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BEFORE THE
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON COAST GUARD AND
MARITIME TRANSPORTATION
UNITED STATES HOUSE OF REPRESENTATIVES

April 16, 2013

Mr. Chairman, Ranking Member Garamendi and members of the Subcommittee, thank you for this opportunity to present the President's Fiscal Year 2014 budget for the Federal Maritime Commission. Having been recently designated as Chairman of the Federal Maritime Commission by the President, it is an honor to appear before you today.

The President's Budget for the Federal Maritime Commission ("Commission" or "FMC") provides $25,000,000 for Fiscal Year 2014. This represents an increase of $900,000 over the enacted Fiscal Year 2013 appropriation, and an increase of $2,160,575 above the Commission's post-sequestration funding level.

Our FY 2014 budget request contains $18,478,000 for salaries and benefits to support the Commission's programs. This figure includes funds for salaries and benefits for 126 full-time equivalent employees, including the 123 positions expected to be onboard at the end of FY 2013 and three entry-level positions to backfill some critical vacancies. It also includes funding for the anticipated January 2014 pay increase.

Official travel has been reduced to $170,000. This funding level is an increase of $40,000 above the Commission's post-sequestration 2013 funding level and represents a 17% reduction below the Commission's 2012 travel expenses. The ability of our staff to travel to meet with the global industry we regulate and our foreign counterparts remains an essential part of our effort to provide better service to the ocean transportation industry and to accomplish our oversight duties more effectively.

Administrative expenses to be funded in FY 2014 to support our usual and customary business expenses, such as rent, security, telephones, postage, commercial and government contracts, and supplies, have increased to $806,475 from post-sequestration FY 2013 funding level. This includes an increase of $24,000 for printing, including mandatory printing of Commission issuances in the Federal Register. It also includes an increase of $102,000 associated with a new General Services Administration (GSA) lease for office space effective in

November 2012. It also includes very modest increases of $38,000 to acquire much-needed IT hardware and software, $40,000 to train current staff, and $88,000 for supplies and materials, most of which is to acquire materials that could not be purchased in FY 2013. The remaining $514,575 increase is required for government and commercial contracts, including the cost of facilities and data security, shared government services and technology investments to improve efficiencies and maintain mission-critical computer applications. The Commission is working on improving technology to disseminate public information efficiently at lower costs by providing increased web-based and social media-based accessibility. The hope is that this approach will enhance Commission services and facilitate public interaction while adding greater efficiencies to internal business processes.

In summary, the Commission's budget represents minimal spending levels necessary to effectively conduct the Commission's basic day-to-day operations and to meet the responsibilities Congress has entrusted to the agency. The Commission will continue to use its limited resources wisely.

State of the U.S. Liner Trades

Since 1916, the Commission and its predecessor agencies have effectively administered Congress' directives for oversight of the liner shipping industry. The Commission was established as an independent agency just over fifty years ago. Throughout those years, we have worked with the industry and its customers to develop a regulatory system that ensures competition, facilitates commerce, and ensures reliable service for U.S. exporters and importers while minimizing government intervention and regulatory costs. I would like to give a brief overview of the state of major U.S. foreign oceanborne trades and highlight significant current events.

The recovery in the U.S. liner trades that began two years ago continued in 2012, but at a slower rate, with U.S. container volumes increasing by a mere three percent to reach 29.8 million twenty-foot equivalent units (TEUs). With this increase, total container volumes have now surpassed their 2007 pre-recession peak. The total volume of U.S. liner exports increased by four percent, slightly less than the six percent expansion in 2011. Nonetheless, the 12.3 million TEUs shipped from the U.S. in 2012 was a record level of export volume. The total volume of liner imports to the U.S. increased by three percent following an increase of four percent in 2011.

For the international container shipping industry, the slow recovery appears to have begun impacting carriers' vessel deployment decisions. The amount of containership capacity lying idle at the beginning of this calendar year was 809,000 TEUs, or five percent of the total worldwide fleet capacity of 16.3 million TEUs. This is an increase compared to the same time last year when 595,000 TEUs were idle, or four percent of the total worldwide fleet capacity of 15.4 million TEUs. In terms of orders for new vessels, at the beginning of this calendar year, 3.4 million TEUs of containership capacity were on the orderbooks, equivalent to 21 percent of the existing fleet capacity of 16.3 million TEUs. At the same time last year, 4.3 million TEUs were on order, equivalent to 28 percent of the then-existing fleet capacity of 15.4 million TEUs.

Concentration in the liner industry dipped slightly last year. In 2012, the top ten carriers accounted for 63 percent of the world's containership capacity, while in 2011, they accounted for approximately 66 percent.

While still experiencing mainly positive growth, U.S. ports saw mixed results in 2012. Total container volumes at the Nation's largest ports at New York-New Jersey, Los Angeles/Long Beach, Oakland, Savannah, and Seattle, increased less than two percent each. In comparison, container volumes at each of the secondary ports at Tacoma, Hampton Roads, Philadelphia, and Charleston, grew nearly 10 percent.

Transpacific Trades

In 2012, the Transpacific continued to be the largest of the U.S. liner trades, and China remained our leading overseas trading partner. In calendar year 2012, the volume in this trade exceeded 19 million TEUs. Trade with nations in Asia continued to account for almost sixty-two percent of U.S. containerized imports and exports. Furthermore, in March 2012, the U.S. entered into a free trade agreement with South Korea, our third largest liner trading partner in the region after China and Japan.

Last year, total Transpacific container trade grew by less than one percent. Container import growth remained anemic, increasing by less than one percent for the second year in a row. Container exports slowed in 2012, increasing by just over one percent compared to a seven percent increase in 2011. As usual, imports from Asia dominated the Transpacific trade; for every container exported to Asia from the United States, just over two were imported.

Due to weak demand, capacity deployed in the Transpacific contracted by approximately two percent in 2012. For the most part, U.S. importers and exporters experienced no difficulty obtaining space on ships. In the larger inbound leg of the trade, average revenue per container grew by approximately 12 percent during the year. Despite this increase in unit revenue, many Transpacific carriers struggled to return to profitability after an unprofitable 2011.

The eight members of the outbound rate discussion agreement, the Westbound Transpacific Stabilization Agreement (WTSA), had a combined market share of around 50 percent. In September 2012, American President Lines (APL) and Nippon Yusen Kaisha (NYK) resigned from WTSA. The fifteen members of the inbound rate discussion agreement, the Transpacific Stabilization Agreement (TSA), had a combined market share of about 90 percent. There were no changes in the TSA's membership in 2012, although the agreement has filed a major amendment that would result in the combination of its scope with that of the westbound WTSA. That amendment is pending FMC review.

U.S. – North Europe Trades

In 2012, the fall in value of the euro against the U.S. dollar hurt the purchasing power of European consumers for U.S. exports but boosted the demand for European imports among U.S. consumers. Consequently, U.S. container exports to north Europe decreased by about three percent compared to 2011, while container imports from north Europe to the U.S. grew by five percent. For calendar year 2012, the total volume in this trade was just over 3 million TEUs. The trade between the U.S. and Europe accounts for nearly eleven percent of total U.S. liner imports and exports.

Carriers operating in the trade added more services and capacity to the market. Specifically, members of the New World Alliance Agreement initiated the America Europe Express service operating five vessels in a weekly loop rotation between the U.S. Atlantic coast, Panama, and north Europe. Also, members of the Grand Alliance Agreement II upgraded the size of the four vessels deployed in its weekly Atlantic Express loop service between the U.S. Atlantic coast and north Europe. The Grand Alliance operates the Atlantic Express service in cooperation with Zim Integrated Shipping Services, Ltd. (Zim) and Hamburg Süd under the Grand Alliance/Zim/HSDG Atlantic Space Charter Agreement. Also, the Grand Alliance suspended its weekly Atlantic Express Shuttle service between the ports of New York/New Jersey, and Antwerp and Hamburg.

The introduction of new services and capacity in the trade reportedly suppressed freight rates. Attempts by carriers to implement general rate increases (GRIs) in the trade throughout 2012 were modest and erratic.

U.S.-Mediterranean Trades

The liner trade between the U.S. and south Europe was similarly affected by the economic problems in the eurozone and the weak value of the euro. Compared to 2011, U.S. containerized exports to the Mediterranean decreased by about eight percent, and container imports from the Mediterranean to the U.S. grew by around nine percent. For calendar year 2012, the volume in this trade was approximately 1.2 million TEUs or 4.2 percent of the total U.S. liner trade.

Service changes made by carriers added capacity to the market. Specifically, Hapag-Lloyd upgraded the frequency and capacity of its Med Pacific Express service in partnership with Hamburg Süd under the HLAG/HSDG USWC-Mediterranean Vessel Sharing Agreement. The upgraded service operates with 10 vessels in a weekly rotation between ports in the Mediterranean, Panama, and the U.S. Pacific coast. In turn, Hamburg Süd discontinued the Transatlantic leg of its weekly pendulum service that it had operated with Compania Chilena De Navegacion Interoceanica, S.A.

Among other changes, Maersk Line and CMA CGM deployed larger vessels in their weekly West Med loop service between the U.S. Atlantic coast and south Europe under the CMA CGM/Maersk Line Space Charter, Sailing and Cooperative Working Agreement. With the added space, Maersk Line exchanged a portion of its allocated space in this trade for space on a north Europe service of the New World Alliance under the Maersk Line/New World Alliance Mediterranean Slot Exchange Agreement. Further, members of the Cosco/K-Line/Yangming/Hanjin (CKYH) vessel sharing agreement entered the trade by connecting two service loops to form a weekly pendulum service between the U.S. Pacific coast, southeast Asia, and the Mediterranean.

U.S. – Oceania Trades

The Oceania trade includes the nations and territories of Australia, New Zealand, and the Pacific Islands. In 2012, the growth in U.S. containerized exports in the trade was modest, at around two percent compared to 2011, while imports grew by about seven percent. The largest commodity groups were containerized imports of meat and wine, accounting for 33 percent of the total import volume in TEUs. In calendar year 2012, the total volume in this trade was approximately 450,000 TEUs and represents 1.5 percent of U.S. liner exports and imports.

Carriers providing direct service between the U.S. and Oceania are linked through a network of agreements. The two main rate discussion agreements are the United States/Australia Discussion Agreement (USADA) in the outbound direction, and the Australia and New Zealand-United States Discussion Agreement (ANZUSDA) in the inbound direction. Further, a number of global carriers serve the trade through transshipment arrangements. Most of the carriers that serve the trade directly operate their services collectively through vessel sharing and slot charter agreements. In addition, five carriers serving the Pacific Islands participate in the Pacific Island Discussion Agreement. Given the extent of cooperation among carriers through their agreements, the Commission closely monitors the carriers' activities in this trade.

During 2012, a number of agreement membership and service changes occurred. In June, Mediterranean Shipping Company (MSC) joined the two rate discussion agreements. Maersk Line withdrew from the inbound rate discussion agreement in March but later rejoined the agreement in December. By the end of 2012, these membership changes resulted in a market share of around 75 percent for USADA and 92 percent for ANZUSDA.

U.S. – Latin America Trades

Economic ties between the United States and Latin America have strengthened considerably. U.S. containerized exports to Latin America (South America, Central America and the Caribbean combined) expanded 55 percent from 1.4 million TEUs in 2002 to 2.1 million TEU in 2012, while U.S. containerized imports grew 27 percent from 1.4 million TEU to 1.7 million TEU. The total volume in the trade in calendar year 2012 was over 3.8 million TEUs and is 13.3 percent of total U.S. liner trade.

The United States now has five free trade agreements in the region, the most recent being the U.S.-Colombia Free Trade Agreement which went into full force May 2012. Over 80 percent of U.S. exports and consumer and industrial products to Colombia became duty free immediately, with remaining tariffs to be phased out over 10 years. Containerized U.S. exports to Colombia for the second half of 2012 were over 11 percent higher by value than the corresponding period last year. The other trade agreements in the region are the Chile-United States Free Trade Agreement, the Dominican Republic-Central America FTA, the Peru-U.S. Trade Promotion Agreement, and the Panama-U.S. Trade Promotion Agreement.

In terms of liner shipping, South America dominates, with a volume of over 1.8 million TEUs of combined imports and exports in calendar year 2012. It has two distinct liner trade sectors, comprising the west and east coasts separately. Carriers operating between the U.S. and the east coast of South America do not participate in a broad-based rate discussion agreement. In the west coast trade, however, most major carriers are members of the West Coast of South America Discussion Agreement (WCSADA), a rate discussion agreement. In 2012, American President Lines (APL), the world's seventh largest containership company, left WCSADA, leaving the agreement's combined market share at 55 percent in the U.S. outbound direction and 52 percent in the U.S. inbound direction.

Commission Activities

The Commission continues to cultivate a regulatory system that ensures competition, facilitates commerce, and encourages reliable service to U.S. exporters and importers while minimizing government intervention and costs. The Commission's focus is on supporting U.S. exports and the Nation's economic growth. In our role as a regulator of marine terminal operators, ocean common carriers, and ocean transportation intermediaries, the Commission's mission is to foster a fair, efficient, and reliable international ocean transportation system while protecting the public from unfair and deceptive practices.

I believe that the two most important ways the Commission can promote the economic recovery are: (1) working to ensure the competitiveness of our Nation's ports and maritime transportation system to make sure that it efficiently supports growing exports; and (2) providing maritime businesses regulatory relief so they and their customers can hire more American workers. The Commission remains alert to foreign activities that have the potential to harm the U.S. maritime industry, and we will remain vigilant on behalf of the American importer, exporter, and consumer. I will also continue to look for opportunities, consistent with the Commission's regulatory authority, to work with all sectors and users of the international maritime industry to encourage efficient and sustainable growth.

The Commission's strategic plan provides a roadmap to achieve its statutory mission and sets forth two broad goals: (1) to maintain an efficient and competitive international ocean transportation system; and (2) to protect the public from unlawful, unfair and deceptive ocean transportation practices, and to resolve shipping disputes. These goals can only be achieved through high-performance leadership and efficient stewardship of resources. Each of my fellow Commissioners understands the importance of the agency's objectives, and we will continue working in an efficient, cooperative, and bipartisan manner to accomplish them.

During the past year, the Commission has taken several important actions to accomplish these goals:

1. Supporting U.S. Exports and Economic Growth

The vast majority of the nation's exports travel through a port and by ocean. Ports are the gateways that serve more than 80% of the volume of international trade. I have observed first-hand the vital need for 21st century port infrastructure and the nexus of that infrastructure to a national freight policy in the eight years I served on the Port of Long Beach Harbor Commission, prior to my appointment at the FMC. The competitiveness of our Nation's ports rests upon an efficient transportation system, which includes entities the Commission regulates: ocean transportation intermediaries, ocean common carriers, and marine terminal operators. Congestion at ports causes delays and increases in transportation costs that negatively impact our economy.

In July, 2012, President Obama signed the $105 billion transportation bill MAP-21 to address our Nation's transportation infrastructure needs. MAP-21 included the recognition of the importance of the efficient, economic and sustainable movement of freight in an efficient intermodal system to the overall economic welfare of the Nation. The recognition in this legislation reaffirms the goals that are set forth in the Shipping Act and that have been entrusted to the Commission.

Also in July, 2012, the first United States Department of Agricultural (USDA) Ocean Shipping Container Availability Report (OSCAR) was released. OSCAR provides shippers, particularly those in the agriculture sector, with the participating carriers' estimates of equipment availability for the current week, and projected weekly container availability for the subsequent two weeks. Commission staff provided technical assistance and expertise to USDA to develop and implement this new reporting service, which serves as a model of government and the private sector uniting to implement President Obama's goals to increase exports. The Commission continues to work with USDA as well as the International Trade Administration of the Department of Commerce on projects aimed at better understanding and finding solutions to supply chain bottlenecks that might negatively affect U.S. exporters.

In 2013, we continue our efforts to assist U.S. exporters. Following requests from several agricultural exporters, the Commission is exploring the concept of using data it has to develop a container shipping rate index for a few targeted export commodities such as grains, cotton, hay, and frozen meat. Such indices could give exporters useful information to plan and hedge their transportation costs, which would allow them to make future export sales with less risk of shipping rate increases leaving them unprofitable. We look forward to hearing the views of industry and this Committee as we consider this innovative idea. For small businesses that want to start exporting, as well as for individuals shipping personal goods, we have developed a search tool on our website that will help them find a nearby licensed and bonded freight forwarder or non-vessel-operating common carrier (NVOCC).

The Commission has monitored the industry's increasing focus on the Nation's ports' and marine terminal operators' efficient stewardship of resources and their focus on productivity. There have been several industry innovations aimed at productivity, sustainability and efficient use of resources. The Commission's mission is to ensure these innovations do not operate to unreasonably decrease competition in a way that is likely to cause unreasonable disruptions to the supply chain. One example of such an industry shift is the use and control of chassis that are used to move international ocean-going containers. Recent amendments to equipment use and sharing agreements have been filed by vessel operators with the Commission with the stated goal of improving the quality and efficiency in the intermodal chassis operations. These pools use various models, and the Commission will continue to analyze their impacts and monitor the effects of these agreements on the supply chain.

There have been other recent examples in the increasing use of technology to drive industry innovations in the operations of the Nation's international ocean ports. Through an agreement among terminal operators in Los Angeles and Long Beach filed with the FMC, PierPASS was originally created in 2005 to address multi-terminal issues such as congestion, security, and air quality. Under this program, all international container terminals in the Nation's largest port complex established new gate hours with the incentive to use off-peak shifts and to cover the added cost through a traffic mitigation fee collected from peak cargo movement. The Commission will continue to monitor this program to ensure its effects meet Shipping Act requirements.

When U.S. exporters and importers experienced supply chain disruptions in 2010 from cancelled bookings, cargo rolled to the next sailing, and rapid increases in rates and surcharges, the Commission launched a fact-finding investigation into vessel capacity and container shortages, led by Commissioner Rebecca F. Dye. Following the fact-finding team's recommendations, the Commission formed Rapid Response Teams to help U.S. exporters and importers cut through red tape and find prompt solutions to disputes with carriers. And the Commission increased oversight of the rate discussion agreements in the nation's largest trade lane. Through the end of 2012, we continued to closely monitor the Transpacific rate discussion agreements.

The Commission provides services to assist parties to informally resolve disputes. The FMC's Office of Consumer Affairs and Dispute Resolution Services (CADRS) received 538 cargo-related complaints in FY 2012 that resulted in case openings for dispute resolution services. So far, feedback is that CADRS' Rapid Response Teams have been highly effective. I encourage parties to bring us their issues for informal resolution to avoid the cost and delays of litigation, so that cargo can keep moving

2. Reducing Regulatory Burdens

The Commission has made regulatory relief and modernization pursuant to the President's Executive Order 13563 a top priority. During the past year, we have taken several steps to reduce regulatory burdens and bring costs savings and flexibility to the shipping industry and customers they serve.

Last fall, the Commission issued changes to its procedural rules for the first time in many years to reduce the burden on parties to administrative proceedings and improve their just, speedy and inexpensive resolution. During the summer of 2012, the Commission further revised its tariff exemptions to eliminate record keeping requirements for negotiated rate arrangements offered by U.S.-based NVOCCs who chose to use those instruments. And earlier this year, the Commission solicited comments on a proposed rule that would expand that exemption to foreign-based unlicensed NVOCCs.

During the same period, the Commission announced that it would begin reviews of its regulations concerning the licensing and oversight of ocean transportation intermediaries, the process for review of filed agreements, and its rules regarding service contract filings. The

Commission will continue to engage the shipping public and the regulated industry to explore, through its retrospective review of regulations, how it can streamline and improve its rules.

3. Foreign Shipping Practices

The Commission continues to watch for restrictive or unfair foreign shipping practices under Section 19 of the Merchant Marine Act, 1920; the Foreign Shipping Practices Act of 1988 (FSPA); and the Controlled Carrier Act of 1978. Section 19 empowers the Commission to make rules and regulations to address conditions unfavorable to shipping in our foreign trades; FSPA allows the Commission to address adverse conditions affecting U.S. carriers in our foreign trades that do not exist for foreign carriers in the United States. Under the Controlled Carrier Act, the Commission can review the rates of foreign government-controlled carriers to ensure that they are not below a level that is just and reasonable.

The Commission carefully monitors the activities of state-owned ocean common carriers to ensure that U.S. trades remain substantially free of unfair practices. The Commission has also studied the maritime practices of our trading partners generally. In July 2012, the Commission released a Study of U.S. Inland Containerized Cargo Moving through Canada and Mexican Ports. That study analyzed the factors that might explain the diversion of some U.S.-origin or -destined cargo through Canadian or Mexican seaports.

Limited resources and a reduced budget for travel will require the Commission to leverage the relationships it has with its foreign counterparts in increasingly creative ways to accomplish its legislative mandate to harmonize regulation in international ocean shipping.

4. Protecting American Consumers

The Commission's mission includes ensuring service and providing protection for members of the public — including those who are not sophisticated shippers, but who may travel on cruise ships or deal with international shipping only infrequently, for example when they ship personal belongings or household goods abroad.

Earlier this year, the Commission enhanced the financial protection for cruise passengers who sail from U.S. ports, while reducing financial responsibility requirements on smaller cruise lines. The Commission increased the maximum coverage requirement for larger cruise lines from $15 million to $30 million per cruise line, and now requires that this cap be adjusted every two years, based on the Consumer Price Index for All Urban Consumers. It also provided relief for smaller cruise ship operators by reducing their coverage requirements to account for alternative forms of financial protections available to their customers.

5. Sustainability and Efficiency

Environmental and sustainability concerns continue to play an important role in the agreements and shipping practices the Commission regulates. As ports and ocean common carriers modernize their business practices, equipment, and facilities to increase efficiency and grow in a sustainable manner, the Commission will work diligently to be a helpful partner.

Today, "slow steaming" is a widespread industry practice that is coming to affect future engine designs and carriers' service network configurations. The Commission continues to monitor slow steaming trends for effects on the Nation's supply chain, after the Commission voted in 2010 to allow the Transpacific Stabilization Agreement (TSA) to discuss slow steaming deployments and environmental initiatives. Similarly, the Commission has monitored changes made by the major rate discussion agreements in the Transpacific trades to their fuel surcharges. Bunker surcharges were adjusted initially to account for reduced ship operating cost as a result of slow steaming, but subsequently were adjusted again to account for the higher cost of low sulfur fuel, which will reduce air pollution.

The Commission's internal Maritime Environmental Committee continues to study environmental initiatives in the industry and to highlight the innovations and work being done in this area. In addition, the Committee monitors international climate change commitments for impacts on the maritime industry.

6. Enforcement: Stopping Fraud, Market Distortions, and Threats to Safety and Security

The Commission's Bureau of Enforcement, Area Representatives, and investigative staff continue to prevent and end shipping practices that are unfair or deceptive. Targeted violations have included illegal or unfiled agreements among ocean common carriers; unfair or fraudulent practices affecting household goods shippers; and misdescription of cargo, which not only affects shipment costs, but can also pose a serious safety and security risk by preventing vessel operators and port officials from knowing what goods are being transported on vessels into the United States. In FY 2012, the Commission collected $838,000 in civil penalties for Shipping Act violations.

7. National Security

The Commission's oversight of ocean common carriers, ocean transportation intermediaries, and marine terminal operators is an important element in the effort to protect our Nation's seaports. Unique among federal agencies, the FMC regulates virtually all entities involved in liner shipping, receiving, handling, and transporting cargo and passengers in foreign commerce. The FMC's unique mission affords it the opportunity to assist front-line security efforts by providing information regarding the backgrounds of parties using our Nation's supply chain, including those with direct access to our seaports.

The Commission continues to exchange enforcement information with the Department of Homeland Security (DHS). Within the DHS, the Commission works together with Customs and Border Protection (CBP) under an existing Memorandum of Understanding. Cooperation with other agencies has expanded into joint field operations to investigate entities suspected of violating both agencies' statutes or regulations. Such cooperation often involves local police, U.S. Citizenship and Immigration Services officers, Immigration and Customs Enforcement officers, and the Federal Bureau of Investigation.

8. Modernization and Technology

The Commission is pursuing the implementation of several information technology programs and initiatives to comply with governing IT statutes and regulations, as well as to improve the efficiency, convenience, and effectiveness with which the agency serves the public, particularly in the licensing process. In particular, we believe enhanced information systems are essential to efficient identification and licensing of regulated entities and to information sharing with our counterparts at CBP and other federal agencies. These IT systems would also enable our Area Representatives, Bureau of Enforcement, and CADRS staff to have timely and comprehensive access to data needed to tackle the practices of ocean transportation intermediaries and vessel operators that abuse or defraud the shipping public.

Investment in new and innovative technology could substantially improve efficiency, enabling the Commission to focus on support of systems critical to FMC's core mission. In FY 2013, FMC replaced its legacy email and collaboration environment with a cloud-based email and collaboration service. This provides FMC staff with enhanced email functionality in a cloud-based environment, as well as access to the most current, commercially-available service offering. Because this infrastructure is hosted in the cloud, the FMC has lowered its hardware and software costs, system operation and maintenance labor hour costs, and upgrade and lifecycle costs, while meeting long needed disaster recovery requirements.

In response to recent government-wide transformation initiatives, should funding be available, the FMC will continue the integration of Enterprise Content Management (ECM) technologies. An ECM platform will be used to capture, manage, store, preserve, and deliver documents in a new business processes model. The scope and speed of these technology investments will depend on availability of funds. These investments will lead to greater productivity, efficiency, and transparency.

9. Human Capital Management

At the FMC, we understand that leadership is a critical asset. At the present time, three-fourths of FMC's executives are eligible for optional retirement. Our Human Capital Plan guides our actions in planning for succession. As funds become available, we provide training and development in leadership competencies within a technical context to prepare the next generation of leaders.

We will continue to use a systematic succession management process that allows us to project our needs, prepare individuals to assume greater levels of responsibility, and evaluate the results. In this way, we expect to continue to maintain a talented and knowledgeable leadership corps that can meet the challenges of the future.

10. Sequestration

The President's Fiscal Year 2013 Budget Request included $26 million for the Federal Maritime Commission to fund 132 FTEs. This request would have enabled the Commission to meet its Annual Performance Goals and included critical funding for information technology investments to increase efficiency and streamline our processes for licensing and filing, while at the same time reducing burdens on the industry.

Straight-line funding for the FMC in FY 2013 would have resulting in appropriations totaling $24,100,000. However, the Commission's appropriation level was subsequently reduced by $1,260,575 through sequestration of funds to comply with the Balanced Budget and Emergency Deficit Control Act and through a reduction of 0.2% to implement provisions in the full-year continuing resolution. These reductions resulted in an FY 2013 funding level of $22,839,425, an amount which is roughly equal to the Commission's FY 2009 appropriation.

This FY 2013 funding level will force the Commission to furlough employees for a yet undetermined number of days. Although the specific number of days remains in flux and is dependent on whether additional, unanticipated costs or savings are realized, primarily through attrition, we currently estimate approximately 10-14 furlough days for all eligible FMC employees. As a very small regulatory agency with an extremely lean budget, options to reduce costs substantially without furloughing staff are limited; salaries, benefits and rent account for approximately 95% of the Commission's budget. Nevertheless, a number of actions were taken to reduce costs and minimize the number of furlough days. Among them were:

- Reduced travel expenses by more than 30% below the President's Fiscal Year 2013 Budget level.

  Reduced training expenses by 75% below the President's Fiscal Year 2013 Budget level, negatively impacting the agency's Human Capital Plan, attempts to address skill gaps and succession planning.

- Suspended library subscriptions of ongoing legal publications that support legal research.

- Imposed hiring restrictions on filling vacancies. Only the most critical vacancies are being filled, such as the existing Inspector General vacancy.

- Allowed a document scanning contract to expire without renewing our option. The contract provided electronic scanning services for records of formal proceedings, investigative matters and other records. When funds become available, we hope to enter into a new contract to restore those services so that documents can continue to be viewed quickly by the public.

- Delayed, deferred or terminated commercial services contracts for shipping data that enables the agency to analyze trade conditions and monitor shipment data.

- Canceled or deferred overdue and needed IT hardware/software replacements and reduced funding for ongoing IT contracts, including a contract to maintain existing FMC automated systems, and a contract to upgrade and replace outdated systems in order to improve productivity.

Approximately seventy-five percent of the Commission's annual expenses are directly related to payroll and benefits, and another twenty percent relate to travel and fixed costs, such as rent, security and other mandatory government services such as telephone, fiscal services, and Federal Register printing. Much of the other five percent of funding is for commercial services contracts, office supplies, and to maintain legal library publications. This leaves very few avenues to absorb further reductions.

As a result, the Commission has reduced travel and training expenses, canceled or suspended IT replacements, subscriptions necessary to support legal research, and hiring needs. Unfortunately this limits our ability to oversee the shipping industry, resolve problems through direct negotiations, monitor activities of regulated entities, consult with foreign trading partners to ensure comity in international regulatory affairs, and expand compliance oversight.

CONCLUSION

Mr. Chairman and members of the Subcommittee, I hope that these comments give you a clear indication of the state of the industry serving the Nation's foreign oceanborne trade and the important mission of the Federal Maritime Commission. I thank the Subcommittee for its support of the Commission through the years and respectfully request favorable funding consideration for Fiscal Year 2014 and beyond, so that the agency may continue to perform these vital statutory functions, and so that the public and shipping industry may continue to be served reliably, efficiently and effectively.