment to the zone of action. The RRF is owned, administered, and operated by MARAD under the terms of a Memorandum of Agreement between DOT/MARAD and DOD's U.S. Transportation Command (USTRANSCOM). It is funded by the National Defense Sealift Fund, which is administered by the Navy.

The RRF is maintained, crewed, and operated by nine commercial firms which compete for multi-year ship manager contracts. Most of the 49 vessels assigned to the RRF are maintained in Reduced Operating Status (ROS), which requires activation within five days at their outport layberth sites. Two lower priority ships are maintained without crews in a ten-day readiness status.

As a result of the lessons learned during Operation DESERT SHIELD and Operation DESERT STORM, substantial investments in the RRF were made to improve readiness and reliability and to increase capacity. The RRF began its highest operational tempo in its 30-year history supporting Operations ENDURING FREEDOM and IRAQI FREEDOM (OEF/OIF) beginning in October 2002. Since then, the RRF has accumulated almost 14,000 ship operating days at 99 percent reliability. The initial wave of OEF/OIF activations and deployments involved 40 RRF ships. Over the years there were numerous repeat activations bringing the total RRF ship activations to 118. The

initial activation included all 27 current RRF RO/RO ships and the activations in subsequent years mostly involved RO/ROs.

The investments made in RRF readiness and capacity have proven to be highly valuable, while maintaining the most cost effective source of Government-owned sealift. MARAD and USTRANSCOM have discussed the need to acquire newer ships for the RRF program, so it can continue to meet strategic mobility needs in the future. USTRANSCOM finished the Mobility Capabilities Requirements Study this year, and the study results identify a continued requirement for the RRF and in particular for RO/RO ships, thereby suggesting a need for cost effective recapitalization of the RRF.

One recapitalization option being explored involves designing a dual-use vessel for strategic mobility and commercial use. These concepts come together well in MARAD's America's Marine Highway initiative where DOD enhancements to small vessels can be used for military contingencies. In the future, this concept could help to provide a limited portion of RRF recapitalization capability.

MARAD also maintains two ships in RRF-like condition for the Missile Defense Agency (MDA). The PACIFIC COLLECTOR and the PACIFIC TRACKER were converted from NDRF ships awaiting disposal into cost effective platforms for the MDA.

MARITIME INDUSTRY AND THE ECONOMY

Maritime transportation contributes more than \$10 billion per year to the national economy, and the industry comprises more than 265,000 jobs. This includes economic activity related to both U.S.- and foreign-flag ships. MARAD's work with commercial shipping, shipbuilding, port operations, and vessel operations supports the maritime industry. MARAD's Title XI and Small Shipyard Grant (Assistance to Small Shipyards) programs provide loan guarantees and grants, respectively, supporting the industry, which can be an engine for efficiency and capacity improvements and economic growth. America's Marine Highways help to move freight more efficiently and contribute to reducing transportation's environmental footprint.

Assistance to Small Shipyards

A strong shipbuilding industry is the backbone of sea power. To support capital improvements to qualified shipyards, Congress created an important new program, the Small Shipyard Grant Program, in the National Defense Authorization Act of 2006. Congress first funded the program with \$10 million through the Consolidated Appropriations Act of 2008, followed by \$117.5 million in funding through the Omnibus Appropriations Act of 2009 (\$17.5 million) and American Recovery and Reinvestment Act of 2009 (ARRA) (\$100 million), and \$15 million in funding in the Consolidated Appropriations Act of 2010. This program is intended to improve the ability of domestic shipyards to compete for domestic and international commercial ship construction. In FY 2010, MARAD received about 160 applications and awarded 17 grants covering the coastlines of the United States. Overall, for the three years of the program, MARAD has awarded a total of 120 grants to 105 different shipyards. These shipyards are located in

28 different States plus one U.S. territory. Grants have been used to fund floating drydock construction and modernization, acquisition of large Travelifts (up to 1,000 tons), material handling equipment such as cranes and forklifts, steel working machinery, shipyard infrastructure improvements, and training of shipyard employees.

America's Marine Highway

Another of MARAD's goals is to help make our national transportation system more environmentally sustainable and economically competitive. For too long, America has overlooked the economic and environmental benefits of moving domestic goods on the water – but, we are changing all that with our America's Marine Highway Program initiative. As reported in May by Secretary LaHood, we are currently in the process of identifying marine highway corridors and project designations. Congress has provided strong support for this initiative in the Energy Independence and Security Act of 2007, the National Defense Authorization Act for Fiscal Year 2010, and the Consolidated Appropriations Act of 2010.

MARAD has completed several major steps in implementing the America's Marine Highway Program in FY 2010. On April 9, MARAD published the Final Rule for the program, superseding the previous Interim Final Rule published in October 2008. On April 15, 2010, MARAD issued a formal call for Marine Highway Project applications by public agencies. MARAD will issue a Notice of Funding Availability for eligible Marine Highway Project's in a separate *Federal Register* notice to be published in July 2010. This latter notice will implement a new initiative, "America's Marine Highway Grants" as authorized under the National Defense Authorization Act for Fiscal Year 2010. The initial \$7 million funding for the grants is provided in the Consolidated Appropriations Act of 2010.

On February 17, 2010, the anniversary of the ARRA, DOT announced \$1.5 billion in Transportation Investment Generating Economic Recovery (TIGER) Discretionary grants for fiscal year 2010. Of this amount, \$120.4 million has been designated for seven seaport and maritime-related projects, most of which will be supplemented by State and local funds. MARAD will administer these seaport-related grants under the oversight of the Office of the Secretary. These grants will support new marine highway services, add capacity to ports, and improve shoreside linkages to inland markets.

ENVIRONMENT

MARAD environmental programs are aimed at reducing pollution and the adverse environmental effects of maritime transportation and facilities on communities and livability; focusing on obsolete vessel disposal, reducing marine air emissions, and treating ballast water.

Environmental Programs

The impact of marine transportation on the human and natural environment has become more evident in port and coastal communities, which chiefly incur the environmental quality impacts from marine transportation activities. At the same time, marine transportation is expected to grow considerably due to increased use of our nation's waterways for freight and passenger movement. Marine-related environmental impacts will therefore become more significant unless actions are taken in a timely manner to mitigate their adverse impacts, potentially affecting the Nation's economic growth and the quality of life of our seaport and seaside communities.

The three most pressing environmental issues facing the maritime industry are invasive species in ballast water, energy use, and air emissions. MARAD has been called upon by industry and Government agencies to provide technical advice and expertise, data, and assistance for the development of policy, regulation, research, and studies in these areas. MARAD, working closely with other DOT operating administrations and the Environmental Protection Agency, will continue to support industry efforts toward improving the environmental sustainability of the maritime industry. The MARAD environmental program promotes critical multi-modal transportation research to reduce environmental pollution, advance a ballast water discharge standard, infrastructure and methodologies for certifying and verifying ballast water technology, improve vessels emissions data, and reduce MARAD's carbon footprint.

Ship Disposal

MARAD continues to work on disposal of obsolete ships in the National Defense Reserve Fleet. The President, Secretary LaHood, and I are committed to the proper disposal of these ships. In fiscal year 2009, for the first time in three years, ships began to leave the Suisun Bay Reserve Fleet in California and even more have left this year. The latest non-retention ship to leave Suisun Bay for recycling is the TALUGA, which left on July 1, 2010 – this is the 10th ship to have departed the fleet this year. MARAD plans to continue this work over the next year towards the goal of removing an additional 15 ships from the inventory, utilizing domestic dismantling contracts, artificial reefing, deep sinking, vessel sales, and donation opportunities.

Mr. Chairman, I wish to express my appreciation for the opportunity to present and discuss MARAD's programs and for the Committee's continuing support for MARAD and the U.S.-flag maritime industry. We will continue to keep this Committee apprised of the progress of our programs in these areas in the coming year, including our efforts to improve processes and internal controls at the USMMA.

I will be happy to respond to any questions you and the members of this Committee may have. Thank you.