



Committee on Transportation and Infrastructure
U.S. House of Representatives
Washington, DC 20515

Bill Shuster
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July 23, 2018

BACKGROUND MEMO

TO: Members, Subcommittee on Coast Guard and Maritime Transportation
FROM: Staff, Subcommittee on Coast Guard and Maritime Transportation
RE: Roundtable on “Impact of Jones Act on Consumer Prices in Puerto Rico”

PURPOSE

On Wednesday, July 25, 2018, at 3:30 p.m., in 2253 Rayburn House Office Building, Members of the Subcommittee on Coast Guard and Maritime Transportation will participate in a roundtable discussion on the recently released report entitled “*Impact of the U.S. Jones Act on Puerto Rico*” released on July 18, 2018, and prepared by Reeve & Associates and Estudios Técnicos, Inc. The Subcommittee will hear from:

- Mr. John Reeve, Principal, Reeve & Associations
- Mr. Michael G. Roberts, Senior Vice President, General Counsel and Corporate Secretary for Crowley Maritime
- Mr. Augustin "Augie" Tellez, Executive Vice President, Seafarers International Union
- Mr. Jon Kaskin, National Vice President for Legislative Affairs and Chairman, Merchant Marine Affairs Committee, Navy League of the United States.

BACKGROUND

The Jones Act

The current United States domestic cabotage law, Chapter 551 of title 46, United States Code, and popularly known as the Jones Act, first came into effect as part of the *Merchant Marine Act of 1920* to encourage the development of a strong merchant marine for both national defense and economic security. The Jones Act contains a number of provisions designed to encourage a robust U.S. shipbuilding capacity and employment opportunities for U.S. mariners:

1. U.S. Owned and Flagged - Chapter 551 of title 46, United States Code, requires that merchandise and passengers being transported by water between two points in the United

States must travel on vessels owned by U.S. citizens and registered or “flagged” in the United States with an endorsement by the Coast Guard to participate in the coastwise (also known as “Jones Act”) trade;

2. U.S. Built - Chapter 121 of title 46, United States Code, requires vessels to be eligible for a coastwise endorsement to have been built in the United States. Chapters 551 and 801 of title 46, United States Code, also place restrictions on the involvement of foreign owned, built, and flagged vessels in towing, dredging, and salvage activities in U.S. waters where the coastwise laws apply;
3. U.S. Crewed - Chapter 81 of title 46, United States Code, requires the master, all of the deck and engineering officers, and at least three-quarters of the crew to be U.S. citizens in order for a vessel to be flagged in the United States; and
4. Rebuild/Reflag Prohibition - Chapter 121 also prohibits vessels that were once eligible to engage in the U.S. coastwise trade and then later sold to a foreign citizen and subsequently documented under a foreign registry, or rebuilt outside the United States, from engaging in the coastwise trade (a vessel may be considered rebuilt when work performed on its hull or superstructure constitutes more than 7.5 percent of the vessel’s steelweight prior to the work).

Those opposed to the Jones Act have asserted the law negatively impacts Puerto Rico, positing that it significantly increases the cost of shipping goods to the island from the U.S. mainland. In 2013, the Government Accountability Office (GAO) released a report examining factors unique to the Jones Act trade in Puerto Rico, including the distribution of carriers and routes that service the island for both Jones Act and non-Jones Act trades.² GAO also assessed the types of cargoes and associated costs faced by U.S.-flagged and international carriers. GAO was unable to develop verifiable estimates of the effects of the Act on Puerto Rico due to unavailability of information regarding the balance of complex policy trade-offs such as types of cargoes, reliability of service, investments made by companies servicing the Jones Act trade, and regulatory differences between the United States and other flag states.

Other entities have attempted to study the impacts of the Jones Act on Puerto Rico (e.g., Congressional Research Service, CATO Institute, Heritage Foundation, Mercatus Center, etc.), but none conducted comprehensive analysis based on actual data from the shipping industry and prices across Puerto Rico. Based on incomplete data, those studies were unable to provide a clear understanding of how the Jones Act influences the economy of Puerto Rico.

Following the devastation wrought by Hurricanes Irma and Maria in 2017, the press initially and inaccurately placed much blame for the slow distribution of relief supplies in Puerto Rico on the Jones Act. Subsequently, the press accurately acknowledged an excess of U.S.-flagged shipping capacity to transport cargo to Puerto Rico and laid blame for the slow distribution of relief supplies on the island’s crippled land-based distribution system. During a listening session before the Subcommittee on Coast Guard and Maritime Transportation on

² Puerto Rico – Characteristics of the Island’s Maritime Trade and Potential Effects of Modifying the Jones Act, GAO-13-260, March 2013, <https://www.gao.gov/assets/660/653046.pdf>.

September 28, 2017, representatives from U.S.-flagged carriers explained that they were delivering more cargo than could be distributed throughout the island, and were working with federal and local agencies to further expedite the distribution to make room at their terminals for additional cargo to be offloaded.

On July 18, 2018, economists from Reeve & Associates and San Juan, Puerto-Rico-based Estudios Técnicos, Inc. released a joint report, “The Impact of the U.S. Jones Act on Puerto Rico,” that concluded the Jones Act has no impact on either retail prices or the cost of living in Puerto Rico.⁴ In addition, the report found that the state-of-the-art maritime technologies, Puerto-Rico focused investments, and dedicated closed-loop service offered by Jones Act carriers provide a significant positive economic impact to the island, at freight rates lower than, or comparable to, similar marine transportation services provided to other Caribbean Islands. The report analyzed the impact on consumers by evaluating the competitiveness of freight rates in the United States/Puerto Rico market, the quality of service provided by the Jones Act carriers, and the impact of the carriers’ freight rates on the prices of goods shipped between the United States mainland and Puerto Rico. This report provides what has been needed for many years: data-based comparative analyses of the real impacts of the Jones Act.

PARTICIPANT BIOGRAPHIES

Mr. John Reeve, Principal, Reeve & Associates

- Mr. John Reeve is the principal author of the study.
- Mr. Reeve heads Reeve & Associates, a management consulting firm in Massachusetts that specializes in domestic shipping and logistics.
- Mr. Reeve is an expert on the Puerto Rico shipping trades. He has prepared reports for the U.S. Department of Transportation and the Government Development Bank of Puerto Rico previously.
- Mr. Reeve teamed with Jose Villamil of Estudios Técnicos, Inc., of Puerto Rico on the study. Villamil is a leading economist in Puerto Rico.

Mr. Michael G. Roberts, Senior Vice President, General Counsel and Corporate Secretary for Crowley Maritime

- Mr. Roberts is Senior Vice President, General Counsel and Corporate Secretary for Crowley Maritime, based at Crowley’s headquarters in Jacksonville, Florida.
- Mr. Roberts has represented Crowley in various ways for nearly 20 years.
- Crowley Maritime is the largest of several American carriers serving Puerto Rico and one of the largest Jones Act shipping companies in the United States.
- Mr. Roberts is also the Vice President of the American Maritime Partnership, the sponsor of the study, which is a large coalition representing virtually all elements of the American domestic maritime industry.

⁴ Press release “The Impact of the Jones Act on Puerto Rico,” July 18, 2018, <https://www.americanmaritimepartnership.com/press-releases/new-report-finds-retail-prices-in-puerto-rico-are-not-affected-by-the-jones-act/>, visited July 18, 2018.

Mr. Augustin "Augie" Tellez, Executive Vice President, Seafarers International Union

- Mr. Augustin Tellez is the Executive Vice President of the Seafarers International Union. He was appointed to the position in November 2005 after serving as Vice President of contracts and contracts enforcement from 1991-2005.
- Mr. Tellez also serves as a trustee for the Paul Hall Center for Maritime Training and Education - a world-class, comprehensive vocational education institution located in Piney Point, Maryland.
- Mr. Tellez chairs the Paul Hall Center's advisory board, composed of high-ranking industry representatives from labor, management and government.

Mr. Jon Kaskin, National Vice President for Legislative Affairs and Chairman, Merchant Marine Affairs Committee, Navy League of the United States.

- Mr. Jon Kaskin retired in June 2012 as the U.S. Navy's Director of the Navy's Strategic Mobility and Combat Logistics Division after 37 years of employment in the U.S. Navy and 25 years as a member of its Senior Executive Service.
- Mr. Kaskin has a BSEE from the University of Pennsylvania (1971), a Master of Science from Harvard University (1977) and second Master of Science in Shipping and Shipbuilding Management and a professional degree of Ocean Engineer from MIT (1979).