

Statement of

**USA MARITIME**

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Before the

U.S. House of Representatives

Committee on Financial Services

Subcommittee on International Monetary Policy

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Hearing on

The Role of the Export-Import Bank in U.S. Competitiveness and Job Creation

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March 10, 2011

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The Role of the Export-Import Bank in U.S. Competitiveness and Job Creation

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USA Maritime, a coalition of ship owning companies, maritime labor organizations and maritime trade associations, strongly supports the re-chartering of the Export-Import Bank of the United States. The continued vitality of the Bank is not only important to the promotion of U.S. exports, but is also essential to supporting a fleet of U.S.-flag ships that are critical to U.S. national security.

#### Cargo Preference Background

The term “cargo preference” refers generally to statutory requirements which mandate that a certain percentage of U.S. Government-impelled ocean cargoes be carried on U.S. registered vessels (referred to as “U.S.-flag” vessels) for the purpose of promoting a sealift capability sufficient to meet the Nation’s wartime and foreign policy objectives. The United States has had cargo preference requirements since at least 1904.

Cargo preference rests on the common sense idea that the U.S. Government should reserve a portion of the ocean cargo it generates, either directly or indirectly, to U.S. citizens, just as it generally makes its other purchases within the United States. U.S.-flag vessels fly the American flag, are owned by American companies and employ civilian American officers and crews.

Cargo preference is a highly cost efficient way to support a privately owned U.S.-flag commercial fleet. Because the goods will be shipped regardless of which ship carries them, and

therefore the cost will be incurred regardless, requiring that some of the cargoes be shipped on U.S.-flag vessels leverages that basic transportation expense to provide other benefits to the Nation at a fraction of the cost of direct purchase. In fact, a July 2009 study for the U.S. Maritime Administration determined that it would cost approximately \$13 billion in capital cost just to duplicate a portion of the commercial sealift capability provided by the commercial fleet of U.S.-flag vessels. Even when the U.S.-flag transportation costs more, it is offset by the direct purchases made by U.S. ship owners and crews throughout the United States and the Federal, state and local taxes paid by ship owners and their crews.

### Cargo Preference and National Security

The maintenance of a strong privately owned U.S.-flag merchant marine is an essential part of our Nation's national security strategy. According National Security Directive 28, which was signed by President Bush in 1989, and which still governs sealift policy:

Sealift is essential both to executing this country's forward defense strategy and to maintaining a wartime economy. The United States' national sealift objective is to ensure that sufficient military and civil maritime resources will be available to meet defense deployment, and essential economic requirements in support of our national security strategy.

This policy remains the same today. The Department of the Navy's fiscal year 2012 budget request provides that:

This budget supports maintaining a robust strategic sealift capability to rapidly concentrate and sustain forces and to enable joint and/or combined campaigns. This capability relies on maintaining a strong U.S. commercial maritime transportation industry and its critical intermodal assets.

The cargo preference laws are essential to maintaining a commercial U.S.-flag merchant marine. Virtually every privately owned U.S.-flag vessel engaged in the foreign trade depends to

some degree on cargo preference to remain economically viable. Indeed, absent cargo preference, it is no exaggeration at all to say that the U.S.-flag fleet in foreign commerce would disappear and the U.S. Government would have to duplicate that sealift capability at enormous expense with government-owned vessels.

The fleet of privately owned U.S.-flag vessels supported by cargo preference laws has been instrumental to the supply and support of our troops abroad. The privately owned U.S. merchant fleet has transported over 90 percent of the equipment and supplies used in the conflicts in Iraq and Afghanistan at a fraction of the cost of other alternatives.

The fleet of privately owned U.S.-flag vessels also employs the pool of trained U.S. citizen merchant mariners essential to support the U.S. Government's sealift objectives. The U.S. Government owns a fleet of many vessels in inactive and active status which cannot be mobilized or operated without that pool of mariners employed by the privately owned U.S.-flag fleet.

#### U.S. Export-Import Bank Re-Chartering

USA Maritime strongly supports the re-chartering of Ex-Im Bank and the continued maintenance of the existing U.S. content and cargo preference requirements.

The cargo preference requirements applicable to Ex-Im Bank are contained primarily in Public Resolution 17, codified at 46 USC § 55304. That statute, which has been in place since 1934, empowers the U.S. Department of Transportation (delegated to the U.S. Maritime Administration or MARAD) to waive the U.S.-flag reservation when U.S.-flag vessels "are not available in sufficient number, in sufficient tonnage capacity, on necessary schedules, or at reasonable rates."

In recent years, U.S. exports have prospered under Ex-Im Bank programs. Ex-Im Bank posted its second consecutive record breaking year in fiscal year 2010 supporting the export of goods and services valued at about \$35 billion.

Ex-Im Bank's efforts have successfully promoted American exports and have also successfully promoted U.S. jobs on the many U.S.-flag vessels that have transported cargoes for projects where the financing was guaranteed by the Bank. These shipboard jobs are just as important to the well being of the U.S. economy as on-shore manufacturing and service jobs covered by Ex-Im Bank's U.S. content rules.

This is a "win-win" situation for the U.S. economy where U.S. jobs are created throughout the supply chain. As stated by President Reagan in 1981 –

The maritime industry has been a key contributor to our economic strength and security since our Nation was founded. Its continued growth and prosperity is necessary for the economic renewal we all seek.

Those words are just as true today as the day they first appeared. Not to apply cargo preference would have potentially devastating consequences beginning with the loss of the U.S.-flag fleet engaged in foreign trade.

It is important to remember that the cargo preference requirements cannot adversely affect the shipment of goods if properly administered. Under current policies and procedures administered by MARAD, cargo preference generally apply only when a suitable U.S.-flag ship is available and at a reasonable rate. Moreover, MARAD has worked with the export community to help ensure that there is no disruption to the export of Ex-Im Bank financed cargoes when suitable U.S.-flag service is not available or at reasonable rates.

USA Maritime pledges that it will continue to cooperate with any effort to improve the administration of the cargo preference requirements applicable to Ex-Im Bank financings. As

indicated in a report of the Office of Inspector General of The Export-Import Bank of the United States issued September 30, 2009, there is room for improvement in the way Ex-Im Bank administers cargo requirements. The members of USA Maritime would be pleased to work with the Bank and MARAD to implement the OIG's recommendations.

### Conclusion

USA Maritime strongly believes that the U.S. Congress should move expeditiously to re-charter the U.S. Export-Import Bank for five additional years and preserve the cargo preference requirements in that re-chartering process.

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