

Statement Submitted
By
Crowley Maritime Corporation
Marine Resources Group, Inc.
Matson Navigation Company, Inc.
Tote, Inc.
United Maritime Group, LLC

Committee on Ways and Means
Subcommittee on Select Revenue Measures
Subcommittee on Oversight

Hearing on Harbor Maintenance Funding and Maritime
Tax Issues

February 1, 2012

We urge the Ways and Means Committee to approve H.R. 1267. This bill, introduced by Representatives Herger, Blumenauer, Gerlach, Hirono, Inslee, Larsen, and Young would correct an anomaly in the tax treatment of U.S. flag ships which discourages U.S. operators from putting more U.S.-flag vessels into international commerce.

Congress enacted the tonnage tax alternative in the American Jobs Creation Act of 2004 (JOBS Act) as a means to encourage U.S.-flag operations in the international maritime trades and to mitigate some of the competitive disadvantages U.S. vessels face in the global shipping markets. The tonnage tax is a minimal tax alternative to 35% corporate income tax. This lower tonnage tax is intended to level the playing field for U.S.-flag ships that compete in international trade against foreign registered ships that are largely tax exempt. All of the major maritime nations, other than the United States, either do not tax ocean shipping income or impose a nominal tonnage tax.

Unfortunately, if a U.S. vessel operates in domestic commerce for more than 30 days per year it is prohibited from electing the tonnage tax for the international portion of its voyages. This 30 day limit prohibits a few U.S. vessels that operate in both domestic and international trade from using the tonnage tax at all and, therefore, puts these vessels at a disadvantage when they operate in international commerce. Because the penalty for exceeding the 30 day limit is so severe, many U.S. vessels will sit idle rather than risk exceeding the limit.

Congress attempted to correct this problem in December 2006 by partially repealing the 30 day limit (The Tax Relief and Health Care Act of 2006). Although the Senate version of the Tax Relief and Health Care Act of 2006 would have repealed the 30 day limit for all U.S. flag vessels, the final version of the Act repealed the 30 day limitation only for US vessels that operate in domestic and international trades on the Great Lakes.

The result of this arbitrary limitation is that U.S.-built, U.S.-crewed, and U.S.-owned ships have been taxed at a higher rate than foreign-owned vessels and even U.S.-flag vessels that were not built in the United States. Crowley Maritime Corporation, Marine Resources Group, Inc., Matson Navigation Company, Tote, Inc. and United Maritime Group, LLC operate U.S. flag Jones Act-qualified vessels in both the domestic and international trades. Our five companies are competitively disadvantaged by the discriminatory tax treatment which penalizes us for operating U.S.-built vessels.

As you may know, 97% of all import and export cargoes to the United States are carried on foreign flag vessels. As U.S. flag operators, we suffer a significant competitive disadvantage against these foreign vessels engaged in the U.S. trades which benefit from a less costly regulatory environment, lower capital and operating costs and negligible tax burdens. This

inequity in tax treatment of similarly-situated taxpayers provides a competitive advantage to foreign flag vessels competing with U.S. vessels.

Although the tonnage tax was intended to make U.S. flag vessels more competitive in U.S. foreign trades, the 30-day cap on domestic operations prevents U.S.-built, U.S.-owned and U.S.-crewed vessels from electing the tonnage tax and makes those vessels less competitive in the international trades. H.R. 1267 will eliminate this inequity and enable U.S. companies to be more competitive in the foreign maritime trades.

Thank you for your consideration of our request.

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