MARAD FACT SHEET

Ocean Freight Differential

America's Advocate for the Maritime Industry

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Strategic Objective: Assure that sufficient capability and Intermodal transportation infrastructure exists to support vital homeland and national security interests.

Mission: Strengthen US marine industries to support the economic and security needs of the Nation.

Background—Ocean Freight Differential— Ocean freight differentials originate from the Merchant Marine Act of 1936, 46 App. USC 1241(e)-1241(o) as amended in 1985. Ocean freight differential (OFD) is the amount by which the cost of the ocean transportation is higher, by reason of the cargo preference requirements that commodities be transported on U.S. flag vessels, than would be the case for transportation on foreign flag vessels.

The Cargo Preference Act of 1954 (P.L. 83-664), 46 App. U.S.C. 1241(b)(1)) as amended, requires that at least 50 percent of the gross tonnage of all Government-generated cargo be transported on privately owned, U.S.-flag commercial vessels. In 1985, the Merchant Marine Act of 1936, 46 App. USC 1241(e)-1241(o), specifically section 1241f was amended to require that the percentage of certain agricultural cargoes to be carried on U.S.-flag vessels be increased from 50 to 75 percent. Section 1241h requires that the Secretary of Transportation reimburse USDA via the Commodity Credit Corporation (CCC) for the ocean freight differential cost of the 25% increase so that increase would not come out of the agricultural budget or out of food aid programs.

Title 46, Appendix USC Chapter 27, subchapter IX, Section 1241f states:

(a) Minimum requirement respecting gross tonnage transported in United States-flag commercial vessels; implementation
    1. In addition to the requirement for United States-flag carriage of a percentage of gross

tonnage of agricultural commodities or the products thereof specified in subsection (b) of this section shall be transported on United States-flag commercial vessels.

Sec. 1241h—(a) Financing by Secretary of Transportation of increased ocean freight charges. The Secretary of Transportation shall finance any increased ocean freight charges incurred in any fiscal year which result from the application of Section 1241f of this Appendix.

A 1987 Memorandum of Understanding (MOU) between USDA's Commodity Credit Corporation (CCC) and Department of Transportation's Maritime Administration (MARAD), and USAID set forth procedures which MARAD was to reimburse CCC for higher shipping cost resulting from the 1985 amendment under 46 App. USC 1241(e)-1241(o). The MOU provided that the CCC would initially bear all ocean freight costs and that MARAD would then reimburse CCC based upon submission of periodic invoices, accompanied by supporting documentation.

Under section 1241h(c), the Secretary of Transportation is authorized to obtain funding for ocean freight differentials from the Secretary of Treasury. Furthermore, the Secretary of Treasury is authorized by Title 31, USC Chapter 31 to treat these obligations as public debt transactions. The Secretary of Treasury "shall purchase any obligations of the Secretary of Transportation" in reference to ocean freight differentials under Title 46, Appendix USC Chapter 27, subchapter IX, Section 1241h(a) and 1241h(b). These obligations are authorized annually. Authorization is indefinite.

For more information please email cargo.marad@marad.dot.gov or call 1-800-9US-FLAG