



A bold voice for transportation workers

TIME FOR CONGRESS TO INCREASE SUPPORT FOR THE MARITIME SECURITY PROGRAM

The Maritime Security Program (MSP) was established in 1996 to foster a viable U.S.-flag merchant marine capable of meeting the Department of Defense's (DOD) sealift needs. The program has been a model federal program that efficiently leverages taxpayer dollars to bolster our nation's security, helps maintain a U.S.-flag shipping industry, and supports thousands of good-paying American jobs. Unfortunately, inadequate funding threatens the economic viability of the MSP. In order to incentivize ship participation and retention – and maintain civilian merchant mariner jobs – Congress must act immediately to increase the program's funding authorization and subsequently fully appropriate increased funding levels.

Under MSP, the government provides an annual retainer payment for each U.S.-flag commercial vessel enrolled in program. In return, these vessels carry cargo during wars and national emergencies, providing a reliable and safe means to transport goods during vulnerable and extremely challenging times. Without MSP, the military would be forced to rely on foreign flag ships, which may not possess the readiness, capabilities or loyalties necessary to carryout vital transport missions.

In addition to providing military support, the MSP's reliance on U.S.-flag vessels supports thousands of good-paying jobs. In fact, the 60 vessels currently participating in the MSP support approximately 2,700 U.S. mariners and an additional 5,000 shore-side jobs. By incentivizing vessels to fly the U.S. flag, this program keeps our maritime sector strong and maintains a pool of skilled and specialized American mariners capable of meeting both military and commercial needs.

However, a combination of inadequate funding and emerging dynamics in the commercial shipping industry are likely to undermine the financial ability for vessels to continue participating in the program. The current per-vessel stipend paid to owners has remained at \$3.1 million since 2012 and is not scheduled to increase until 2019. This fixed price fails to account for the rising costs U.S. vessels face in a competitive global shipping industry. In contrast with exploitive and anti-competitive practices used by flag of convenience operations, including tax and regulatory evasion, U.S. ships comply with stringent tax, environmental and labor standards that place them at an economically competitive disadvantage. Just as significantly, cargo reductions stemming from the draw down in overseas military obligations and reductions in U.S.-flag food aid carriage have significantly impacted the industry's viability. Together, this perfect storm of events have conspired to place the U.S.-flag shipping industry in a perilous position. Absent a funding increase, there will be less incentive or certainty for operators to participate in the MSP and justify the considerable investments necessary to build and maintain military ready vessels.

In order to maintain the MSP, Congress must increase the per-year retainer stipend. Industry and government analysts estimate that the cost disparity between U.S. flag vessels and foreign flag operations exceeds \$5 million and will likely expand. Given these estimates and the aggressively competitive environment in which shipping companies must make decisions, we believe Congress must increase the authorization by \$114 million – effectively raising the per-year retainer to \$5 million per vessel – in order to retain ships. Weighing these projected costs against alternative arrangements is an important consideration. According to independent analysts and the DOD, it would cost the federal government \$63 billion to replicate the vessel and global logistics services provided MSP contactors. Put simply, the MSP funding increase under consideration is an incredible bargain for the federal government for the maintenance of sealift capabilities.

Thankfully, Congress has begun to take steps to meet the financial responsibilities necessary to preserve the program. Sec. 3504 of the recently passed National Defense Authorization Act (NDAA) includes a \$24 million funding increase, which would provide each vessel in the program \$3.5 million – a \$400,000 annual increase – beginning in Fiscal Year 2016. While the President has recently vetoed the NDAA over issues completely unrelated to the MSP, if and when the NDAA is signed into law, it is imperative that appropriators fully fund this increase to keep the program afloat for the fiscal year.

While this short-term increase is helpful, a long-term commitment of \$5 million per year for participating vessels starting in FY 2017 will be needed to stabilize the program. We believe that a provision included in H.R. 702, the crude oil export bill, provides the right funding approach. While TTD takes no position on the underlying piece of legislation, the provision's long-term commitment to the MSP will ensure vessels will have the certainty necessary to participate and financial commitment to prevail against foreign-flag pricing arrangements. This approach would increase MSP funding by \$114 million for Fiscal Years 2017 and 2018, and by \$90 million through Fiscal Years 2019-2021. In fact, this increase has incredible bipartisan support; an amendment by Representative Amash Michigan to remove the MSP funding from the bill failed 306-109. This vote demonstrates the congressional intent for solving the program's funding needs.

The Maritime Security program serves an indispensable role supporting our military and economic security. However, if Congress fails to act – both in the short-term and the long-term – to adequately increase funding, the commercial maritime industries ability to support and supply American troops overseas will be endangered. And with this failure we will jeopardize the increasingly scarce family-sustaining jobs our country so desperately needs.

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