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FISCAL YEAR 2011 NATIONAL DEFENSE AUTHORIZATION BUDGET REQUEST FOR OVERSIGHT OF THE ACTIVITIES OF THE MARITIME ADMINISTRATION

HEARING

BEFORE THE

SUBCOMMITTEE ON SEAPOWER AND EXPEDITIONARY FORCES

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

HEARING HELD
JULY 14, 2010

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[There were no Documents submitted.]

WITNESS RESPONSES TO QUESTIONS ASKED DURING THE HEARING:

[There were no Questions submitted during the hearing.]

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[There were no Questions submitted post hearing.]

FISCAL YEAR 2011 NATIONAL DEFENSE AUTHORIZATION BUDGET REQUEST FOR OVERSIGHT OF THE ACTIVITIES OF THE MARITIME ADMINISTRATION

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE ON SEAPOWER AND EXPEDITIONARY FORCES,
Washington, DC, Wednesday, July 14, 2010.

The subcommittee met, pursuant to call, at 1:53 p.m., in room 2212, Rayburn House Office Building, Hon. Gene Taylor (chairman of the subcommittee) presiding.

OPENING STATEMENT OF HON. GENE TAYLOR, A REPRESENTATIVE FROM MISSISSIPPI, CHAIRMAN, SUBCOMMITTEE ON SEAPOWER AND EXPEDITIONARY FORCES

Mr. TAYLOR. The committee will come to order. Today, the subcommittee meets in open session to receive testimony from the Administrator of the Maritime Administration of the Department of Transportation.

The Maritime Administration, or MARAD, has a variety of functions, but their principal charge is to ensure that the United States maintains a robust commercial fleet, along with well-trained mariners capable of domestic and international commerce that could be called upon in times of national emergency to provide transportation of equipment and cargo and other maritime services as needed.

In addition to ensuring an operational U.S. fleet of privately owned commercial vessels, the Maritime Administration must also ensure effective domestic shipbuilding and ship repair facilities are available to build and maintain that fleet.

Unfortunately, the nation has lost the entire world market share in major commercial shipbuilding. We no longer construct any large vessels for the international trade. The few medium-sized product tankers or container ships that have been built in this country in the last few years have been used exclusively in a protective coastwide trade known as the Jones Act, or built with the expectation of a long-term charter to the Military Sealift Command, or the United States Navy.

This total elimination of large commercial vessel construction has the additional negative effect of increasing the cost of our Navy ships. The shipyard overhead charges, instead of being spread among commercial and government construction, are all included in the Navy construction contracts because there is no commercial work in our major shipyards.

The facts of this loss of ability to build large commercial vessels is not well known. I think many people would be shocked to learn

that this nation, which relies on sea transport for our imports and exports, does not have a domestically produced fleet.

We have a fleet of commercial vessels, some 80, all told, which participate in a Maritime Security Program, or MSP. The MSP [Maritime Security Program] pays a ship owner a subsidy, which this year is $2.9 million per vessel, to register the vessel in the United States and operate the vessel with an American crew. They engage in international commerce, but they agree to carry cargo for the United States government, typically the Department of Defense, when requested.

Make no mistake, these MSP vessels are all foreign-built ships, and there is no current plan that I am aware of for any ship owner to source these vessels from domestic yards.

This nation has a mechanism in place which is not being used for helping ship owners with financing of ship construction. The formal name of the program is the Guaranteed Maritime Loan Program that is commonly referred to as the Title XI Loan Guarantee Program. From its historical roots in the Merchant Marine Act of 1936, this program supports ship mortgages with the full faith and credit of the United States government. MARAD is the executive department tasked with overseeing this program. Unfortunately, for whatever reason, the previous administration decided to ignore this program and failed to request any funding to support new ship guarantees. Likewise, the current administration has also failed to request any funding to support this program.

Without strong support from the President and the Department of Transportation, this program, which could create hundreds, if not thousands, of new jobs throughout the shipbuilding industrial base, will perish, and with it any hope this nation has to regain any viable market share in large commercial vessel ship construction.

More than just the oversight of the program, I believe it is MARAD's responsibility to actively encourage current and potential ship owners to invest in the domestic maritime industry. I believe MARAD should be working with other departments within the Department of Transportation to coordinate efforts to maximize the use of domestic shipping, particularly shore-sea shipping.

Seaborne transportation is the most efficient and most environmentally friendly method of moving cargo that exists. Imagine the number of long-haul 18-wheelers that could be taken off our highways if we only had a robust coast-wide container vessel transport system.

I look forward to a discussion with the administrator on these issues. We have also asked the administrator to update the subcommittee on the findings and recommendations of the Blue Ribbon Panel which was convened by Secretary LaHood to make recommendations for capital investment and improvement at the United States Merchant Marine Academy.

The Blue Ribbon Panel Report, "Red Sky in the Morning," recommends significant investment and process and policy changes to restore the infrastructure of the academy and, just as important, maintain the buildings and grounds once they are restored. I look forward to Administrator Matsuda's comments on all aspects of the academy.

The Administrator has recently been confirmed by the Senate but has been serving as acting administrator and deputy administrator for some time. He has extensive experience in maritime issues, both on and off Capitol Hill. We are indeed fortunate to be able to find time for this hearing, because I believe that these very important issues facing our nation, and we should work together, both the congress and the administration, to solve them.

Before I will call on Administrator Matsuda for his opening statement, I turn to my colleague from Missouri, the ranking member of this subcommittee, for any comments he would like to make.

Mr. Akin.

[The prepared statement of Mr. Taylor can be found in the Appendix on page 27.]

STATEMENT OF HON. W. TODD AKIN, A REPRESENTATIVE FROM MISSOURI, RANKING MEMBER, SUBCOMMITTEE ON SEAPOWER AND EXPEDITIONARY FORCES

Mr. AKIN. Thank you, Chairman Taylor, and good afternoon to our witness. That is a good way to start a week after the Fourth of July break, "witness" as opposed to "witnesses."

And today, we turn our attention to a little-noticed but vitally important part of the subcommittee's jurisdiction and oversight responsibility, the U.S. Maritime Administration. Even though the many issues and unmet requirements facing the U.S. Navy and Marine Corps consume the bulk of the subcommittee's time, I am glad that the chairman called for this hearing.

U.S. and global economy are both utterly dependent on a robust commercial shipping network, and the U.S. economy is further buttressed by shrinking but resilient U.S. Marine Maritime Fleet. With global maritime competition growing ever fiercer and U.S. overseas commitments showing no sign of abating, the United States must maintain a strong merchant marine fleet as a key strategic enabler and economic engine. Unfortunately, most aspects of our merchant marine policy are reliant on some form of federal subsidies, which we seem to be providing on the cheap in some cases.

I am a big supporter of less federal spending and fewer federal subsidies, but believe that we must invest, as necessary, to maintain a strong U.S. flagged merchant marine fleet. Today's program, including the Title XI Loan Guarantees for building new vessels, the Maritime Security Program and Voluntary Intermodal Sealift Agreement, or VISA; which provides subsidies to U.S. flag carriers who guarantee shipping availability for national security needs, various cargo preference laws, including 100 percent of defense cargo on U.S. flag vessels; and finally, training of ships' officers in a federal merchant marine academy and the six state maritime academies.

While the hand of the federal government touches all of these programs, the cost has been relatively modest. Too modest, in fact, in the case of the Merchant Marine Academy. And so, echoing the same chairman's comments about the findings, particularly at the Kings Point facility, the U.S. Merchant Marine Academy, I likewise am interested in hearing about how we should proceed, and I believe that we must.

Thank you, Mr. Chairman. I yield back.

[The prepared statement of Mr. Akin can be found in the Appendix on page 31.]

Mr. TAYLOR. Chair thanks the gentleman.

The chair now recognizes, with my apologies, Administrator Matsuda, for butchering your name.

STATEMENT OF HON. DAVID MATSUDA, MARITIME ADMINISTRATOR, MARITIME ADMINISTRATION, U.S. DEPARTMENT OF TRANSPORTATION

Mr. MATSUDA. Thank you, Mr. Chairman.

Good afternoon, Chairman Taylor, Ranking Member Akin, members of the subcommittee. I am honored to appear before you to provide a general update on the Maritime Administration's activities to sustain the U.S. Merchant Marine. With your permission, I would like to submit my complete written testimony for the record and summarize it for you here.

Mr. TAYLOR. Without objection, so ordered.

Mr. MATSUDA. I would also like to introduce those joining me here today, Deputy Administrator Orlando Gotay, Congressional Affairs Director Julie Hrdlicka, and two interns from the Maritime Administration, Mr. James Walsh and Midshipman First Class Aaron Cummings, who is fresh off duty on an APL international voyage.

Mr. TAYLOR. Welcome to all of you.

Mr. MATSUDA. At the subcommittee's request, today my testimony will focus on national security sealift programs, shipbuilding programs, and operation of the U.S. Merchant Marine Academy in Kings Point, New York. Our agency's primary mission is to develop and maintain a viable and vital U.S. Merchant Marine. This service includes both commercial and government-owned vessels that are crewed by civilian merchant mariners.

On the commercial side, our Maritime Security Program sustains a small, modern U.S. flag fleet of 60 commercial ships that trade internationally all with trained crews. Over the years, the Maritime Administration has worked with the commercial industry to provide the Department of Defense with access to more types of ships they need in this program.

Together with the agency's cargo preference program, which ensures federally financed cargo is transported on U.S. vessels, this program helps ensure that commercial U.S. flag ships can compete on a more level playing field in international trade and will be available to our military when called upon.

The Maritime Administration also owns, administers and operates the Ready Reserve Force, an aging fleet of 49 government ships. We are working with our partners at the U.S. Transportation Command, or TRANSCOM, to develop a recapitalization plan so this fleet can continue to meet strategic mobility needs in the future.

One option for refreshing part of the fleet involves designing a new marine highway vessel to operate in commercial service along America's coasts and waterways, yet be built to be useful to the military. Secretary LaHood, as well as some of our military colleagues, have advocated for developing America's marine highway

as a potential for introducing these new military-capable commercial ships.

Mr. Chairman, as you know, a strong shipbuilding industry is the backbone of seapower. Our Title XI Loan Guarantee Program helps modernize shipyards and provides key financial assistance to those looking to build ships in the U.S. Title XI has proven even more critical since the credit markets dried up in the current—or largely dried up—in the current recession.

So financing many shipbuilding projects has supported approximately 2,400 direct shipyard jobs and 1,400 indirect jobs through Title XI. The Maritime Administration currently has $76.6 million in budget authority to cover the subsidy costs for new Title XI loans.

This amount would support approximately $1.1 billion in new loan guarantees. And we are processing applications, five applications for new loan guarantees in excess of $1.5 billion. Our agency is also exploring avenues to provide federal credit assistance for smaller vessel construction projects, as well.

Finally, let me turn to the operation of the U.S. Merchant Marine Academy in Kings Point, New York. Improving the profile and prestige of the academy is one of Secretary LaHood's top priorities.

To respond to a recent advisory panel's recommendations to improve the academy's capital program, President Obama has requested $100 million for the academy in fiscal year 2011. This would double the school's capital budget. I note the committee has acted to authorize this level of funding, which we believe will be very helpful in making overdue improvements to facilities and providing new educational opportunities for midshipmen.

Our agency is also working to address government accountability office recommendations concerning financial conditions at the school. These improvements in fiscal management and physical plant at the academy will help restore it to its place as a preeminent federal academy. Together with the six state maritime academies, which we provide funding and support for, these schools graduate 700 trained maritime officers each year.

Mr. Chairman, as a whole, all of these programs support a U.S. merchant marine that has responded to two recent major disasters in an unparalleled manner. Nearly 1,000 U.S. merchant mariners participated in the U.S. response effort to the earthquakes in Haiti earlier this year. These skilled crews served on several maritime administration ships and at least 25 commercial vessels.

And the vast majority of the estimated 7,000 vessel flotilla involved in the Deepwater Horizon oil spill response are U.S. flag commercial vessels with U.S. citizen crews. America's men and women of the merchant marine continue to deliver, and we are proud of their work.

I appreciate the opportunity to be here and will be happy to respond to any questions you and the members of the subcommittee may have. Thank you.

[The prepared statement of Mr. Matsuda can be found in the Appendix on page 31.]

Mr. TAYLOR. Thank you, Mr. Administrator. By previous agreement, we agreed to recognize Ms. Pingree first so that she could get on to her other duties.

Ms. Pingree for five minutes.

Ms. PINGREE. Thank you very much, Mr. Chair. I greatly appreciate that.

And thank you for your testimony. Appreciate having you here before us today. And thank you for the work that you are doing. I think particularly when you just mentioned, the work that had been done in Haiti and around the oil spill, I think it reminds people again and again of the importance of the maritime industry and the well-trained mariners that we have in this country, and the role and the impact that they have.

As you probably know, I am fortunate to represent the state of Maine, so our identity is all about the sea, about people who go to the sea, about building ships, boats, going fishing. This is, of course, a very critical issue to us.

Then I want to say one thing about the Title XI. I appreciate that the chair brought that up earlier and the importance of fully funding all the possible options here and making sure that the administration is fully committed to investing in building United States-based ships and ships in this country. We are losing our industrial capacity all too fast, and that is just extremely important.

I have heard a little bit from people in the shipbuilding industry about some concerns about shifting the focus into small yards. I am fortunate enough to represent one of the bigger yards in this country, Bath Iron Works, as well as many small yards. But we want to make sure that the focus continues to fund the bigger ships in this country.

But I have a second issue I want to take up with you and just put it on your plate. And I appreciate, again, the increased funding request for the Kings Point Academy, and I know the concerns that have been raised there. But I also come from one of the states that has a state maritime academy, Maine Maritime Academy in Castine, Maine.

I live on Penobscot Bay. Castine actually happens to be on the other side of the bay from me, which is in the second congressional district, but I know Congressman Michaud and our senators would join me in their concern about the level of funding that is received by state maritime academies.

We are proud of our tradition of training young people and people of all ages to go off to sea. I happen to live on an island, so I ride a ferry when I get home, and often talk with crewmen who have gone to school at the Maritime Academy. It is a great choice for young people in our state who have the opportunity to go to sea because of that training, but it is often an unfair burden on our state legislature and our state budget to fund all of the activities there.

It is my understanding that 70 percent of the new merchant marine officers each year come from state academies, and yet about $15 million in funding goes to state academies as opposed to the money we spend on federal training of our maritime personnel.

So I just want to talk a little bit, or at least put that on your plate, of the disproportionate share, of the importance of increasing the funding to our state maritime academies, of the role that they play, and we hope the increasing role. If we can increase shipbuilding, we would love to have more of a maritime highway and

see more transport going in that direction instead of on our roads and bridges, which are already overtaxed.

So let me just throw those things out there and let you chat.

Mr. MATSUDA. Thank you.

First I want to thank you for your interest in the Maine Maritime Academy. Had I known, we had our—they were kind enough to host a conference called The Women On The Water Conference that the Maritime Administration co-sponsors last fall. And, you know, had I known, I would have gladly sent you an invitation to participate. It is a great opportunity to bring together a number of young women in the industry and others who are experienced and have really put their careers into it.

Ms. PINGREE. Well, thank you for that, and we are glad that you came to Maine. Appreciate that.

Mr. MATSUDA. Well, I understand the concern about the funding for the Maine Maritime versus our—we hear that a bit from some of the folks outside of Kings Point. Frankly, I hope it does not seem like we are playing favorites, but Maritime Administration has more of a direct role and responsibility in overseeing and operating the U.S. Merchant Marine Academy.

By law, our relationship with the other schools is simply limited to supporting their activities for student incentive payments in which we can provide stipends or scholarships to their students who apply, and in exchange, we retain them as merchant marine reserve officers for a number of years after they graduate. Every one of the midshipmen at Kings Point that graduates remains in the Naval Reserve for six years following their graduation.

The other thing that we can do with the state academies is we provide them with a training ship and a budget for fuel and maintenance costs. And we continue to do the best we can to work with each one of the schools and make sure that these students have an opportunity to get out on the water and get actual experience before they graduate and come into the maritime industry.

But we are happy to—we are more than willing to look at other opportunities to help out, given, you know, whatever resources we are able to use.

Ms. PINGREE. Great. Well, I will definitely talk to you further about that, but thank you. Thank you for that.

Mr. TAYLOR. Thank you, ma'am.

We were going to recognize Mr. Akin. He has been called out of the room. So we will get back to the regular order.

Mr. Ortiz.

Mr. ORTIZ. Thank you, Mr. Chairman.

Thank you so much for joining us today and for giving us an insight into MARAD operations.

What I really want to know is, what is the annual upkeep of—cost of the obsolete ships that MARAD has under its control? And how does MARAD plan to remove the rest of the obsolete ships in its current register? And specifically, what is the release plan for the rest of the ships moored in Suisun Bay? So maybe you can give us a little insight as to what you are doing to address that problem, sir.

Mr. MATSUDA. I am happy to. MARAD, I am proud to tell you, has, once again, a very robust ship disposal program. For a number

of years, there has been a hiatus due to a pending lawsuit over the removal of ships from the Suisun Bay Reserve Fleet. And this is our site, our only site on the West Coast that, as of last year, had about 57 obsolete vessels that were slated for disposal.

As of today, there are only 47 left. We have made very good progress in meeting our targets and schedules pursuant to agreements we have made with local officials there.

Suisun Bay contains, I believe, all but one or two of the ships in our entire fleet that are slated for disposal. So that is really where our focus has been. I can tell you that most of the ships, I believe 9 of the 10 ships, have all been recycled in yards in Brownsville, Texas, and we hope to continue this robust pace so long as we have funding available.

And I can tell you that, due to the lawsuit that, you know, prevented the previous administration from moving a lot of these ships, we have a current amount of carryover budget that we have been able to utilize and push these ships through. They have been cleaned in an environmentally responsible manner, in a shipyard in the Bay area, and towed all the way around the Panama Canal to the recycling sites in Brownsville.

Mr. ORTIZ. You know, and specifically now with the budget the way it is, when the Navy chose artificial reefing for the disposal of the USS *Oriskany*. The end result was extremely costly by the time you had to move—and I know we had a problem with California, because they did not want those ships to move because they would cause pollution. Well, they were causing pollution right there.

So I know costs are very expensive, but when these people, especially in Brownsville—I think they paid for the moving of the vessel, and then they do disposal. And it works both ways, because you keep a lot of people working.

And I hope that you can continue to do. You guys are doing a good job by, you know, releasing the ships to be disposed of and by breaking them up and putting people to work. And let me say that we appreciate that.

So I hope that, by doing what you started to do, that you will be able to provide more jobs not only in my district but also in other districts.

Mr. MATSUDA. We do our best. There is a limited supply of recyclers around the country. Of the six certified recycling sites, four of them are in Brownsville, one is in Louisiana, and one in Virginia. But there are none on the West Coast, and that makes it difficult and certainly adds cost to the recycling of all the ships that we have out there. But we will do our best to make sure that we maintain an aggressive pace and a robust disposal program.

I should also mention, the USS *Kittiwake* is a ship we have in the James River Reserve Fleet in Virginia that is slated for artificial reefing. The reefing costs have been paid for by the Cayman Islands government. They wanted to do this. They wanted to pay for it. It has provided work in U.S. shipyards to prepare the ship for reefing. And we were happy to work with them to be able to do that.

Mr. ORTIZ. Well, thank you so much.

Thank you, Mr. Chairman.

Mr. TAYLOR. In the continued absence of Mr. Akin, we are now going to recognize Mr. Critz for what I think is his first subcommittee meeting, and remind him that your predecessor, Mr. Murtha, was a very, very strong supporter of the Title XI program in his many years up here, and we hope you will follow in that tradition.

Mr. Critz.

Mr. CRITZ. Thank you, Mr. Chairman. And following in my former boss's footsteps, my question refers to the Title XI program.

In looking through the documentation and the history of the program, I see that, in the testimony that you supplied, Mr. Administrator, that you have approximately $2.1 billion within your portfolio under the Title XI program and that, over the past I think it is 3 years, there has been no request for funding for the loan subsidy portion, just administrative expenses.

And I know that, over the past 2 fiscal years, Congress has appropriated $70 million into the loan guarantee program, which I notice in your testimony should cover the six applications for loan guarantees that you have right now, which would cover $1.6 billion in loans, although there seems to be a half a billion dollars difference in what the amount will cover and what the requests are.

But going further and following in the footsteps of the chairman on the importance of a robust shipbuilding economy here in the United States, I just would like to know that, if Congress had not put that $70 million into the program, what the implications would be if they had not added that funding. And then, you know, what would not have occurred if it had not been for that $70 million addition?

Mr. MATSUDA. Thank you, sir.

I hate to speculate, but I can tell you that we currently have a $79 million available to us in credit subsidy. So I guess without the 70, we would still have $9 million available to leverage into, you know, a certain amount of loan guarantees for shipbuilding projects.

Now, having said that, we do have a number of five applicants that are still working on their applications for Title XI assistance. These projects, they are massive. They are complex, and they require a bit of scrutiny and time to make sure that they are understood as to what it is that the government is getting into in terms of risk, and then we are able to make decisions on that.

So it is hard to speculate, but I know that having that number out there, that extra $70 million, it signals to the industry that there will be continued support for shipbuilding by the federal government. And that is something that the customers can keep in mind as they are looking to recapitalize their fleet or build new ships. So from that perspective, I think it is important.

Mr. CRITZ. Well, thank you. And, you know, looking through the documentation a little bit more, I noticed that you mentioned about the 13 defaults since 1993, and that, as you move forward, you are putting in, I guess, rules and regulations that will hopefully prevent further. But if you could, just brief a little bit on that topic as well, and then I yield back.

Mr. MATSUDA. Shipbuilding is a risky business. It is hard when you build a 25-, 30-year asset to know what is going to happen, you

know, 5, 10 years down the road, much less 2 or 3. So some of these vessels certainly had—you know, when the market turned or the rates went up or down, they have been affected by—many businesses have been affected by, the up-down turns in the economy.

What we have done is respond to a number of inspector general recommendations, dating back as far as 2003, to make sure that there is a consolidated process within the administration for considering credit applications where the government is asked to extend credit in the form of either loan guarantees or loans.

So we are treated no differently than other credit programs at the Department of Transportation, where we are—basically we present information about each loan application to an internal kind of a credit council. This information is also passed along to the Office of Management and Budget. But by and large, there is definitely more focus on the risk to the government when it comes to these applications.

Mr. CRITZ. Thanks.

Mr. TAYLOR. Chair now recognizes the Ranking Member for whatever time he wishes to consume.

Mr. AKIN. Thank you, Chairman.

In your testimony, Administrator, you mentioned that we doubled the budget for getting the U.S. Merchant Marine Academy back online and taking care of a lot of the things that had to be done there. Is that correct?

Mr. MATSUDA. That is correct. That is what President Obama has proposed for 2011.

Mr. AKIN. Okay, because what I have here in the numbers we have, it looks like $100 million, and it looks like before, you had $74 million in 2010, so that is about a 30 percent, not a doubling.

Mr. MATSUDA. I am sorry. To be clear, the doubling is for the capital budget, the amount that is going into the facilities to improve——

Mr. AKIN. Oh, just the capital part of it.

Mr. MATSUDA. Right.

Mr. AKIN. Yes. Okay.

Is that going to be spent pretty much just to follow the recommendations of that blue ribbon committee, or have you—because that didn't seem like that was going to be enough to do what they needed to do.

Mr. MATSUDA. Well, we believe it is a good start. They have recommended more than just a list of projects. They are really—made some great recommendations as to how do we make sure that we maintain these facilities on a lifecycle basis so that we have a regular capital maintenance budget and we don't get into this position again.

Mr. AKIN. Because it seems like the choices are either we are going to do the job right or else we just close the place down, one or the other. But you don't want to leave it just an eyesore and a mess.

So, I mean—and it seems like, if you need some money to get the thing kicked into shape—what, there is no hot water or something like that? I mean, it just has really been let go for a good many years, I assume.

Mr. MATSUDA. Yes, there are many maintenance issues at the campus. Sometimes our staff would describe them as daily emergencies or putting Band-Aids on things, and that is taking away the focus largely from moving these——

Mr. AKIN. But the facility, is that pretty close to West Point?

Mr. MATSUDA. It is out on Long Island. I guess——

Mr. AKIN. What is on Long Island?

Mr. MATSUDA. As the crow flies maybe but——

Mr. AKIN. Oh, no, because it is not up—so it is on Long Island somewhere. Okay. All right.

So your plan is, is to follow, more or less, what the Blue Ribbon Panel was saying to do, or along those lines anyway.

Mr. MATSUDA. Well, we believe they made some very good recommendations. This was a panel of experts comprised of folks from around the government who have significant experience in facilities maintenance. So we got them together, and the Secretary asked them to come up with their recommendations on how do we get this facility on the right path. And we are certainly taking their recommendations to heart.

Mr. AKIN. What is your anticipation in terms of what you need for maritime officers? Do you see that growing a lot or basically kind of holding its own because of the basic laws that we have in this country, or how do you see that?

Mr. MATSUDA. Well, I would say, by and large, we have an aging workforce. It is tough to get especially younger generation enthused about working in the maritime industry. And that is part of our challenge at the Maritime Administration, is making sure that there is a future. You know, there has been, I think, any number of examples over the years where, when called upon, we have been short on experienced mariners and have had to really dip into the pool to come up with folks to crew our ships.

Mr. AKIN. But in answer to my question, do you anticipate an increase in demand, or is it going to kind of stay the same, or is it going to go down in terms of——

Mr. MATSUDA. Well, a lot depends on the economy. But, you know, regardless, we still have military requirements. But, you know, even if we have a down economy for a number of years—it is tough when you lose a trained mariner and they go do something else and find a living—make a living doing something else. Getting them back and getting them qualified and certified is very challenging.

Mr. AKIN. So that is a function of the economy, then, whether or not they decide to stay in, etcetera, etcetera.

Mr. MATSUDA. And we have seen that in terms of the graduates from our academies. You know, the ones where they are able to get on board a ship and take a shipboard job, they will usually do so. And when those opportunities aren't there, they are forced to take other jobs, you know, shore-side jobs.

Mr. AKIN. And then they may not come back for that point.

Mr. MATSUDA. Yes. True.

Mr. AKIN. Thank you, Mr. Chairman.

Mr. TAYLOR. The chair thanks the ranking member.

Couple of things, Mr. Matsuda. And again, my apologies for the mistake on your name early on.

The recent hearings in the Transportation Committee on the Deepwater Horizon and other committees, was certainly an eye-opener to discover the rig that has just caused so much turmoil for so many people along America's Gulf Coast was made in Korea, flagged in the Marshall Islands, and the taxes go to a shell corporation in Switzerland. That rig was operating in the American exclusive economic zone.

And one of the things that has come out of the bill that just recently passed the Transportation Committee would be for, in the future, those vessels to be U.S. flagged, U.S. owned, U.S. crewed, made in America.

I mean, if you think about it, the absurdity of telling a Gulf Coast shipbuilder that not only can you not go fishing this summer, not only can you not take your kid to the beach to go swimming because of what has happened, but your mom or dad didn't even get the privilege of building that ship, that the United States Coast Guard did not inspect it, that a third party, hired by the Marshall Islands, did the inspection.

And quite frankly, when that rig caught on fire and those people had to jump in the water, neither the Korean, the Marshall Islands, or the Swiss Coast Guard was anywhere to be found. Our nation picked up the initial cost of that disaster. The people who profited from building it, from registering it and the taxes from it, all went elsewhere.

So I would hope that your organization would very aggressively pursue those requirements: U.S. built, U.S. owned, U.S. crewed. And quite frankly, the ownership should be American. We should not have to wonder about who is going to pay the bill at the end of the day if something goes wrong.

Secondly—as far as ideas for the Title XI program, it has come to my surprise, not pleasantly, that the last four single-hulled tankers in America belong to the United States Navy. The last 12 single-hulled tankers in America belong to the United States Navy. And I think we could all imagine the "60 Minutes" episodes, or etcetera, if one of those tankers, by some accident, hit a rock, ran over its own anchor, or any of the other things that cause single-hulled vessels to start leaking oil.

I would hope that your organization would very aggressively look for someone who would be willing to use the Title XI program to replace those vessels sooner rather than later, given our already-stretched Navy budget.

And then, lastly, just by way of a request, I would hope that you would keep a sharp eye on the Maritime Academy. I don't think that Admiral Joe Stewart was given a fair shake when he was dismissed. I very much support his efforts of himself and other members to have the Global Maritime and Training School on-site to help subsidize the cost of that academy, save money for the taxpayers.

And quite frankly, I thought they were given a raw deal by the previous administrator in not recognizing what a good thing that they were doing for the nation, and instead being held under a dark cloud to that. So I think it is important that those maritime assets, we make the most of them. It is important that we find jobs for these young mariners.

And making the best use of our own economic exclusive zone, I would hope that you would actively pursue that that being reserved for Americans.

Would you care to comment on any of those things?

Mr. MATSUDA. Yes, sir.

First of all, we would be happy to work with this subcommittee or the Transportation Infrastructure Committee on any pending legislation certainly involving the maritime industry. As you know, almost everything impacts whether or not we will have a sufficient merchant marine, and we are happy to provide our views and technical assistance.

Second, on the Title XI program, I believe we actually have a number of double-hulled tankers that are part of pending applications or the existing portfolio. Whether or not the Navy decides to buy them, use them or charter them is somewhat out of our hands, but we are certainly happy to work with our partners in Transportation Command to get them to—at least make them aware of these opportunities of our Title XI program.

And then last, with the GMATS [Global Maritime and Transportation School], this is one of the organizations at the Merchant Marine Academy, what we consider a non-appropriated fund entity. And what we are doing is taking an organized look at each one of these NAFI [Non-Appropriated Fund Instrumentality] entities and making sure that we understand what the relationship is between them and the federal government and make sure there is a clear defined level of accountability and that they are well run.

And so, we should be able to make some recommendations this summer as to where we go from there with GMATS.

Mr. TAYLOR. Okay. And again, for those people who don't live on Capitol Hill, NAFIs are Non-Appropriated Funds——

Mr. MATSUDA. Right.

Mr. TAYLOR [continuing]. That, again, were being used to help subsidize the academy and keep the costs down to the taxpayer.

Last thing I would encourage you to do, it has been a while since I checked on the number, but the last time I checked, there were about 60 vacancies at the Merchant Marine Academy for everything from squad-level officers to plumbers, electricians and teachers.

I would certainly request that, to the greatest extent possible, you work with our Wounded Warrior programs at Walter Reed and Bethesda Naval Hospital to try to get some of those people who have already paid a terrible price for their service to our nation, to try, to the greatest extent possible, encourage them to come work or teach or serve at the academies. I think it would be a great way for them, too.

I know that all the services have agreed to keep them within their ranks for a significant period of time as they make an orderly transition to the private sector. And I think this would be, for those who choose to do so, a great way to do that.

Mr. MATSUDA. Thank you, sir. I believe we have a good relationship with these programs. I will go back and make sure that it stands strong and that these folks are given opportunities.

Mr. TAYLOR. And lastly, in the 20 years that I have been lucky enough to do this, I regret to say that I have not really seen an

aggressive Maritime Administration. I hope that changes on your watch. I hope that you will come to us with lots of good ideas and challenge this committee to find a way to fund them. And so I will leave it with that.

With that, the chair recognizes the father of a merchant mariner, Mr. Wittman.

Mr. WITTMAN. Thank you, Mr. Chairman.

Administrator Matsuda, thank you so much for joining us today. We appreciate it.

And as the chairman said, I hail from what I like to call America's first district there in Virginia. We are the home to a great shipbuilding workforce there that builds great Navy ships and commercial ships, and also home to the James River Reserve Fleet, which is based out of Ft. Eustis there. So as you can see, we have great pride in our ships, and also we are glad to be an important element of the ready reserve fleet, making sure we have the ships needed whenever they need to be called up.

There is one issue that I want to bring up that does concern me. I have been out to visit the James River Reserve Fleet a number of times. And always when I meet with the MARAD administrator there to get his thoughts on things, several things come up. One is the effort to make sure that we are disposing of those ships that are non-retention status as quickly as possible.

And last November, one of those ships broke loose, broke off anchor, drifted away, caused about a half a million dollars in damage. Took some time to find it, believe it or not, a big ship. You would think you would be able to find out where it is. But anyway, took a little while to find it.

Obviously caused some concern with folks in the region, caused concern with myself to make sure that we are doing all we can not just to secure the fleet, but to make sure those non-retention ships are getting taken care of.

Secondly are the environmental issues. Obviously older ships there, lots of substances on board. I appreciate what MARAD is doing with the new ships that come into that reserve fleet and making sure that any hazardous materials on board are taken care of. But there are still some older ships there that do cause some environmental concerns if there are rust-throughs in the hull or if one breaks loose, as it did last year and comes ashore, and we have a break in the hull or something along those lines.

If I understand it correctly, we have 15 non-retention ships, I believe, there in the James River Reserve Fleet. And based on that, can you tell me, what do you think the expected timeline is for further disposal of ships within the James River fleet? And has there been a risk analysis for any potential environmental impacts for the remaining ships there in the fleet, both the ready reserve ships and the non-retention ships?

And can you tell me, if that environmental impact statement has been done, what are the potential impacts there, and what is MARAD expected to do about planning for those? What mitigation plans are maybe there, and where we are with the disposal of the 15 non-retention ships?

Mr. MATSUDA. Happy to, sir.

First, the James River Reserve Fleet is definitely one of our valued sites. The Maritime Administration has made great progress over the years in reducing the number of ships. My first visit there was in 2002, where there were 80 or—a number of ships that were ready to go, and I was surprised to see last fall, in a quick trip there, that there were—down to 25 or less total.

A number of those are—well, let me make this clear: none of them there are considered high risk. We use a risk-based process to determine nationwide where the highest risks are to the environment and make sure we dispose of those ships first.

Because of all the great progress we had made in James River, there are none that are there currently. But we will continue to make sure that we dispose of those, of the non-retention ships, as best we can given the funding resources we have available.

As far as the *Monongahela*, this is that Navy oiler that broke loose. After that happened and we were able to refloat it and put it back in the fleet, I had asked our Maritime Administration staff to put together a complete incident report, determine how it happened, and how we can take steps to prevent it from ever happening again.

I believe it was just a week or two ago I was able to send you a copy of that report, or to your staff. I am happy to meet with you personally and discuss it, or come down to the James River fleet site, if you would like. If there are constituents with questions about it, we are happy to let folks know exactly what we are doing to make sure that doesn't happen again.

Mr. WITTMAN. Very good, thank you. I would be interested in getting some of that information from you.

Let me ask this, too. Just looking out in the future for the James River Reserve Fleet, tell me, where is the size of the fleet going in light of the closing of Suisun Bay? And can we expect more ships there, or is there a contingent plan for the closing there? Where do you see us managing our ready reserve fleet and non-retention ships based on that closing?

Mr. MATSUDA. Well, let me just make clear, we are not closing Suisun Bay. What we are doing is making a concerted effort to address all of the high-risk non-retention ships kept there.

There are still—we keep these fleet sites up for a number of reasons, not just for the non-disposable ships, but we host a number of ships for the Navy and other federal services to make sure that there is a low-cost way to maintain these. And we can do that with a limited staff and a very expert staff. These folks know what to do to make sure they keep them, you know, in whatever status they need to be kept.

So we are, you know, placing a great focus on Suisun Bay right now, given our resources. If we had additional resources, I am sure we would be able to move some of these other ships that are ready to go, as well.

Mr. WITTMAN. Very good.

One additional question. In light of what is happening there at Suisun Bay and you taking those ships and making sure you are managing the high-risk vessels that you have, I think there is also a concern, too, in looking at the companies that do the salvage work and obviously, having that infrastructure available for that.

And as we know, there on the James River, as you said, you all have done a fantastic job in getting that fleet down to a very manageable size.

With that, though, as we know in the regions, whether it is Texas, Virginia, California, there are folks that are in that business that we all know that we want to try to keep that industrial capacity there. Just like we do on the shipbuilding side, we want to make sure we have it also on the disposal side.

Is there anything that you are doing to make sure that, as you make decisions about the disposal of those ships, that you keep in mind all of those companies that are doing that so we don't lose a company that may, because of a gap in ships available for disposal or may not be given an opportunity to maybe bid on a ship that comes from another area, to make sure we look at maintaining that industrial base for disposal so, as those ships are needed, we have that strategic dispersal, we will call it, of those disposal companies?

Mr. MATSUDA. Understood, sir, and that is something. When we first decided to focus on Suisun Bay, I wrote a letter to each of the certified recycling companies and kind of let them know our plan for the near future. And we maintain very good contact, I believe, with every one of the six recyclers. We want to make sure that they are available when we need them.

But I hear you loud and clear, and we will certainly make sure we understand what the needs are to make sure they are able to stay available.

Mr. WITTMAN. That will be great. As long as you stay in touch with them and let them know, and give them all ample opportunity if they want to bid on any of the ships that are coming out of these fleets for disposal, sometimes for those companies, as you know, even though it may cost them a little more in transportation costs, as long as they can keep people working so they can get to the next contract where they can actually have a ship that is closer by, that does, I think, everybody good.

Mr. MATSUDA. We are happy to take bids from anyone who can do the work.

Mr. WITTMAN. That is great. That is great.

Mr. Chairman, with that, I yield back.

Mr. TAYLOR. The chair thanks the gentleman.

Mr. Akin.

Mr. AKIN. No, thank you, Mr. Chairman.

Mr. TAYLOR. Okay. Mr. Matsuda, I have noticed in the past couple of weeks a heck of a lot of misinformation being put out on the public airwaves, sometimes from people in elected office, but often from people just in the media, as far as the Jones Act. You know, they made a big deal of saying that vessel skimmers from around the world were not being allowed in because of the Jones Act, but where there is clearly an exemption in the Oil Pollution Act of 1990 just for this circumstance.

And so, just for the record, are you aware of any vessels that were kept out of the oil spill recovery in the Gulf of Mexico because of the Jones Act?

Mr. MATSUDA. Absolutely not. We work very closely with the National Incident Command. We have a role in executing the Jones

Act and understanding whether there are U.S. ships who can do the work before a foreign—as part of the process to understand whether a foreign flag oil spill response vessel could be used.

So we certainly are dialed in, and I am not aware of any instance——

Mr. TAYLOR. Okay.

Mr. MATSUDA [continuing]. Where a Jones Act has prevented a ship from being used where it is needed.

Mr. TAYLOR. And so, just for clarification, the law that says that the towboats pushing gasoline barges up and down the Mississippi River, that Jones Act says it has got to be American made, American crewed, American owned. The repeal of the Jones Act would mean it could be Mexican made, Mexican crewed, Mexican owned. Is that correct?

Mr. MATSUDA. That is right.

Mr. TAYLOR. That you could have crews and tugs from Somalia transporting goods from one American port to another. Would that be correct if the Jones Act were repealed?

Mr. MATSUDA. Theoretically, yes, sir.

Mr. TAYLOR. Okay. Again, for the people on the other side of this building who are calling for the repeal, particularly given the immigration attitude of the American public right now, I would hope that they would keep that in mind when they try, once again, to repeal the Jones Act.

Mr. Critz.

Mr. CRITZ. Thank you, Mr. Chairman.

Just a couple of points came up when we were talking about when the chairman noted that there is upwards, or he read that there are 60 vacancies at the Merchant Marine Academy. And having worked for Chairman Murtha for so many years, we put a lot of stock in promoting all of the academies to students throughout our district.

And the Merchant Marine is one that we promote pretty heavily in our district, even though we are in the middle of Pennsylvania and we have one inland port. It is a very busy port, the Port of Pittsburgh, but, you know, we have really enjoyed sending our young men and women there and have really received good reports back.

But, you know, I know that there have been some financial irregularities at the Merchant Marine Academy, and I would be curious to know if they have been remediated at this point.

Mr. MATSUDA. Now, thank you for the opportunity to talk about this.

First of all, with the vacancies, we are extremely concerned. I can tell you, we have got a number of vacancies at the Maritime Administration as well. I think we are just at a time where a lot of folks are retiring, and we have a lot of positions unfilled. So we are working on both a staffing strategy as well as a succession planning strategy to really make sure that we can continue to function as folks retire.

As far as the—as far as the need to—I apologize, sir. I did focus only on the first part of your question. Could you repeat the second part?

Mr. CRITZ. Financial irregularity.

Mr. MATSUDA. There are a number of financial irregularities that were identified by the Government Accountability Office, 57—I am sorry, 47 recommendations they made on how to improve financial controls and accountability. We are taking their recommendations very seriously. To date, I believe we have implemented 32 of those recommendations, and we expect to have all of them addressed by the end of this fiscal year.

Mr. CRITZ. Well, that is good to hear. And one more question about the academy would be that, you know, of course such an esteemed academy, leadership plays a very important role. And I would be curious to know when a new superintendent will be appointed.

Mr. MATSUDA. I can tell you, we are using a very thorough process in ensuring that we find the very best candidates and the best leader for this important role. I hope to have an announcement shortly. You know, the federal hiring process is, as I am learning, very complex, so we are getting there. But we are pretty close. I hope we should have one before the recess.

Mr. CRITZ. Well, thank you very much. If I could, just one more question.

And this goes back to the shipbuilding, is that there is no request for the program that provides assistance to small shipyards. And, you know, the assistance to small shipyard program supplied grants and loans to improve infrastructure and efficiencies at small shipyards. I would be curious to hear your response as to why there are no requests in there and what the plan is, going forward.

Mr. MATSUDA. Well, we are continuing to monitor our small shipyard grant program. For every dollar that we are given, we are putting out the door and into the hands of these small shipyards to enable them to purchase the equipment they need or implement the worker training programs they need.

But as you correctly pointed out, the President's request does not contain funding for additional funds for the program. We are still continuing to see the impacts of the money provided through the American Recovery and Reinvestment programs that we are monitoring those.

Mr. CRITZ. Thank you. I have no further questions. I yield back.

Mr. TAYLOR. Mr. Matsuda, my last question would be that my observation during the previous administration was that the Credit Council existed to deny every loan guarantee request, that it was there for no other reason than to say, "No, no, no." Again, that is my observation, but I think it is pretty close to fact. So the question would be, is there something statutorily that needs to be changed in order to get this program going again, or is it something administratively that needs to be changed to get this program?

Because it is an important program. The price of metals has dropped approximately in half in the past three years, great time to buy steel, great time to buy aluminum.

We have 10 percent unemployment. We have a number of older vessels. I just identified 12 single-hull tankers that this nation owns that need to be replaced. So what recommendations would you have for us, if need be, or for your own department, if need be, to get this program going again?

Mr. MATSUDA. As far as I can tell, sir, the program is driven by the applicants. Somebody has got to have an idea and funding for a ship that they want to build before they come to us. As far as I could tell, given the current credit situation, Title XI is one of the best deals in town if you are trying to build a large vessel or sinking many millions of dollars into building a vessel.

So the process is also largely driven by the applicant. Sometimes I have heard discussion about why it takes so long to get approval for one of these things and whether the Credit Council is the hold-up, or what is the—is it MARAD.

I can tell you that, usually in the past several applications that we have approved, the largest chunk of time it takes is waiting on an applicant to produce additional information about either the design of the ship, the market for which they are going to use it, you know, how they intend to do that.

There is a fairly thorough process that is involved, and we do our best to try and make sure that the applicants understand up front, they need to get this information in and get it quickly. And we will process the application as soon as we can to make sure that it keeps moving and gets considered in a timely manner.

I know usually, with the amount of money we are talking about, you know, time is a big difference in terms of what kind of market rates you can get on your loans. So we certainly keep that in mind, and we do our best to communicate with the applicants to make sure they understand what is expected of them.

But I guess the best thing we could do to stimulate shipbuilding is to really make sure this economy turns around and that there is a need for more ships in the future to make sure it can carry the goods for America's economy.

Mr. TAYLOR. How would you rank, in the order of importance, the functions of the Maritime Administration? What would you say is your most important function, second, and third?

Mr. MATSUDA. Well, we have got—probably making sure that we have a viable merchant marine is our overall goal. As we know, it is so critical to both the economy and the military, that that is probably singularly one of our largest areas of focus.

Close second I would have to say is—and many of our programs tie into that goal—second I think would be to make sure that we have an efficient freight transportation system, of which water transport is such a key element of, making sure that folks understand, when they plan for future investments, what it means to how goods move through their district or state or through their country is important. So many of these freight flows are—they go between or over state lines or district lines, and lines between the metropolitan planning organizations.

Really, the federal government's one of the only entities in the right place to understand what is going on at the national level. So that is something we take very seriously and been working with a number of ports around the country to try and understand what we can do to help improve the efficiency of the system.

These are probably the top two. I would say a number of the programs that we have really do feed into whether we can sustain the number of skilled mariners or vessels we need in the U.S. to keep the merchant marine.

Mr. TAYLOR. Okay. Any further questions from the panel? Mr. Wittman.

Mr. WITTMAN. Thank you, Mr. Chairman.

Administrator Matsuda, one other question. I know that we had just traded some conversations here about the Title XI program, making sure we look at all the different shipyards. Obviously, there is a need to make sure we are looking at our small- and medium-size shipyards.

Let me ask this, though. I am hoping that that doesn't result in two different Title XI programs. I think we want to make sure that we are looking for opportunities for all of our yards. We want to make sure that capacity grows everywhere. But that means also to make sure we are not, you know, selecting one or the other.

Another concern of mine is making sure that the terms and conditions on these loans are significant across all the different sectors, in other words making sure that we aren't having a different set of terms and condition for one size shipbuilder versus another. And again, this is to make sure that we are standing up and helping the entire shipbuilding industrial base.

I just want to get your feedback on that element of the Title XI program to make sure that it is—we are doing everything we can to help all of our yards, just not picking out a particular segment.

Mr. MATSUDA. Thank you, sir.

The Title XI program is really just—we look at it as one tool. It is a major tool we have to enable folks to be able to build ships in this country.

Unfortunately, just given the time and expense involved in pursuing one of these applications, it has really been not as useful for folks who are building a ship or a barge of, you know, 25 to 5, 10, $15 million. And that has been a real challenge, too, because we don't want that market to go away, either.

Mr. WITTMAN. That is great. And if there are ways that you can streamline that process, again not changing the terms and conditions, making sure that we require the same of the fiduciary responsibility for every corporation, but as you said, maybe streamlining the administrative process. So for the smaller companies who don't have the wherewithal, they don't have to go through, you know, the same realm of paperwork that maybe a larger company that could do that more easily.

So if we can look at ways to administratively cut that burden on folks, I think that would be great. But again, keeping in mind the same time that, you know, we have got to be making sure that we stand up all of our yards. And I agree, we need to make things easier so people can get through the paperwork and through the administrative process easier.

Mr. MATSUDA. We are happy to work with the committee on that.

Mr. WITTMAN. Thank you, Mr. Chairman. I yield back.

Mr. TAYLOR. In the "No news is good news" department, the question of piracy was a red-hot topic in this town a year ago right now. Like many other things, it has been put on the back burner, thank goodness, because of a lack of activity at least directed towards American vessels.

Were the changes made in the law last year adequate? What are the people in the maritime industry saying as far as if there is

need for additional changes in the law in order to protect American flag vessels and their crews?

Mr. MATSUDA. Thank you, sir. That is a very good question. I am not sure that, given that the many number of federal agencies and others that have oversight over the security of American ships and protection of them that I would be able to speak for everyone.

But I can tell you that we have noticed, over the past year, an increase in piracy activity, but a decrease in activity with respect to U.S. ships. We have worked with our partners very closely to make sure that we can improve training of U.S. crews for piracy. Recently we produced a training video, working with the ship operations cooperative program. It is a short video, just basic training for how to avoid piracy situations or what to do in case of attack.

We are also working with the Naval Criminal Investigative Service to do inspections aboard ships, U.S. ships, just to point out what kinds of vulnerabilities we see in the event of a piracy attack. And that has been an ongoing successful program—it is voluntary—that U.S. carriers can come to us and we will work with them to get them this advice.

So we are continuing to work also with the rest of the world through what is called the—it is a U.N. body that has put a number of countries together to focus on the piracy problem. It is the Working Group 3 of the Contact Group on piracy off the coast of Somalia. And we have been able to work with industry very quickly over the past year to come up with best practices, which the companies can use to try and help prevent pirate attacks.

And by and large, we have seen—we have encouraged our fellow shipping countries to adhere to those best practices. And we are making efforts, working with the State Department and others, to make sure that we do everything we can to reduce the risk.

Mr. TAYLOR. Do you know of any additional legislative changes that any of your shippers are asking for in order to protect the crews?

Mr. MATSUDA. Legislative changes? I would have to get back to you, sir. I am not aware of any off the top of my head.

Mr. TAYLOR. Okay.

Are there any additional questions? Again, thank you very much for coming by, and the subcommittee stands adjourned.

[Whereupon, at 2:59 p.m., the subcommittee was adjourned.]

A P P E N D I X

JULY 14, 2010

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

JULY 14, 2010

Opening Statement of Congressman Gene Taylor
Chairman, Subcommittee on Seapower and Expeditionary Forces
Committee on Armed Services, U.S. House of Representatives
July 14, 2010

The committee will come to order.

Good afternoon. Today the subcommittee meets in open session to receive testimony from the Administrator of the Maritime Administration, of the Department of Transportation. The Maritime Administration, or MARAD, has a variety of functions, but their principal charge is to ensure that the United States maintains a robust commercial fleet along with well-trained mariners capable of domestic and international commerce that can be called upon in times of national emergency to provide transportation of equipment and cargo and other maritime services as needed. In addition to ensuring an operational U.S. fleet of privately owned commercial vessels, the Maritime Administration must also ensure effective domestic shipbuilding and ship repair facilities are available to build and maintain that fleet.

Unfortunately, the nation has lost its entire world market share in major commercial shipbuilding. We no longer construct any large vessels for use in international trade. The few medium-size product tankers or container ships that have been built in this country in the last few years have been for use exclusively in the protected coast-wise trade, ships known as the "Jones Act fleet," or built with the expectation of long-term charter to the Military Sealift Command of the United States Navy. This total elimination of large commercial vessel construction has the additional negative effect of increasing the cost of our Navy ships. The shipyard overhead charges, instead of being spread among commercial and government construction, are all included in the Navy construction contracts because there is no commercial work in our major shipyards.

The fact of this loss of the ability to build large commercial vessels is not well known. I think many people would be shocked to learn that this nation, which relies on sea transport for our imports and exports, does not have a domestically produced fleet. We do have a fleet of commercial vessels, some 80 all told, which participate in what is known as the Maritime Security Program, or MSP. The MSP pays a ship-owner a subsidy, which this year is $2.9 million per vessel, to register their vessel in the United States, and operate the vessel with an American crew. They engage in international commerce, but agree to carry cargo for the U.S. government, typically the Department of Defense, when requested. Make no mistake, these MSP vessels are all foreign-built ships, and there is no current plan I am aware of for any ship-owner to source these vessels from domestic yards.

This nation has a mechanism in place, but not being used, for helping ship-owners with financing for ship construction. The formal name of the program is the Guaranteed Maritime Loan Program, but is commonly referred to as the "Title XI Loan program" from its historical roots in the Merchant Marine Act of 1936. This program supports ship mortgagees with the full faith and credit of the United States government. MARAD is the executive department tasked with overseeing this program. Unfortunately, for whatever reason, the previous Administration decided to ignore this program and failed to request any funding to support new ship guarantees. Likewise, the current Administration has also failed to request any funding to support this program. Without strong support from the President and the Department of Transportation, this program, which could create hundreds, if not thousands of new jobs throughout the shipbuilding industrial base, will perish. And with it any hope this nation has to regain any viable market share in large commercial vessel ship construction.

More than just the oversight of the program, I believe it is MARAD's responsibility to aggressively encourage current and potential ship-owners to invest in the

domestic maritime industry. I believe MARAD should be working with the other departments within the Department of Transportation to coordinate efforts to maximize the use of domestic shipping, particularly short-sea shipping. Seaborne transportation is the most efficient and the most environmentally friendly method of the movement of cargo that exists. Imagine the number of long-haul 18-wheelers that could be taken off our highways if we only had a robust coast-wise container vessel transport system.

I look forward to a discussion with the Administrator on these issues.

We have also asked the Administrator to update the subcommittee on the findings and recommendations of the blue ribbon panel which was convened by Secretary LaHood to make recommendations for capital investment and improvement at the United States Merchant Marine Academy. The blue ribbon panel report, "Red Sky in the Morning," recommends significant investment and process and policy changes to restore the infrastructure of the Academy, and just as important, maintain the buildings and grounds once they are restored. I look forward to Administrator Matsuda's comments on all aspects of the Academy.

The Administrator has recently been confirmed by the Senate, but has been serving as Acting Administrator and Deputy Administrator for some time. He has extensive experience in maritime issues both on and off Capitol Hill. We are indeed fortunate to be able to find time for this hearing because I believe these are very important issues facing our nation and we should work together, both the Congress and the Administration to solve them.

For Immediate Release: July 14, 2010

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Akin Opening Statement for Oversight Hearing on the Activities of the Maritime Administration

Washington, D.C. – U.S. Rep. Todd Akin (R-MO), Ranking Member of the House Armed Services Subcommittee on Seapower and Expeditionary Forces, today released the following prepared remarks for the subcommittee's oversight hearing on the activities of the Maritime Administration (MARAD):

"Today, we turn our attention to a little noticed, but vitally important part of the subcommittee's jurisdiction and oversight responsibility, the U.S. Maritime Administration. Even though the many issues and unmet requirements facing the U.S. Navy and Marine Corps consumed the bulk of the subcommittee's time, I am glad the chairman called for this hearing. The U.S. and global economy are both utterly dependent on a robust commercial shipping network, and the U.S. economy is further buttressed by a shrinking, but resilient, U.S. merchant marine fleet. With global maritime competition growing ever fiercer and U.S. overseas commitments showing no signs of abating, the United States must maintain a strong merchant marine fleet as a key strategic enabler and economic engine. Unfortunately, most aspects of our merchant marine policy are reliant on some form of federal subsidies, which we seem to be providing on the cheap in some cases.

"I'm a big supporter of less federal spending and fewer federal subsidies, but believe we must invest as necessary to maintain a strong U.S. flagged merchant marine fleet. Today's programs include Title XI loan guarantees for building new vessels; the Maritime Security Program and Voluntary Intermodal Sealift Agreement, or VISA program, which provide subsidies to U.S. flag carriers who guarantee shipping availability for national security needs; various cargo preference laws, including 100 percent of defense cargo on U.S. flagged vessels; and finally, training of ships' officers in a federal Merchant Marine Academy and the six state maritime academies. While the hand of the federal government touches all of these programs, the cost has been relatively modest—too modest in fact, in the case of the Merchant Marine Academy.

"I am interested in hearing about the health of the U.S. shipbuilding industry, and whether the Title XI loan program is working as intended. Is the fleet being recapitalized? I understand the MSP and VISA programs have been successful, and look forward to any recommendations our witness may have on that score. I also am gratified that the state merchant marine academies continue to produce the bulk of our merchant marine officers with minimal federal help, if $15 million or so annually counts as minimal.

"One program, though, appears to be in serious difficulty—the U.S. Merchant Marine Academy at Kings Point, New York—experiencing serious fiscal and policy shortcomings, as well as crumbling facilities. With regard to the academy's physical plant, I understand that a blue ribbon panel recently issued a critical report containing specific recommendations for improvement, and I am interested in how much of the blue ribbon panel's report will be implemented. I understand the facilities are in deplorable state, and are in desperate need of repair. I am especially troubled that full implementation of the panel's recommendation will result in an increase in the academy's budget of around $34 million annually, nearly a 50 percent increase over the academy's current annual spending. Even though most merchant marine officers come from state academies, I believe a federal academy is needed as well. Since I support the academy, I believe it should have the proper resources and oversight to maintain a top notch program and graduate highly qualified merchant mariners. I am interested in hearing MARAD's view on the way ahead for this troubled institution."

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STATEMENT OF DAVID T. MATSUDA
MARITIME ADMINISTRATOR
MARITIME ADMINISTRATION

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

JULY 14, 2010

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.

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David T. Matsuda

Deputy Maritime Administrator

David T. Matsuda

David T. Matsuda was appointed Deputy Maritime Administrator by President Obama on July 28, 2009, and was officially sworn into office on July 30, 2009.

Mr. Matsuda served as the U.S. Department of Transportation's Acting Assistant Secretary for Transportation Policy from March 2009 until his appointment as Deputy. Prior to that, he spent seven years on Capitol Hill. While working in the U.S. Senate, Mr. Matsuda was engaged in the formulation and debate of most major Federal transportation legislation as senior counsel and primary transportation advisor to U.S. Senator Frank R. Lautenberg of New Jersey.

In 2002, Mr. Matsuda became a Georgetown University Government Affairs Institute Fellow serving on the staff of the Senate Committee on Commerce, Science and Transportation. From 1998 to 2002, he worked as an attorney with the safety law division of the USDOT's Federal Railroad Administration.

Mr. Matsuda's hometown is Apple Valley, California. He earned his B.S. in engineering from Harvey Mudd College in Claremont, CA, and his J.D. from the University of San Diego School of Law in San Diego, CA. He lives with his wife Catherine Parsons Matsuda in Washington, DC

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