

ISSUE BRIEF

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Congressional Energy Export Reform Should Not Be Distracted by Questionable Subsidy

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Congress is striving to lift a ban on U.S. oil exports that will strengthen the economy. However, this effort is being sidetracked by a subsidy hike for the Maritime Security Fleet, despite no explanation of how these ships relate to energy policy, no explanation of why an increase in the subsidy is necessary, and no justification for the fleet's continued existence.

The Maritime Security Fleet is administered by the Maritime Security Program (MSP) through the Maritime Administration (MARAD) within the U.S. Department of Transportation. It consists of 60 ocean-going, U.S.-flagged commercial vessels. The MSP's declared purpose is to sail "a fleet of active, commercially viable, militarily useful, privately owned vessels to meet national defense and other security requirements."¹ It currently costs hundreds of millions of taxpayer dollars to sustain this fleet.² The MSP needs this subsidy because it cannot otherwise compete with the more cost-effective foreign-flagged market.

Lack of Relevance to Energy Policy

The MSP has no relevance in the debate over the oil export ban. In a brief explanation of the need for this subsidy hike, no connection is made to energy policy.³ Regardless of whether the MSP contributes to national security, this issue has no connection to U.S. energy policy.

Further Justification of Funding Increase Necessary

The argument for increasing the MSP subsidy is that "increasing costs and decreasing availability of government impelled cargoes has resulted in the need for a higher stipend in order to assure that U.S.-flagged, U.S.-crewed vessels remain available to meet the national defense sealift requirements of the U.S. and its allies that depend on U.S. military protection."⁴ It is possible that this increase is due to the MSP fleet's expecting less work with the drawdowns of military operations in Iraq and Afghanistan combined with the lack of commercial-sector work because these ships are not cost-competitive with their foreign-flagged counterparts, but no explanation has been provided.

This increases funding by roughly \$2 million per vessel per year for the stated time period.⁵ The MSP needs to explain why its fleet's costs are increasing at a time when global shipping costs have plummeted.⁶

Maritime Security Program's Questionable Utility

The Maritime Security Program was established in 1996 in part as a response to the reliance on foreign-flagged vessels for sealift operations in Operations Desert Shield and Desert Storm. In these engagements, the Department of Defense (DOD) activated all of its sealift vessels: 25 Afloat Prepositioning Force ships, eight fast sealift ships, and 70 Ready Reserve Force ships. However, due to the massive scale of these operations, the DOD had to charter a significant number of vessels to fulfill all sealift needs.⁷ This included 191 chartered dry cargo ships, of which 85 percent were foreign-flagged, and 50 chartered tankers, of which 38 percent were

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foreign-flagged.⁸ Together, these foreign-flagged chartered vessels represented over half of all sealift vessels deployed in these engagements and an estimated one-fifth of all cargo transported.

Military Sealift Command gives a preference to U.S.-flagged vessels when it seeks additional capacity through charters, but there were very few militarily useful U.S.-flagged vessels at the time of Operations Desert Storm and Desert Shield. These operations subsequently supplanted their sealift need with foreign-flagged vessels, with few challenges. The foreign-flagged charters were also reportedly more responsive and less expensive than the ships in the Ready Reserve Fleet.⁹

In Operation Iraqi Freedom (OIF), 57 vessels were chartered to supplement the Ready Reserve Fleet and Military Sealift Command, 17 of which were foreign-flagged vessels. This illustrates a marked decrease in foreign-flagged chartered vessels relative to Operations Desert Shield and Desert Storm. However, this decrease could be attributed to the creation of the MSP and the lower scale of sealift need during OIF rather than to a national security-based need for relatively fewer foreign-flagged charters.

A primary argument for the MSP's continued existence is that the U.S. cannot risk placing its sealift needs on foreign-flagged vessels whose countries of origin might not come to America's aid for political or security reasons. However, evidence of a lack of support from foreign-origin vessels to support U.S.

operations is limited to a handful of instances. At the very least, Congress should consider whether this is a legitimate threat in an increasingly interconnected global shipping market before continuing to fund this program at all, let alone increase its funding. Many of the countries that supply the vessels, labor, and flagging to the global shipping market are U.S. treaty allies or have strong relationships with the U.S.

If sustaining a merchant marine fleet is in fact a national security priority, then the causes of this fleet's decline must be examined before more taxpayer dollars are used to subsidize it. One cause of the MSP's decline is that it is simply more expensive to operate a U.S.-flagged vessel than a foreign-flagged one. MARAD reported in 2011 that U.S.-flagged vessels incurred operating costs that were more than double—and in some cases were even triple—those of their foreign-flagged counterparts.¹⁰ If U.S. policymakers want to increase America's merchant marine base sustainably, they should look to make the market more competitive by reducing regulations that increase operating costs rather than continuing to spend hundreds of millions of dollars annually on subsidies.

To continue to support economic growth while being responsible stewards of taxpayer dollars, Congress should:

- **Lift the oil export ban on its own merits.**¹¹ Unrelated policy issues such as whether to fund the MSP have no bearing on this debate.

1. U.S. Department of Transportation, U.S. Maritime Administration, "Maritime Security Program," <http://www.marad.dot.gov/ships-and-shipping/strategic-sealift/maritime-security-program-msp/> (accessed October 7, 2015).

2. Current law authorizes the Secretary of Transportation to pay \$3.1 million per MSP vessel per year through 2018. This totals \$186 million per year. 46 U.S. Code § 53106 (a)(1)(c).

3. Committee Print 114-29, H.R. 702, To Adapt to Changing Crude Oil Market Conditions, Section by Section, Committee on Rules, U.S. House of Representatives, 114th Cong., 2015, <https://rules.house.gov/sites/republicans.rules.house.gov/files/114/PDF/114-HR702-SxS.pdf> (accessed October 7, 2015).

4. *Ibid.*

5. 46 U.S. Code § 53106 (a)(1)(c).

6. Wolf Richter, "Container Shippers from China to Europe Are Experiencing the Biggest 'Rate Collapse That This Trade Has Experienced,'" *Business Insider*, June 22, 2015, <http://www.businessinsider.com/the-cost-to-ship-containers-is-crashing-2015-6> (accessed October 6, 2015).

7. Ronald F. Rost, John F. Addams, and John J. Nelson, "Sealift in Operation Desert Shield/Desert Storm: 7 August 1990 to 17 February 1991," Center for Naval Analyses, June 11, 1991, <http://www.dtic.mil/dtic/tr/fulltext/u2/a246480.pdf> (accessed October 6, 2015).

8. *Ibid.*

9. *Ibid.*

10. U.S. Department of Transportation, U.S. Maritime Administration, Comparison of U.S. and Foreign-Flag Operating Costs, September 2011, p. 3-4, http://www.marad.dot.gov/wp-content/uploads/pdf/Comparison_of_US_and_Foreign_Flag_Operating_Costs.pdf (accessed October 6, 2015).

11. Nicolas D. Loris, "Time to Lift the Ban on Crude Oil Exports," Heritage Foundation Backgrounder No. 2910, May 15, 2014, <http://www.heritage.org/research/reports/2014/05/time-to-lift-the-ban-on-crude-oil-exports>.

- **Obtain further explanation of the need for increased MSP funding.** So far, little information has been provided about the cost increases that supposedly necessitate higher ships stipends. Congress should execute its oversight responsibility by asking for a clearer explanation of these increases before authorizing any funds.
- **Ask MARAD to justify the continued existence of the MSP.** With costs of this globally uncompetitive commercial fleet supposedly increasing, and given the DOD's willingness and ability to charter foreign vessels to amplify its sea-lift capacity when necessary, the relevance of the Maritime Security Program for national security purposes is questionable. If a justification cannot be reasonably provided, then Congress should consider ceasing to subsidize this fleet.

Lifting the ban on oil exports will greatly benefit the U.S. economy. This action should not be slowed or hampered by tying it to unrelated, questionable government programs such as the Maritime Security Program.

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