President Obama’s belated budget proposal for the coming 2014 fiscal year highlighted three key federal funding issues affecting the U.S. maritime community – issues Congress will have to deal with. The easy cuts have been taken, and the survival of important maritime programs is threatened by the requirements of sequestration which, if left alone, will inexorably squeeze the life out of them.

First, the President’s budget proposed fundamental change to the nation’s foreign food aid program by effectively defunding Food for Peace, also known as the PL-480 program, in favor of cash donations abroad. The budget would cut the program by about half immediately and then effectively end the program by transferring funding entirely to foreign cash transfer programs.

Second, the President’s budget proposed deep cuts in funding for the acquisition budgets of the U.S. Coast Guard and U.S. Navy that will hurt shipbuilding and other acquisition programs.

Third, the President’s budget again fails to address meaningfully the need to spend the billions of dollars in surplus in the Harbor Maintenance and Inland Waterways Trust funds, which should be used for badly needed infrastructure improvements that will employ American workers and improve our nation’s economy.

**FOOD FOR PEACE**

Obama’s budget proposes in fiscal year 2014 to cut by one-half the PL-480 food aid program in favor of transferring the funds abroad for the purchase of food from foreign farmers and food suppliers. Thereafter the program would be entirely defunded in favor of foreign cash payments. The Administration argues that more famine-stricken persons will be aided with the savings to be realized by not purchasing U.S.-grown, processed, and transported food.

However, this is disputed by key food aid groups, including members of the Alliance for Global Food Security, a coalition of private voluntary aid organizations and others helping famine-stricken people in over 100 countries. The Alliance argues that the higher cost of foreign-purchased food will not result in savings and that preferred high-nutrition food sources produced in the U.S. are not even available for purchase in famine-stricken areas.

USA Maritime Chairman Jim Henry decried the proposal as “misguided.” He highlighted the 60-year success of the program, which has benefited three billion people in over 150 countries worldwide. He also explained that 44,000 American jobs depend on the program and that it has proven essential to the maintenance of the U.S. merchant marine, which is vital to sustaining our national sealift capacity as demonstrated most recently in the wars in Iraq and Afghanistan. According to Henry, the Food for Peace program has already sustained budget cuts totaling 35 percent since 2008 as part of budget-reduction measures, so it is not as though the program has not been trimmed.

Furthermore, he argues that “shifting American jobs overseas is the last thing any Administration should be proposing.”

Maritime Administrator David Matsuda recently testified before Congress that approximately 50 of the 100 ships in the U.S.-flag international fleet carry food aid and 30 are put “at risk” by the President’s proposal. Admiral James Lyons, former
Administration’s FY 2014 budget proposal threatens major cuts to key maritime and military programs.

Commander of the U.S. Navy’s Pacific Fleet, also warned that the loss of these U.S.-flag ships to foreign flags threatens the government’s rapid-response sealift capability by eliminating a critical mass of U.S. merchant marine jobs.

COAST GUARD AND NAVY CUTS

Sequestration mandated $1.2 trillion in automatic spending cuts over a decade. And the security portion of the budget must absorb a larger share of the cuts than the non-security portion. The debilitating impact of those deep cuts on our national security capabilities is illustrated palpably in the new Coast Guard and Navy budgets proposed by the President. As widely reported, the Coast Guard and Navy have already announced material cuts in operations due to the sequestration mandate this year.

The President’s request for the Coast Guard proposes cutting the service overall by 13 percent, including 37 percent for new ships and aircraft on an inflation-adjusted basis compared to current funding. In a breathtaking move, the proposal cuts aircraft acquisition by over 90 percent. The funds saved from ending aircraft acquisitions are used to fund construction of the seventh National Security Cutter (NSC). On a particularly ominous note, the proposed budget requests no funds for the eighth NSC, which is critical for the service to maintain its operational capability offshore. And regarding much-needed polar icebreaker capability, the President’s budget also effectively kills that by requesting a pitance for continued studies.

In recent testimony before Congress in April, Commandant of the U.S. Coast Guard Admiral Robert Papp warned that maintenance “on antiquated, obsolete equipment continues to erode the buying power of operating funds” and signaled that he feared a return to an era in Coast Guard operations when it was “almost impossible to carry out missions and train.” During testimony by Secretary of Homeland Security Janet Napolitano, Senator Mary Landrieu (D-LA) decried the Administration’s proposed cuts to Coast Guard acquisition programs and argued that the Coast Guard budget was cut primarily to fund a $714 million homeland security construction project in Manhattan, Kansas.

In these key respects, the Administration’s failure to propose funding for essential needs and its decision to fund what it does by effectively ending the service’s aviation acquisition program all but guarantee that the Coast Guard will soon be a hollow force, unable to fulfill the missions demanded of it by the American people.

Likewise, the U.S. Navy is facing severe cuts. As a result, the size of the fleet will shrink from 280 to 250 ships, and the maintenance backlog will grow from $9 billion to $23 billion. The shipbuilding budget will be slashed by $3 billion annually, and the number of new ships will drop from eleven in fiscal year 2011 to eight in 2014. These cuts will ripple across America’s maritime security industries.

PORTS AND WATERWAYS INFRASTRUCTURE

Once again the President’s budget would expend only about half of the $1.7 billion in annual revenue collected by the nation’s Harbor Maintenance Trust Fund. The Administration thereby ignored the “Sense of Congress” expressed in the most recent
transportation authorizing legislation that the full amount of annual Harbor Maintenance Tax revenues be expended on badly needed navigational projects. As a result, this Congress will likely feature another major push for these funds to be spent for the purposes for which they were collected.

The President’s budget also cuts programs of the U.S. Army Corps of Engineers that support navigational and port modernization projects. The proposal cuts the port modernization program by $120 million, from $1.47 billion to $1.35 billion. Likewise, the coastal navigation budget was cut $43 million from $151 million in the FY 2013 request to $108 million in the FY 2014 request. These cuts represent an ominous trend of reductions in funding for critically important navigation and infrastructure projects.

Additionally, a pressing need exists to fix the Inland Waterways Trust Fund and the funding and appropriations mechanisms for improvements to our nation’s inland waterways. In recent years, funds available from the trust fund have proven inadequate to the pressing need to modernize major navigational works that have grown obsolete. Congress, the Bush Administration, and now the Obama Administration have proven unable to agree upon a fiscally responsible plan that will ensure the continued efficient functioning of these critically important transportation arteries.

CRITICS OF THE JONES ACT RESURFACE
In addition to pressing budgetary issues, another subject of potential legislative activity in the 113th Congress is the Jones Act, which basically requires that transportation of merchandise between two ports within the U.S. be provided by U.S.-built, owned and crewed vessels. This requirement has come under attack in the past by critics, e.g., Senator John McCain (R-AZ), who argue that it is unwarranted protectionist legislation that has long outlived its usefulness.

Prominent critics, including Jim Cramer of CNBC’s popular financial news program Mad Money, have launched a new round of attacks tied principally to the increasing demand for domestic petroleum transportation capacity from the U.S. Gulf to the Northeast. Reports indicate that the increased production of shale oil fields in Texas has exceeded Gulf Coast refining capacity, and there is increasing demand for this crude to be transported to the Northeast for refining. These economic pressures provide a powerful incentive for a legislative initiative for expanded legislative exemptions or waivers from the requirements of the Jones Act.

FUTURE OF KEY PROGRAMS AT STAKE
National headlines will likely continue to feature the threats presented to the U.S. by Iran, North Korea, Syria, and terrorism. At home, the media’s attention to domestic issues will likely feature the historic struggle between the President and his Republican opponents over immigration reform. But in the coming months important decisions about the future of key American maritime programs will be taken by this Congress, even if only through inaction.