



**USAID**  
FROM THE AMERICAN PEOPLE

## FACT SHEET

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### Cargo Preference

***An increase in Cargo Preference will cause millions of vulnerable children and adults to lose access to lifesaving food assistance around the world.***

- ❖ A return to Cargo Preference at 75 percent would be devastating for humanitarian food aid programs. This change would increase ocean freight transportation costs for USAID's Food for Peace program as well as for USDA's McGovern-Dole and Food for Progress programs by **more than \$75 million a year.**
- ❖ Increasing transport costs by \$75 million will result in thousands of fewer tons of food aid shipped to respond to emergencies around the world. As a result, up to **2 million fewer people**, mainly those in need of lifesaving emergency food aid could be reached.
- ❖ Reimbursements to USAID and USDA for excess ocean freight expenses were eliminated through the Budget Act of 2013. The loss of these reimbursements, also valued at approximately \$75m per year<sup>i</sup>, has reduced the U.S. Government's ability to reach people with lifesaving aid by more than 2 million people. The end of reimbursements, if combined with a new, higher cargo preference rate, would mean that a total of about **4 million fewer people** would receive life-saving food aid each year.
- ❖ At a time when we are faced with three "Level Three"<sup>ii</sup> emergencies in Syria, South Sudan and Central African Republic, an increase in cargo preference would jeopardize our ability to provide life-saving assistance to millions of children and adults who are facing dire conditions due to conflict and natural disaster.
- ❖ The proposed increase in cargo preference change would also undermine the recent gains achieved through both the 2014 Farm Bill and the 2014 Omnibus Bill to improve the efficiency of food aid programs by allowing for the significant reduction in monetization and an increase in the use of local and regional procurement, food vouchers and cash transfers.



Source: UNICEF

Over the last six decades, the Food for Peace program has provided life-saving food assistance to more than 3 billion people in 150 countries around the world. The ability of the U.S. Government to feed people in crisis, however, has declined substantially over the past decade. Mostly due to sharp increases in the costs of fuel and food, the amount of commodities that U.S. government food assistance programs have shipped has declined sharply from five million metric tons in 2002 to less than 1.8 million metric tons in 2012.

### **What is Cargo Preference?**

Cargo Preference is a law that requires at least 50 percent of the gross tonnage of all Government generated cargo, meaning cargoes procured, furnished, or financed by the U.S. Government, to be transported on privately owned, U.S.-flag commercial vessels to the extent such vessels are available at fair and reasonable rates. International food assistance provided by USAID and USDA is included in the definition of “Government generated cargo.”

### **Why is this being discussed now?**

Recently, the U.S. House of Representatives passed the Coast Guard and Maritime Transportation Act of 2014, which includes a provision that would increase Cargo Preference for U.S. food aid programs from the current rate of 50 percent to 75 percent. The legislation would also empower the Secretary of Transportation with the sole authority to determine which federal programs are subject to this regulation in accordance with rules and guidance issued by the Maritime Administration. The Senate is working on a companion bill that may be marked up by the Commerce Committee in June.

A recent letter from the Department of Homeland Security to Commerce Committee Chairman Rockefeller stated that the proposed changes in the Coast Guard and Maritime Transportation Act of 2014 (H.R. 4005) “would have grave effects on United States humanitarian assistance programs” and that **“The Administration therefore urges the Senate to strike section 318 in its entirety.”**

The letter also cites the Administration’s opposition to **Section 316**, which proposed to eliminate the requirement for consultation with experts or the public in formulating regulations to enforce cargo preference, undermining key regulatory principles of public participation and transparency.

### **Is this a new debate?**

No. Only 50 percent of food aid was subject to Cargo Preference until 1985 at which point the rate was increased to 75 percent.

Beginning in 1985, cargo preference costs were partially offset by a companion requirement that required the Maritime Administration to reimburse USAID and USDA for certain excess freight costs for their international food aid programs. These reimbursements totaled over \$100m annually. In July 2012, the Moving Ahead for Progress in the 21<sup>st</sup> Century Act (MAP-21) reduced the requirement back to 50 percent but retained most of the reimbursements. However, the Bipartisan Budget Act of 2013 eliminated all ocean freight reimbursements to USAID and USDA, leaving the agencies to bear the full costs of the inefficiencies borne by the cargo preference law.

All other U.S. government civilian agencies are subject to a 50 percent cargo preference requirement, leaving lifesaving food assistance programs as the only programs that would be subject to a higher cargo preference requirement.

### **How will this affect the U.S. Maritime Industry?**

Making food aid bear more of the cost of maintaining the U.S. merchant marine will not sustain the merchant marine and will result in fewer hungry people being reached with lifesaving food assistance.

Protections remain in place for the U.S. maritime industry. The Maritime Security Program is administered by MARAD and all USG agencies are required to use U.S. flagged vessels at varying levels. Further, U.S. shipping activity under the Jones Act, which applies to goods shipped between U.S. ports, requires 100 percent of those goods to be transported on U.S. flagged carriers with U.S. mariner crews. The Jones Act is a growing trade representing over a billion tons of cargo annually and providing opportunities for preferenced US flag carriers to redirect and expand their activities toward growing freight markets.

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<sup>i</sup> <http://www.cbo.gov/sites/default/files/cbofiles/attachments/Bipartisan%20Budget%20Act%20of%202013.pdf>

<sup>ii</sup> A classification by the UN World Food Program. On the scale of one to three, three is the most severe, classified as a large scale corporate emergency.