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ON BEHALF OF USA MARITIME

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES

TRANSPORTATION & INFRASTRUCTURE COMMITTEE

COAST GUARD & MARITIME TRANSPORTATION SUBCOMMITTEE

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Introduction

Good afternoon Chairman Maloney, Ranking Member Gibbs, and members of the Committee. Thank you for the opportunity to appear before you today to discuss the state of the U.S.-flag international fleet and the impact of the COVID-19 pandemic on the U.S. maritime supply chain.

My name is Eric Ebeling and I am testifying today on behalf of USA Maritime, a coalition consisting of American-flag vessel owners and operators, trade associations, and maritime labor. USA Maritime is committed to ensuring the U.S. Merchant Marine will always be available to support our warfighters, enhance our economy through trade, and provide great jobs to thousands of Americans across the country.

As we just celebrated Memorial Day earlier this week, and National Maritime Day last Friday, May 22nd, I take the opportunity to reflect on all those men and women who died while serving in the U.S. military to defend our freedoms, and all those serving in the maritime industry past, present and future. At the confluence of these holidays, and on the 75th anniversary of the end of World War II, it is right and proper that we remember World War II merchant mariners, who were recently recognized through the "Merchant Mariners of World War II Congressional Gold Medal Act of 2020", sponsored by Congressman John Garamendi (D-CA) and Senator Lisa Murkowski (R-AK), and signed into law by President Trump on March 14, 2020. Thank you to all of you who supported this long overdue recognition.

As President and CEO of American Roll-On Roll-Off Carrier Group (ARC), it is my honor to lead an incredibly talented team of men and women at the largest U.S.-flag Ro-Ro operator. We own and operate ten roll-on roll-off (Ro-Ro) vessels in international trade, all of which are enrolled in the Voluntary Intermodal Sealift Agreement (VISA[i]), and eight of which are enrolled in the Maritime Security Program (MSP[ii]). ARC Group is committed to investing in the U.S.-flag fleet and U.S. Merchant Marine[iii] to support our armed forces around the world. We have re-flagged five new vessels into U.S. registry since 2016, including three vessels in 2019. All our vessels are crewed by American mariners and fly the American flag. These Ro-Ro[iv] ships have unique capabilities to handle rolling stock – trucks, tanks, helicopters, heavy equipment – and breakbulk that is crucial to supporting military sealift. In addition, we provide stevedoring and related terminal services, multimodal, 3PL, and personal property support services to the Department of Defense (DoD), other federal departments and agencies, and commercial customers.

The U.S.-flag fleet operating in international trade primarily consists of the militarily useful and commercially viable MSP fleet of 60 ships and attendant global networks. There are also a handful of vessels operating in international trade outside the MSP fleet. The MSP fleet provides crucial readiness, capacity, and a core mariner base of over 2,400 highly trained and loyal U.S. citizen merchant mariners to U.S. Transportation Command (TRANSCOM[v]), its components, and the Joint Deployment & Distribution Enterprise (JDDE[vi]). Without the ships, networks and mariners provided by the MSP fleet, it would cost the government tens of billions of dollars to attempt to try to replicate the capabilities provided.

U.S.-Flag Fleet & COVID-19 Impacts

The success of a commercially viable U.S.-flag international fleet is predicated on several factors, all of which must be present together: (1) the MSP readiness retainer stipend, which provides a strong base; (2) U.S. government generated preference cargoes that must move on U.S.-flag ships; and (3) commercial cargo, which is not required to move on U.S.-flag vessels but fills the remainder of the vessel. The cargo groupings vary in terms of relative importance by vessel type and by relative volume over time, but ultimately function together with the stipend to partially offset the higher costs of operating and crewing U.S.-flag vessels vs. foreign flag ships, which is directly attributable to compliance with U.S. laws. The COVID-19 crisis has devastated the cargo segments, thereby undermining the central tenet of the U.S.-flag international fleet.

International Monetary Fund (IMF) forecasts for 2020 indicate that the U.S. economy is expected to shrink by 4.6% for the year, the Euro area is expected to shrink by 7.0%, and China is expected to grow by 1.2%. The idle global container fleet has reached record levels, greater than even during the Global Financial Crisis, with 524 ships idle, equivalent to 2.65M twenty-foot equivalent unit (TEU[vii]) containers. The global container fleet, which consists of three primary alliances, 7 major carriers and several smaller carriers, is experiencing hundreds of blanked or voided sailings. According to one recent industry report, global container liner providers could lose upwards of $23.4 billion in 2020. In the heavy lift or multipurpose (MPP[viii]) sector, which is focused on project cargos and infrastructure development in remote locations year-on-year MPP vessel utilization is down by 75-90%, and "handysize[ix]" freight rates are down 50-70% in Atlantic trades and over 70% in Pacific trades.

Turning to the global Ro-Ro fleet, a recent trade press article noted that some major car carrier routes are showing a 50% drop in demand. Global light vehicle sales in April showed a 45% drop year-on-year, with the U.S. down 45.6%, and some regional year-on-year drops approaching 80%. Production rates vary by region but have often fallen below 50% of normal levels due to supply chain disruptions, weak demand, and the operational constraints of social distancing. The European Commission is considering an economic stimulus package that could include a 20 billion Euro offer to consumers in the EU; details are not finalized but it is expected to incent environmentally friendly passenger cars. In the U.S., some automotive plants have resumed production, and GM, Ford and Fiat-Chrysler are in the process of reopening. However parts shortages forced Mercedes to suspend production at its Alabama plant following reopening in earlier May. The USMCA[x] area produced only 4,840 light vehicles in April, which would not fill even one pure car truck carrier (PCTC) Ro-Ro vessel. Year to date, global PCTC calls are down nearly 17%, with most of the declines in April and May.

For the U.S.-flag fleet generally, the DoD "stop move" policy, which is in effect through June 30th, is the major issue, although we have seen slowly increasing cargoes moving by exception to policy, whether for military unit cargo, sustainment, or personal property over the past several weeks. There has been a concerted effort by TRANSCOM and its Army component, Surface Deployment & Distribution Command (SDDC), to improve forecasting, which is very helpful to carriers as they plan and adjust their networks. However, cargo volumes, whether commercial or preference cargo, are simply not there, and it is unclear whether, when and to what extent underlying demand may return. Further details by U.S.-flag shipping segment:

- The internationally trading U.S.-flag container fleet, consisting of 120,000 TEUs of container capacity, is comprised of the three largest international container lines and operates in four main strings (1 trans-Pacific, 2 trans-Atlantic, and 1 Mideast); U.S.-flag impelled cargo generally fills about 10-15% of the total vessel. While these container liner strings continue to carry DoD sustainment and certain commercial cargoes, it is expected that total combined volumes will decrease by 30% in Q2.
- The MSP Ro-Ro fleet provides over 3.1 million square feet of capacity and exists almost exclusively to carry defense rolling stock and breakbulk cargoes. There are select cargoes moving by exception to the "stop move" policy but U.S.-flag Ro-Ro cargoes in Q2 may be down by as much as 75-90%.
- The DoD "stop move" order is also impacting the MPP heavy lift sector, and U.S. Export-Import Bank[xi] and other civilian agency project cargoes are being delayed into 2021; several such vessels have entered into warm layup and others may be left with no choice but to join.
- In the tanker space, while there is a lag in impact due to the nature of the market space, the U.S.-flag market cargo expectation is a reduction of at least 25-30% in liquid preference cargoes for the year.

The continued availability of the MSP fleet's capabilities to TRANSCOM and the JDDE is critical to DoD's ability to meet the sealift requirements of the Mobility Capability Requirements Study (MCRS[xii]) and in the national interest from an economic and national security standpoint. DoD's commercial partners and the

mariner base must remain viable to support DoD needs regardless of the global economic environment. TRANSCOM is currently conducting an update to the MCRS, which will help identify long term organic and commercial sealift capacity requirements to meet operational needs. In an address last week on National Maritime Day (May 22, 2020), TRANSCOM Commander General Stephen Lyons noted "the United States' ability to project across trans-oceanic distances remains a strategic comparative advantage and is admired by both friends and adversaries. TRANSCOM, working with the Maritime Administration (MARAD) and key industry partners, provides an essential element of deterrence and if necessary, the unquestionable ability to respond with overwhelming decisive force, most of which will be moved by sealift. The resultant combined effort is a world order that encourages peace and opportunities for freedom, while deterring great power war for over 75 years and counting." There remains an enduring need to think long term, beyond the current crisis, on how commercial partners must remain viable to support DOD needs despite the global economic environment. This is why, notwithstanding the impacts of COVID-19, MSP carriers have been continuing to deliver the goods when and where needed.

In Peace and War

The historical highpoints for the U.S.-flag international shipping industry have occurred in the years following World War II, during and immediately after both the Korean War and the Vietnam War, and most recently during Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF) in Afghanistan. Over 90% of all military equipment is shipped overseas by sea because of the scale and scope of the cargo, and the cost efficiency of moving it by sea versus air, with the preponderance of it generally shipped via the U.S.-flag international fleet. There is a direct correlation between declining defense spending and the decline of the U.S.-flag fleet and merchant marine. More to the point, when DoD is most active, and defense spending is higher, the cargo base is larger and therefore the fleet sizes up accordingly. In the 1960s, national defense spending averaged 8-9% of GDP but by the end of 1970s, it was 5%. In the 1980s, it recovered to 6%, before declining again with the end of the Cold War, and by the end of the 1990s, it was under 3%. Defense spending reached a recent peak of 4.5% in 2009 before resuming a decline.

Not coincidentally, the U.S.-flag fleet has fallen from a recent high of 107 ships in international trade in 2010-2011 to a recent low of 77 ships in 2016 due to major decreases in defense and other preference cargoes, as well as the failure of the MSP stipend to keep pace adequately with rising costs generally and in particular a widening discrepancy between U.S.-flag operating and foreign-flag costs. The MSP fleet has stabilized over the past several years due to an increase in the MSP stipend that took effect in FY17. In December 2019, Congress wisely reauthorized MSP through 2035, which provides much needed longer-term stability as carriers invest in new assets and their networks for the long term. Having only just stabilized over the past several years, the U.S.-flag fleet now faces the twin catastrophes of imploding government and commercial cargo markets, impacting carriers' ability to maintain service, and in turn negatively impacting fleet, network and mariner readiness and by extension TRANSCOM/JDDE readiness.

All container operators and most Ro-Ro carriers in MSP operate in liner service, which is a standard industry term for regularly scheduled service with a fixed port range. U.S.-flag container carriers operate on a fixed weekly service schedule, with round trips ranging from 35 days to 77 days. Ro-Ro liner service follows the same general principle although it is usually more flexible on port range but less frequent. Liner services generally fulfill the schedule unless the vessel is unduly delayed due to natural or man-made causes. When any liner service sailing is blanked, the vessel in question will be idle until the next opening in the string to resume trading. To maintain service (and by extension, readiness for DoD), carriers may decide to operate higher cost U.S.-flag service when cheaper non-flag options may exist in a given carrier network. The remainder of MSP vessels operate on a contract of carriage or fixture basis, providing worldwide transport without a fixed trade lane, often to remote locations; such vessels are reliant on a base cargo that is often

accompanied by smaller lot cargos for different customers. COVID-19 has dramatically impacted base cargoes resulting in idling of vessels.

Thus, while there are major differences in the reductions by market segment, due in part to the underlying service profiles, all U.S.-flag services are being dramatically impacted by the changing cargo dynamics. The extra costs of dealing with the crisis combined with lost revenues total hundreds of millions of dollars in total impacts. MARAD has compiled statistics showing a decline of $58.8M in government-impelled cargo revenues to MSP carriers in just the first quarter of 2020 vs. Q1-2019, and due to the lag effect on supply chains and cargo, most of the impacts, which only started in mid-March 2020, will be much harder felt in the second quarter and beyond. The latest statistics compiled by MARAD for April 2020 show government-impelled revenue declined by at least 47% across the MSP fleet vs. April 2019.

U.S.-flag carriers have taken various steps to manage costs, stay competitive, and maintain service. These include slow steaming; omission of port calls where there is insufficient volume to justify the cost of a port call; and eliminating holiday, weekend, and other overtime work where possible. Verifying cargo availability and accurate forecasting are critical, as is optimizing vessel utilization given the impacts to overall cargo volumes. Absent any national security and DoD-related readiness-driven considerations, U.S.-flag carriers would be even more aggressively adjusting to the dramatic decreases in cargo and revenue and taking assets and crews out of service.

Carriers are working closely with maritime labor, the U.S. Coast Guard, state and local authorities, agents, ports, and other parties as appropriate on COVID-protection measures. Social distancing, cleaning, and personal protective equipment (PPE) protocols are important to maintaining the health and safety of our people. Access to testing kits, certain overseas crew changes for select MSP vessels that do not call U.S. ports, and PPE remain challenges. However, the result of our joint efforts to date is that there have been no known outbreaks of COVID-19 on U.S.-flag MSP ships. It is probably unrealistic to believe that this trend will continue indefinitely, but it is a testament to the collective efforts of labor and management, balancing safety and health while continuing to meet the mission, that it endures today.

Challenges & Opportunities

Smart and effective maritime policy, whether legislative or executive action, has always underpinned the success or failure of the U.S.-flag fleet in international trade, and the COVID-19 crisis is no exception. In a theoretical free enterprise economic model, and absent DoD cargoes, other preference cargoes, and MSP, there would be no American citizen crews and no U.S.-flag international carriers. Today, as a result of the commitment of the Department of Defense to the utilization of the U.S.-flag commercial fleet and the support of the Maritime Security Program, the U.S.-flag fleet in international trade is largely stable, but the COVID crisis threatens that stability, and the thousands of mariner jobs that go with it.

It should be noted that the CARES Act and other legislative and Administration actions have helped to stabilize certain aspects of the situation for parts of the industry, including payroll protection and access to loans. While USA Maritime appreciates the actions taken so far, the work is incomplete. Some have not unreasonably queried whether U.S.-flag carriers operating under MSP can access the $17 billion set aside for defense contractors under the CARES Act. Fundamentally, the $17 billion is for loans to businesses critical to maintaining national security. One might think that U.S.-flag carriers supporting DoD sealift might reasonably qualify, but due to the DX-priority[xiii] or valid top-secret requirements, they do not. The fundamental question is what level of readiness is being sought for the U.S.-flag MSP fleet in international trade. Today's MSP rules allow operators a substantial degree of freedom provided they meet 180 minimum operating days per fiscal year, and under normal circumstances, when both government and commercial cargoes are moving in reasonable volumes, most carriers can not only meet that threshold but also the 320

minimum operating days necessary to receive the full MSP stipend for the fiscal year. But with both cargo sets decimated, the stipend by itself is not enough to maintain any approximation of normal service.

Congress and the Administration should consider three actions to ensure that the militarily useful and commercially viable MSP fleet, and the thousands of merchant mariner jobs that go with it, remain at the ready to support national defense and economic security missions:

- First, in recognition of the close partnership between DoD/TRANSCOM and commercial carriers, specifically DoD's reliance on commercial sealift to deploy and sustain the force, Congress should consider an emergency stipend through the remainder of FY20, and if necessary beyond, aimed at addressing the extraordinary costs for readiness that are being borne by MSP carriers. Put another way, carriers should be compensated for their maintenance of service (and readiness), as opposed to putting ships in cold layup, or scrapping/recycling, or flagging out, as carriers might otherwise do if not dedicated to supporting DoD. As per its previously submitted detailed proposal, in order to ensure continued readiness as well as maximum mariner employment feasible, USA Maritime urges Congress to authorize and appropriate $109.8 million ($1.83 million per MSP vessel) for the period April 1, 2020 to the end of the current fiscal year, as well as to authorize $1.82 million per vessel with a total authorization of $109 million for the period October 1, 2020 to March 31, 2021 to be appropriated as needed. This is what is necessary to maintain full-service levels and full employment and minimize impacts to national security levels.

- Second, under America's cargo preference laws[xiv], 100% of all military cargoes and at least half of all civilian agency cargoes must be shipped on U.S.-flag vessels. This has been the official policy of the Federal Government since at least 1904, and it has long been a cornerstone of American national defense. Whether by legislation or executive order, 100% of all government-owned or financed cargoes should be required to move on U.S.-flag ships. It is a rather simple equation: without cargo, carriers will not invest in ships, and without ships, there will not be jobs for merchant mariners. Without those merchant mariners, the Government-owned reserve fleet cannot be crewed. In a letter addressed to this Committee dated May 15, 2020 signed by TRANSCOM Commander General Stephen Lyons, he called for requiring "100 percent of all government-impelled cargoes to be transported on U.S. flagged vessels"; USA Maritime strongly endorses the recommendation.

- Third, consider accelerating the recapitalization of the government-owned sealift fleet, specifically the Ready Reserve Force (RRF[xv]) fleet, in the most cost-effective manner, which is to buy used foreign-built ships, with a first priority for buying used ships through U.S.-flag carriers. Some may raise the notion that such ships should be built in U.S. shipyards, and that is a laudable goal, although it is a relatively little-known fact that 86% of the 35 Ro-Ros in the RRF today were foreign built, so this would hardly be treading new ground. But the state of the RRF is woeful now (average ship age 45 years old), the U.S. Navy has many other competing budgetary shipbuilding priorities, and as a result of the COVID crisis there are more readily available used foreign built ships available now. TRANSCOM Commander General Stephen Lyons noted in testimony earlier this year that RRF "sealift readiness rates have declined to 59% compared against a goal of 85%, with vessel material condition and age as the primary factors". As we consider sealift that the nation needs, specifically whether to continue to pursue service life extensions, build new, or buy used, let us not let perfect be the enemy of good. DoD should act on the seven authorizations already in place for buy used, and Congress should authorize and appropriate for additional purchases in the near term. Including a first priority for used U.S.-flag foreign built MSP/VISA ships over foreign-flag foreign built ships would be a "win/win", as carriers could sell or charter assets to the government that are much younger than today's RRF ships, and in turn use the proceeds to reinvest in newer tonnage for the MSP/VISA fleet.

Conclusion

The National Defense Strategy (NDS) focuses on the return of Great Power competition and all that it entails. In furtherance of NDS readiness mission assurance, the Defender Europe 2020 exercises comprised the largest NATO exercises in 25 years. There was a concerted sealift component to the exercises, and although Defender 20 was eventually significantly curtailed due to COVID-19, it is still ongoing, and indeed ARC recently carried redeploying unit cargo from Germany and Poland back to the United States. With assets and networks valued in the tens of billions of dollars, the active U.S.-flag commercial fleet operating in international trade continues to be a "best buy" – significantly more cost-effective to the Government than acquisition, operation, and maintenance of Government-owned/operated assets or attempting to build such networks.

I started this testimony by emphasizing remembering our World War II mariners, but let us also bear in mind the need to ensure we maintain a strong U.S.-flag fleet today so that we ensure we have the necessary assets and hard-working U.S. merchant mariner crews that are essential to the pursuit of national and economic security objectives today and tomorrow. I close by highlighting another excerpt from TRANSCOM Commander General Stephen Lyons in the aforementioned letter to this Committee dated May 15th in which he stated "given the economic downturn as a result of COVID-19, I urge you to favorably consider the relief requests from VISA and MSP carriers". Thank you for the consideration and thank you for the opportunity to be here today. I look forward to your questions.

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[i] Voluntary Intermodal Sealift Agreement (VISA): jointly sponsored program by the U.S. Maritime Administration and TRANSCOM. VISA provides TRANSCOM with assured access to U.S.-flag assets, specifically the staged, time-phased availability of U.S.-flag commercial carriers' shipping services and intermodal systems. Through pre-negotiated contracts, TRANSCOM is able to meet DOD contingency requirements in the most demanding defense-oriented situations. The MSP/VISA fleet is always active in commercial trade but can be activated for defense purposes by the Commander of TRANSCOM with the approval of the Secretary of Defense. Throughout any stages of this agreement, DOD may utilize voluntary commitment of sealift capacity or systems.

[ii] Maritime Security Program (MSP): a federal maritime financial sustainment program that provides for a fleet of modern U.S.-flagged and U.S.-crewed militarily useful sealift assets operating in international trade. The MSP fleet enables the U.S. Government to provide sealift for U.S. armed forces utilizing the resources of the U.S.-flag commercial fleet, and the presence of a U.S.-flagged commercial fleet operating in international trade enables the government to pursue generous overseas economic and agricultural assistance programs. The MSP fleet provides a U.S. national security asset at a substantially lower cost than the government owning and maintaining an equivalent capability. An amendment to the Merchant Marine Act of 1936, it was first passed in 1996, and originally comprised a fleet of 47 U.S.-flag militarily useful vessels. When MSP was reauthorized in 2003, the fleet was expanded to 60 ships. The program is currently authorized through 2035. MSP provides its U.S.-flag ship-operating participants with a stipend that helps to offset the relatively higher costs of flagging, crewing, and operating a U.S.-flag vessel.

[iii] U.S. Merchant Marine: often referred to as "The Fourth Arm of Defense", the United States Merchant Marine has its origins in 1775 and the Revolutionary War and throughout its existence, as exemplified by its flag motto of "In Peace and War", has had a dual nature to support the nation's trade during times of peace but to switch into a supporting role in time of war. The term can refer to either U.S. civilian mariners or to U.S. civilian and federally owned merchant vessels. Merchant Mariner officers may also be commissioned as military officers by DoD.

[iv] Roll-on Roll-off (Ro-Ro): self-sustaining cargo ships designed with ramps primarily to carry wheeled cargo such as cars, trucks, buses, semi-trailer trucks, trailers, locomotives, railcars, helicopters and other vehicles driven on and off the ship on their own wheels or using an assisting platform vehicle. Common Ro-Ro vessel types include pure car carriers (PCCs), pure car/truck carriers (PCTCs), large car/truck carriers (LCTCs), Ro-Ros (focused on high and heavy equipment), container/Ro-Ros (Con-Ros), and Ro-Ro passenger (Ro-Pax) vessels. The MSP Ro-Ro fleet is comprised of primarily PCTCs.

[v] U.S. Transportation Command (TRANSCOM): one of eleven unified combatant commands of the United States Department of Defense. The command is located at Scott Air Force Base, Illinois, was established in 1987 and coordinates missions worldwide using both military and commercial transportation resources. Its components include Air Mobility Command (AMC), Military Sealift Command (MSC), and Surface Deployment & Distribution Command (SDDC). Commercial industry is often referred to as the "fourth component" of TRANSCOM.

[vi] Joint Deployment & Distribution Enterprise (JDDE): an integrated DoD system consisting of assets, materiel, personnel, leaders, organizations, tools, training, facilities, and doctrine capable of providing prospective joint force commanders with the ability to rapidly and effectively move and sustain joint forces in support of major combat operations or other joint operations.

[vii] Twenty-foot Equivalent Unit (TEU): a container shipping industry standard used to describe the capacity of container ships and container terminals based on the volume of a 20-foot-long (6.1 m) intermodal container, a standard-sized metal box which can be easily transferred between different modes of transportation, such as ships, trains and trucks. There is also a standard container with the same width but double length called a 40-foot (12.2 m) container known as a forty-foot equivalent unit (FEU).

[viii] Multi-Purpose Vessel (MPP): sometimes also referred to as MPV or heavy lift vessels, encompasses ships built for the carriage of a wide range of cargoes including but not limited to large dimension projects, wood, steel, building materials, rolls of paper and bulk cargo.

[ix] Handysize: naval architecture term for smaller bulk carriers generally with deadweight of up to 50,000 tons.

[x] USMCA: United States-Mexico-Canada Agreement, a free trade agreement that is a successor to the North American Free Trade Agreement (NAFTA).

[xi] U.S. Export-Import (EXIM) Bank: established in 1934 as the official export credit agency (ECA) of the United States. Operating as a wholly owned federal government corporation, the Bank assists in financing and facilitating U.S. exports of goods and services. EXIM promotes U.S. goods and services at no cost to U.S. taxpayers, protecting "Made in America" products against foreign competition in overseas markets and encouraging the creation of American jobs. There are strict U.S. content rules associated with EXIM financing, and certain project cargoes financed by EXIM must move on U.S.-flag vessels.

[xii] Mobility Capability Requirements Study (MCRS): a series of mobility studies undertaken by TRANSCOM and the Cost Assessment and Program Evaluation (CAPE) organization within the Office of the Secretary of Defense (OSD), the most recently completed of which is designated MCRS-18. The studies asses the number of tanker aircraft, airlift aircraft and sealift ships needed to meet future combatant commander requirements and are generally undertaken pursuant to Congressional National Defense Authorization Acts (NDAAs).

[xiii] DX priority: a priority rating under the Defense Priorities & Allocations Systems (DPAS). DPAS ratings assure the timely availability of industrial resources to meet current national defense and emergency preparedness program requirements and to provide an operating system to support rapid industrial response in a national emergency. The Defense Production Act of 1950 authorized the President to require preferential treatment of national defense programs. All prime contracts, subcontracts or purchase orders in support of an authorized program are given a priority rating. A DX rating is assigned to those programs of the highest national priority. Per DoD 4400.1-M, OSD AT&L approves DO rated orders and nominates to the Secretary of Defense for approval of DX rated orders. An unrated order is a commercial order or a DoD order that is not ratable. A DX rating takes priority over a DO rating which takes priority over an unrated order. Rated programs are also given a program identifier symbol. DPAS issues are supposed to be resolved at the lowest level possible.

[xiv] Cargo preference laws: the reservation by law for transportation on U.S.-flag vessels of all, or a portion of all, ocean-borne cargo which moves in international trade either as a direct result of the Federal Government's involvement, or indirectly because of the financial sponsorship of a Federal program or guarantee provided by the Federal Government. The U.S. cargo preference laws are part of the overall statutory program to support the privately-owned and operated U.S.-flag fleet and merchant marine. Cargo preference requires that U.S. Government-financed cargoes be shipped on U.S.-flag vessels, provided that such vessels are available at fair and reasonable rates. Preference cargoes are the key incentive for U.S.-flag operators operating in international trade to remain under U.S. registry and provide a vital cargo base to help offset foreign flag cost advantages. The primary U.S. cargo preference laws are set forth in the Cargo Preference Act of 1904, Public Resolution 17 (1934), and the Cargo Preference Act of 1954. The 1904 Act requires that 100% of all military cargoes- purchased for or owned by U.S. military departments- be shipped exclusively on vessels of the United States or belonging to the United States. PR 17 requires that all cargoes generated by the U.S. Export-Import (Ex-Im) Bank be shipped on U.S.-flag vessels unless a waiver is granted by the Maritime Administration. The Cargo Preference Act of 1954 requires that at least 50% of civilian agency cargoes be transported on U.S.-flag vessels.

[xv] Ready Reserve Force (RRF): a subset of the National Defense Reserve Fleet (NDRF), the RRF component was established in 1976 to provide rapid deployment of military equipment and currently consists of 46 vessels (35 of which are Ro-Ros) that are crewed with a reduced crew but kept available in reduced operating status (ROS) for activation within a set timeframe (usually 5 days). Upon activation, RRF vessel control transfers to Military Sealift Command (MSC), the naval component of TRANSCOM [MSC also has reporting lines to Navy Fleet Forces Command for Navy-unique matters and to the Assistant Secretary of the Navy (Research, Development and Acquisition) for procurement policy and oversight matters]. The RRF fleet budget for FY19 was $310,805,000 (average of $6.76 million per ship) and for FY20 was $352,044,000 (average of $7.65 million per ship).