

TESTIMONY OF

CAPTAIN JOHN W. MURRAY
PRESIDENT AND CEO HAPAG-LLOYD USA, LLC

IN THE
U.S. HOUSE OF REPRESENTATIVES

AT THE JOINT HEARING BETWEEN

TRANSPORTATION AND INFRASTRUCTURE COMMITTEE
COAST GUARD AND MARITIME TRANSPORTATION SUBCOMMITTEE

AND

AGRICULTURE COMMITTEE
LIVESTOCK AND FOREIGN AGRICULTURE SUBCOMMITTEE

U.S. INTERNATIONAL FOOD AID PROGRAMS:
TRANSPORTATION PERSPECTIVES

November 17, 2015

Introduction

Mr. Chairman, I appreciate the opportunity to testify today on the subject of food aid, cargo preference and the importance of the Maritime Security Program (MSP) to the United States. As the President and CEO of Hapag-Lloyd USA, LLC, I deal with each of these subjects every day in the ordinary course of business. My testimony will highlight the importance of these programs to maintaining a viable U.S. merchant fleet that is so essential to the national security of our country.

Hapag-Lloyd USA, LLC (HLUSA) is an American subsidiary of the global container carrier Hapag-Lloyd AG. We operate five geared container ships in a weekly liner service between the U.S. Gulf and East Coast to North Europe. All five ships are crewed by American mariners and fly the American flag. Our ships carry cargo that sustains the United States military mission and its service members based in Europe and beyond. Additionally, our ships are carrying other non-military cargo including delivering American food aid to destinations well beyond Europe.

HLUSA has a long and proud history of participating in our nation's global food aid efforts. By virtue of predecessor entities, our company has operated American ships in U.S. commerce since World War I. Known then as Lykes Lines and for more than ninety years, the Lykes fleet supported our nation through two world wars and numerous other conflicts. In 1996, when Congress enacted the Maritime Security Program, our company was one of the first MSP participants. To this day, we have maintained continuous participation in both the MSP and the Voluntary Intermodal

Sealift Agreement, which as defined by the U.S. Maritime Administration, “provides commercial sealift for a seamless, time-phased transition from peacetime to wartime operations... [an] activation of state-of-the-art commercial intermodal equipment to coincide with DOD requirements while minimizing disruption to U.S. commercial operations.”¹ In 2006, during a turbulent period of consolidation among ocean carriers, the Lykes Lines name changed to Hapag-Lloyd following the purchase of its parent company.

Mr. Chairman, today’s hearing also gives me the opportunity to speak on a personal note. The success of the U.S. Merchant Marine has been a primary focus of my entire career.

I graduated from Maine Maritime Academy in 1979 and began sailing as a ship’s deck officer in the Lykes fleet. At that time, the company operated more than forty U.S.-flag oceangoing ships in foreign commerce. That is more than half the size of the entire U.S. flag fleet today. Preference cargo was abundant at the time, the most significant of which for our company being the American humanitarian aid distributed to distressed nations throughout the world. It was always personally gratifying to see first-hand the result of delivering American produced food aid to those most in need.

Today the shipping world is much different. Our company now operates in an extremely competitive global trade environment dominated by international carriers with very low cost operating structures, and government-supported operating environments, including tax and regulatory structures to favor investment in growth and profitability.

The Merchant Fleet is Critical to our National Defense

Throughout our nation’s history, the U.S. merchant fleet has provided sealift capability to our military in support of its global military operations. Each conflict has shown that the U.S. requires a strong and active fleet of vessels to support the Department of Defense (DOD) mission. Privately owned U.S.-flagged commercial ships and their U.S. citizen crews have always met our nation’s call. We have consistently provided the commercial sealift capacity and the civilian mariners needed to meet our nation’s worldwide military and political objectives.

The U.S. Flag Fleet provides daily support to DOD to sustain its global peacetime mission. Cargos can include anything from subsistence supplies to personal household goods for military personnel based abroad. It is these same ships that also support DOD during contingency operations. The most recent examples include the sealift provided by U.S.-flag carriers during Operation Iraqi Freedom and Operation Enduring Freedom in Afghanistan. U.S.-flag ships moved more than 90 percent of DOD’s requirement.

The conflict in Afghanistan provided unique logistical challenges for military planners due to the country’s landlocked borders. Until 2009, the only line of communication into the country was via Pakistan, which limited the United States to one supply gateway into Afghanistan. With an urgent need for assured gateways, DOD turned to the MSP carriers to develop alternative routes. By leveraging their existing intermodal networks, the MSP carriers were able to expand the ground

¹ <http://www.marad.dot.gov/ships-and-shipping/strategic-sealift/voluntary-intermodal-sealift-agreement-visa/>

lines of communication and provide DOD new gateways into Afghanistan from the north. Following the closure of the southern gateways, this Northern Distribution Network (NDN), as it became known, provided the United States' military effort with continuous seamless distribution of supplies to our warfighters.

It is not well known that U.S. flag carriers had long been using this commercially operated and maintained intermodal network, which ultimately gained fame as the NDN, to deliver U.S. food aid to countries in Central Asia. Expanding the network to include Afghanistan was an efficient and effective solution the MSP carriers provided to the U.S. military and is an excellent example of the partnership and interdependency that exists between DOD and the MSP operators.

The Maritime Security Program

A strong Maritime Security Program is necessary to assure the long-term success of the U.S. fleet. The MSP provides a significant national security benefit through a cost effective vehicle that provides DOD with assured access to ships and intermodal capacity in order to support and sustain our armed forces in a contingency. The program also ensures that we as a nation maintain a sufficient pool of U.S. citizen merchant mariners to crew all U.S.-flag tonnage at the time of need, including the U.S. government's Ready Reserve Force that relies on commercial mariners.

The MSP, established by the Maritime Security Act of 1996, originally provided for the participation of 47 United States flag commercial vessels. The success of the initial program led Congress to reauthorize and expand the fleet to 60 ships in 2005. In 2012, Congress reaffirmed its strong support for the program by reauthorizing and extending the 60-ship program through 2025. All existing MSP operators elected to extend their individual contracts through 2025.

Under the MSP, participating U.S.-flag carriers commit their ships, as well as their global logistics networks that may include ports, rail, trucking and other infrastructure to support DOD in maintaining our nation's readiness. In exchange, each ship is paid a stipend that is intended to partially offset the higher costs to fly the U.S.-flag.

By their very nature, U.S.-flagged ships are more expensive than their international counterparts. They are crewed by Americans, registered in the U.S. and subject to U.S. laws, taxes and regulations, all of which are greater than internationally flagged ships. The significant cost differences between U.S.-flag and non-U.S. flag vessel operations are well researched and documented by the U.S. Maritime Administration, the Department of Defense and independent analysts. While the MSP stipend assists with this cost hurdle, it does not come close to equalizing the cost difference. This delta must be achieved elsewhere, which is why our nation's cargo preference programs are so critical to the survival of the U.S.-flag fleet.

The Cargo Preference Programs

The MSP is a critical component to ensure the continued existence of a U.S.-flag fleet into the future. However, it is only one element required for the long-term viability of the fleet. American ships must have access to cargoes reserved for U.S. ships in order to be commercially successful in the modern competitive world. The MSP has always meant to be a partial offset to

the additional cost of U.S.-flag ship operation while the balance was to come from the U.S. Government cargo preference programs.

There are three U.S. cargo preference laws that are vital to the U.S. maritime industry and must be preserved:

- The Cargo Preference Act of 1904 requires all U.S. military cargo be transported on U.S.-flag ships.
- Public Resolution 17 requires cargoes guaranteed by the Export-Import Bank be transported on U.S.-flag ships.
- The Cargo Preference Act of 1954 required at least 50-percent of U.S. Government generated cargoes be shipped on privately owned U.S.-flag commercial ships, if available, at fair and reasonable rates. The Food Security Act of 1985 increased that percentage to 75-percent for certain foreign assistance programs. Unfortunately, in 2012 the percentage was reduced back to 50-percent and is partially responsible for the current demise of U.S.-flag fleet size.

As privately owned, commercially operated U.S.-flag ocean carriers, we live and survive by these U.S. laws. Congress enacted these laws to ensure that U.S.-flag operators have a U.S. cargo base to ensure successful commercial operations in foreign commerce. Enforcement of these laws is necessary, and remains the critical basis for maintaining a U.S.-flag fleet into the future.

Unfortunately, the amount of cargoes moving under these programs is at the lowest point that I have seen in the last twenty years. The reduced cargo base places even more pressure on MSP carriers and unless rectified in some manner will lead to additional loss of U.S.-flag ships.

Current Realities and Conclusion

The erosion of the U.S.-flag fleet is indisputable. The size of the U.S.-flag international trading fleet of privately owned ships has decreased by nearly 25 percent just in the past five years.

The U.S. oceangoing merchant marine fleet has declined by 82 percent since 1951, when the fleet peaked at 1,268 vessels.² As of year-end 2010, the U.S.-flag fleet in foreign commerce was comprised of 60 ships participating in the Maritime Security Program (MSP), and roughly 50 other ships carrying commercial and preference cargo on various routes.³

This reduction is the result of a combined precipitous decline in military, food aid and other government-impelled cargoes that are required by law to move on American ships with American citizen crews. U.S.-flag carriers are no longer able to operate competitively without adjustments to the MSP as well as the full support of the remaining cargo preference programs. Absent financial relief in the form of increased MSP stipends or additional U.S.-flag access to preference cargoes, carriers will have no economically feasible option but to continue removing ships from the U.S. registry.

² "Study of the Impediments to U.S.-Flag Registry Final Report," Price Waterhouse Coopers. September 20, 2011.

³ "Comparison of U.S. And Foreign-Flag Operating Costs," U.S. Department of Transportation Maritime Administration. September 2011.

Mr. Chairman, I would like to summarize the current situation as an MSP ship operator and a businessperson. U.S. companies, each governed by a boards of directors and shareholders, own all of the ships in the MSP fleet. We, the senior management for these companies, must routinely address the operational realities of our U.S.-flag services with our boards and shareholders. We are frequently called upon to explain the implications of newswire political issues such as the MAP-21 food aid reduction, the expiration of the EXIM Bank charter and the overall degradation of U.S.-flag cargo resulting from budget cuts and reallocation of government priorities. To be blunt, it is not easy to portray an optimistic view of our U.S.-flag industry's long-term prospects given the challenges before us today.

As a former U.S. merchant mariner and a lifelong supporter of a strong U.S. Flag Merchant Marine, I have fought many battles over the years in support of our U.S.-flag industry. I fear that we are not just losing the battle, but now the war itself if we fail to stabilize the existing U.S.-flag fleet through the programs that exist today. The unfortunate reality of today's business world is that if a service or business unit does not perform, it is eliminated. The U.S.-flag fleet is getting dangerously close to this reality.

I would like to close with a final comment that I believe illustrates the mixed messages sent to our boards regarding our U.S.-flag services.

In June of 2013 all existing MSP carriers extended their MSP contracts for 10 more years, affirming their commitment of ships to our nation until 2025. Despite the gloomy future commercial outlook for these businesses at that time, each carrier was able to obtain board and shareholder approval for their contract extension. Yet, within two months of executing agreements, budget sequestration was enforced and the Maritime Security Program was one of the casualties. Each carrier lost six weeks of stipend per ship as a result. Fortunately, no ship left the program at that time. However, given the precipitous decline in preference cargoes combined with current MSP levels, I fear that it is unlikely that we would retain the 60-ship MSP fleet if a similar shortfall were to occur today. Likewise, a failure to realistically adjust funding levels for this program may yield the same result.

Mr. Chairman, thank you for time and the opportunity to testify before the joint committees today.