

**MARITIME
CABOTAGE**



The Jones Act Fleet

A Carrier's Perspective



**MARITIME
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Presentation to:

National Defense University

Industry Study Program

Washington, DC

February 2004

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Purpose

- Enhance understanding of the Jones Act and the capability of the Jones Act fleet
- Educate military leaders on the important national security role of the domestic maritime industry

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Topics

- **Jones Act Trade**
- **The Jones Act
Fleet**

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Jones Act

- Requires a vessel engaging in domestic transportation to be--
 - U.S. built**
 - U.S. documented**
 - U.S. owned**
- In concert with U.S. documentation, shipping and navigation laws, that such vessels be operated by--
 - U.S.-citizen controlled companies**
 - U.S. crews**

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Critical Infrastructure

Historically the United States has imposed heightened requirements over industries constituting critical infrastructure --

- **Transportation**
- **Telecommunications**
- **Banking & Finance**
- **Electrical Power**
- **Water**
- **Oil & Gas**
- **Emergency Services**
- **Essential Government Functions**

... to help ensure each is maintained and operated in a manner consistent with our national interests.

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Cabotage Laws

By defining who has the **RIGHT** to engage in domestic transportation, cabotage laws play an important role in preserving those national interests -- in **ALL MODES**, not just maritime!!



Common Principles

- I. **ALL** transportation between two points in the U.S. must be performed by **U.S. citizen crews**, using operating equipments **built and operated to U.S. standards**.
- II. **ALL** transportation must comply **FULLY** with **ALL** U.S. laws and regulations.
- III. Every operator in each mode operates under the **SAME** rules and regulations -- competing on the basis of service and efficiency, not subsidies.



Importing Goods vs. Services

- GOODS: Tariffs, Unfair Trade Petitions, Quotas, Bilateral Treaties, International Agreements, Political Intervention, Anti-Dumping Laws, Countervailing Duties, Direct Subsidies
- SERVICES: All services performed in the United States are fully subject to U.S. law and regulation.

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Topics

- The Jones Act
- **Jones Act Trade**
- The Jones Act
Fleet

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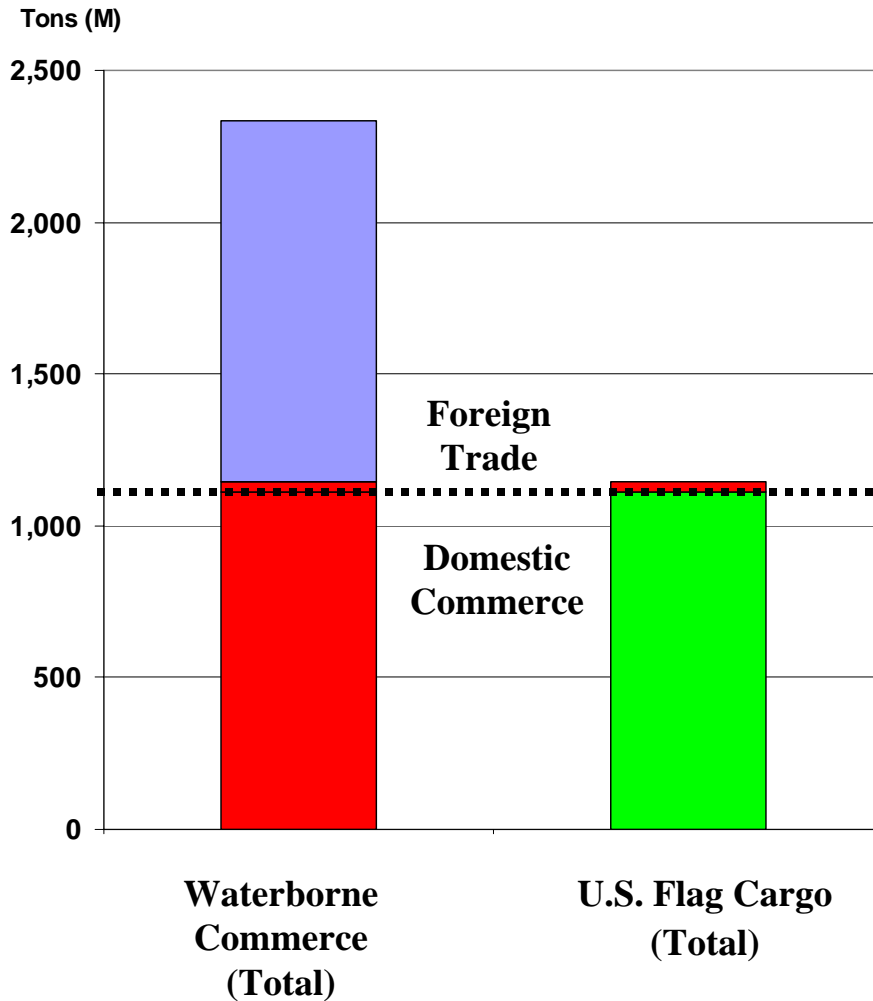
Domestic Waterborne Commerce

Under the Jones Act:

- A billion or more tons cargo carried annually
- Equates to the total cargoes (import and export) carried in U.S. international waterborne trade



Importance of Jones Act to U.S. Maritime Industry



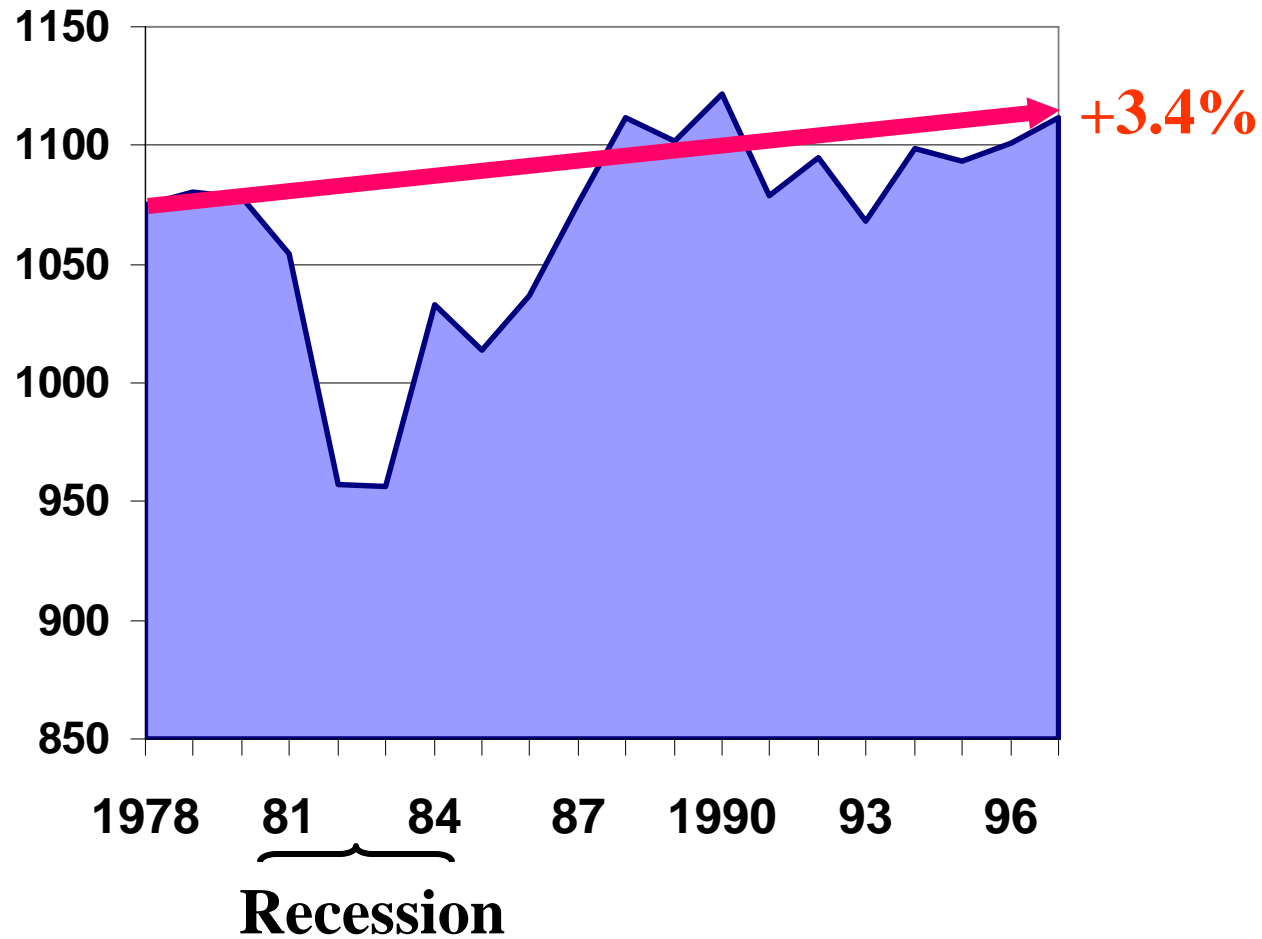
**Domestic Fleet
Carries 97% of
All Cargo
Carried By
U.S.-Flag
Vessels**

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Domestic Waterborne Trade Follows the Economy

Tons (Millions)

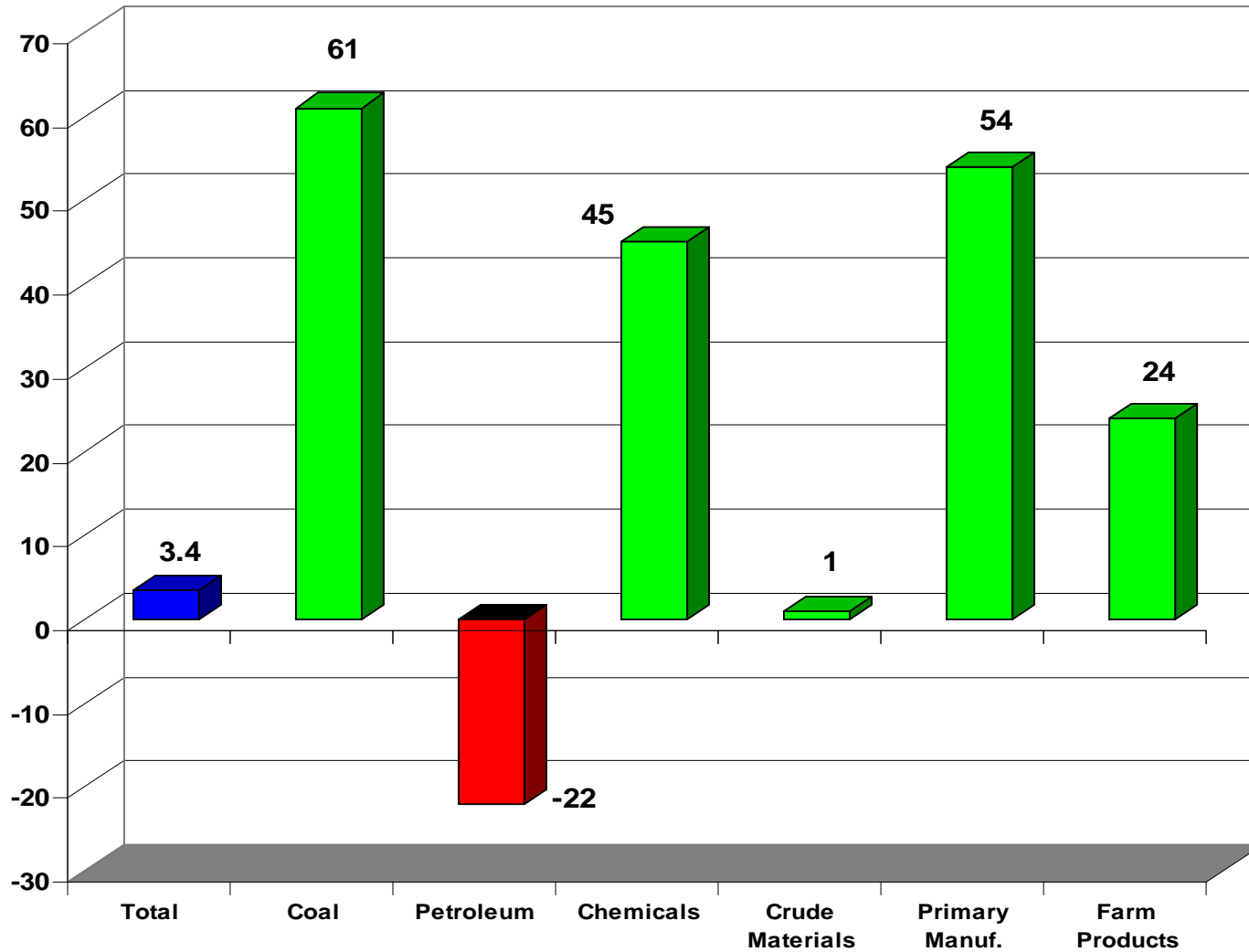


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Domestic Waterborne Trade (1978 - 1997)

Percent Change (Tons)



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Coastwise Trade

(Millions of Tons)

	<u>Coastwise (Total)</u>	<u>Coastwise (Less Crude)</u>	<u>Crude Petroleum</u>
1995	267	177	90
1996	267	184	84
1997	263	186	77
		+9 M	-13 M
Pct. Change	-1.5%	+5%	-14%

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Coastwise Trade

- Increasing for cargoes other than crude petroleum products (+2.5% annually)
- Dramatic decrease in Alaska crude shipped to U.S. (-7% annually) masks this improvement
 - Crude shipped from Valdez accounts for 90% of all domestic crude oil shipments and represents over 85% of the loss in crude tonnage 1995-97
 - Trend since 1988

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Topics

- Jones Act Trade
- **The Jones Act
Fleet**

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Mis-Perceptions

“In 1950, the U.S. flag fleet consisted of 1,000 ships; almost half a century later ... there are less than 200 ...”

E.I. DuPont de Nemours & Co. Spokesman
May 1996

“Because of the Jones Act, not a single American-flagged coastal freighter serves the entire East Coast and only a single vessel serves the West Coast.”

Steel Manufacturers Association (1996)
Salt Institute (1999)

“No vessels over 1,000 tons are available on a regular basis.”

Steel Manufacturers Association (1996)

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The Facts Show

➤ **Growing**

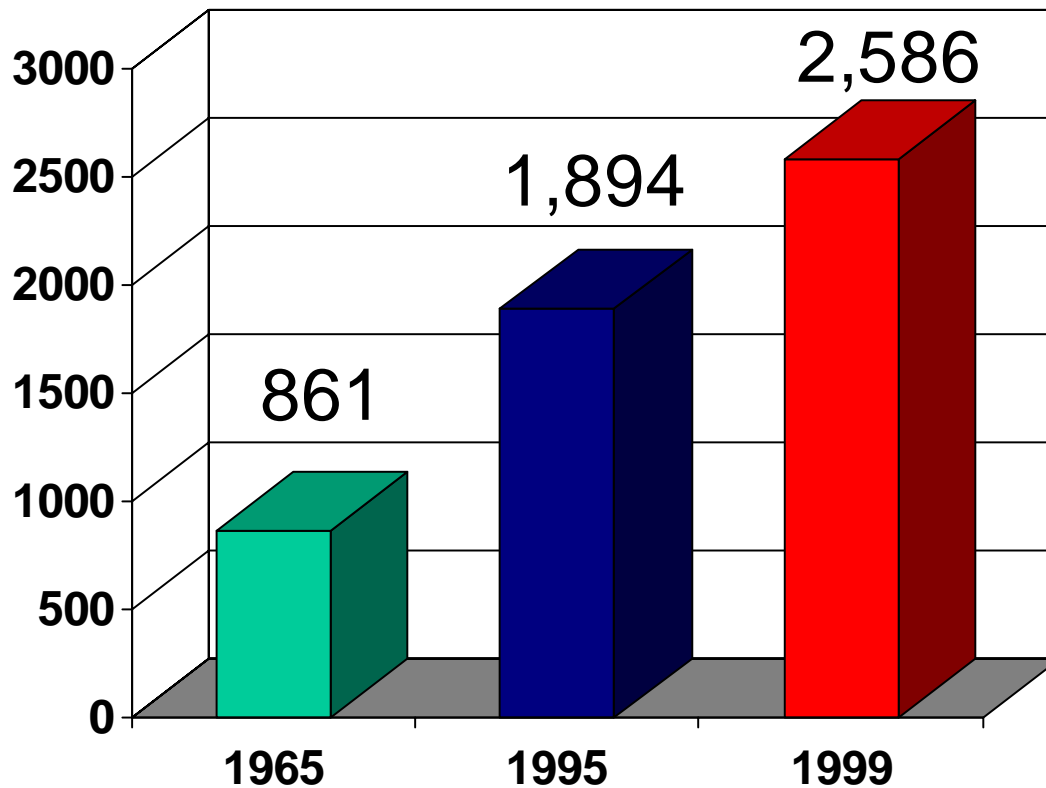
Tripled In Size

➤ **Highly Productive**

Quadrupled In Productivity



A Growing Fleet



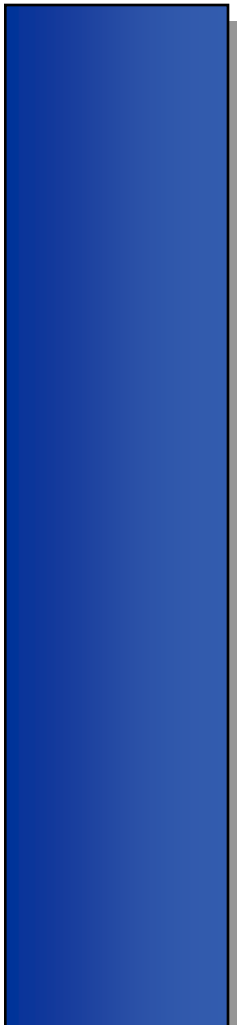
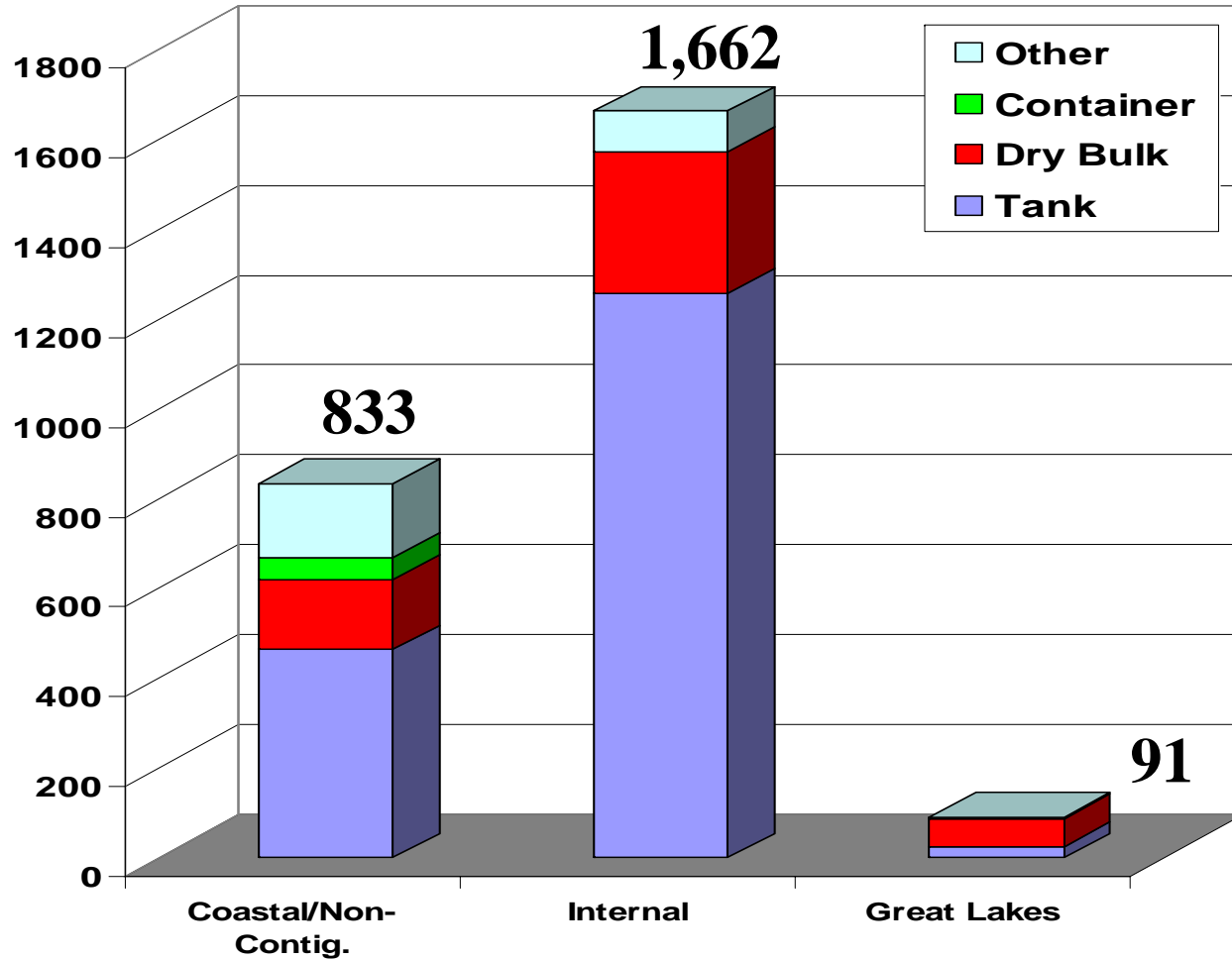
**Large Commercial
Cargo Vessels
in the
U.S. Domestic Fleet
(> 1,000 grt)**

Source: U.S. Maritime Administration U.S.-Flag Fleet (January 1, 1999);
MCTF Full Speed Ahead Report (1997)(for 1965 and 1995 data)



Cargo Fleet -- By Trade

Number Vessels >1,000 grt



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Domestic Cargo Fleet

	<u>Tank</u>	<u>Dry Bulk</u>	<u>Container</u>	<u>Other</u>	<u>Total</u>
Coastal/ NContig	547	497	47	1,342	2,433
Inland	2,789	20,691	1	2,827	26,308
Great Lakes	44	87	0	75	206
			Total		28,947

Maritime Administration U.S.-Flag
Fleet (January 1, 1999)

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Changing Face of the Industry



WHY COUNT
THIS . . .

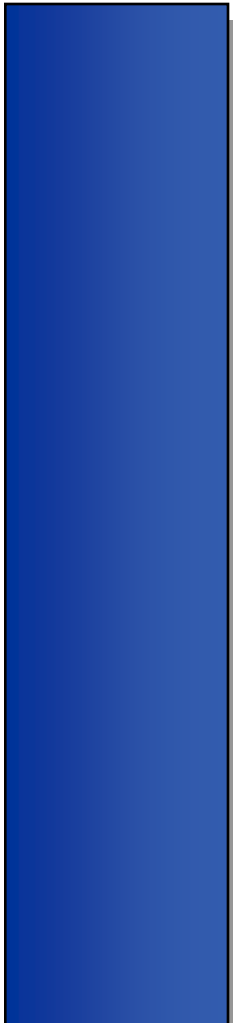
BUT NOT THIS?



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What Do You See Here?



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- Small barges that should not be included in vessel counts?

OR

- A 27,000 ton freighter:
 - Configured for Inland Use
 - Can Carry Varying Amounts of Cargo
 - Can Carry Mixed Types of Cargo
 - ✎ Dry or Liquid Bulk
 - ✎ Breakbulk
 - ✎ Intermodal
 - 7 Person Crew

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Domestic Cargo Fleet

(>1,000 grt)

	<u>Tank</u>	<u>Dry Bulk</u>	<u>Container</u>	<u>Other</u>	<u>Total</u>
Coastal/ NContig	547 463	497 157	47 47	1,342 166	2,433 833
Inland	2,789 1,255	20,691 318	1 0	2,827 89	26,308 1,662
Great Lakes	44 25	87 62	0 0	75 4	206 91

28,947

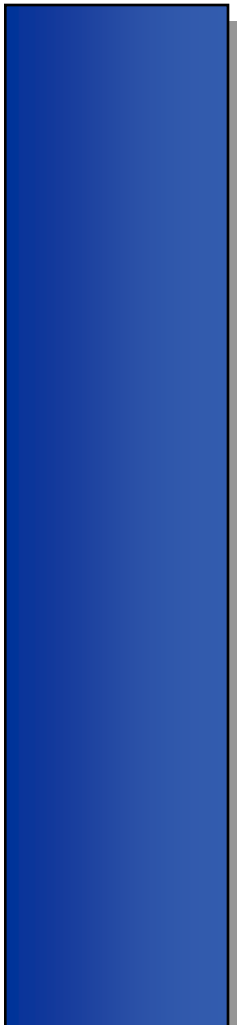
2,586

Maritime Administration U.S.-Flag
Fleet (January 1, 1999)

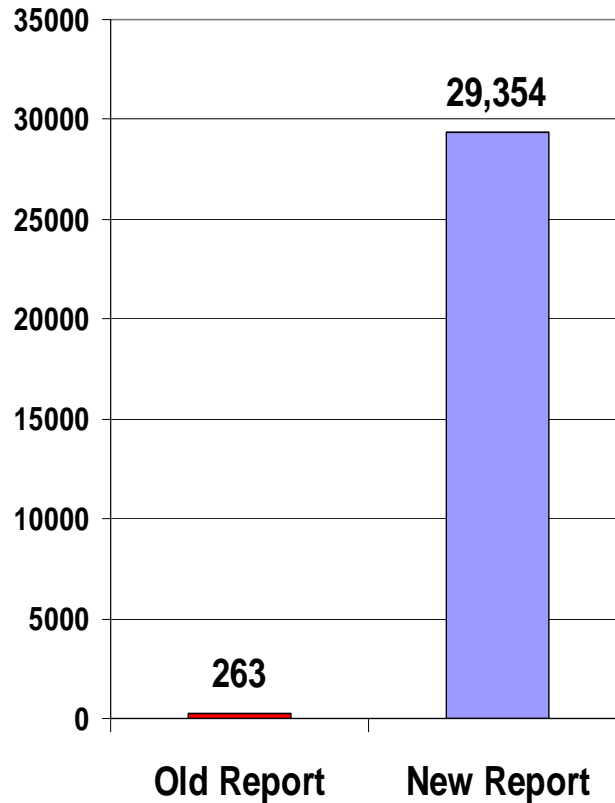
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New Maritime Administration Report on U.S.-Flag Fleet

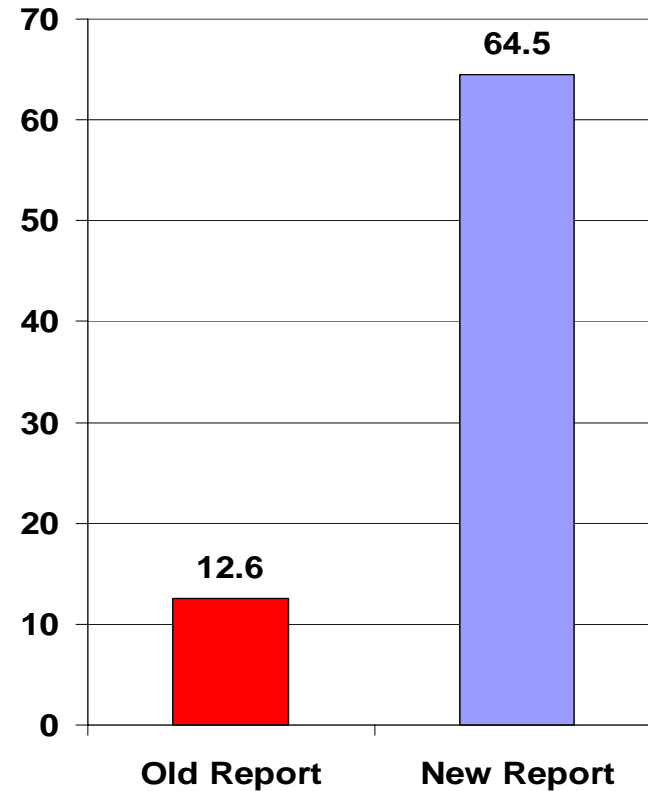


Number of Vessels

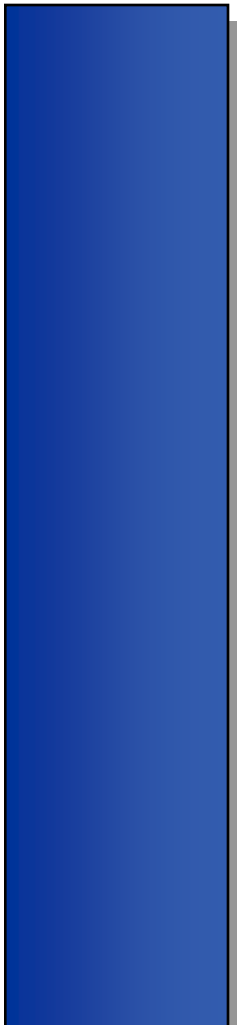


Vessels

Tons (Millions)

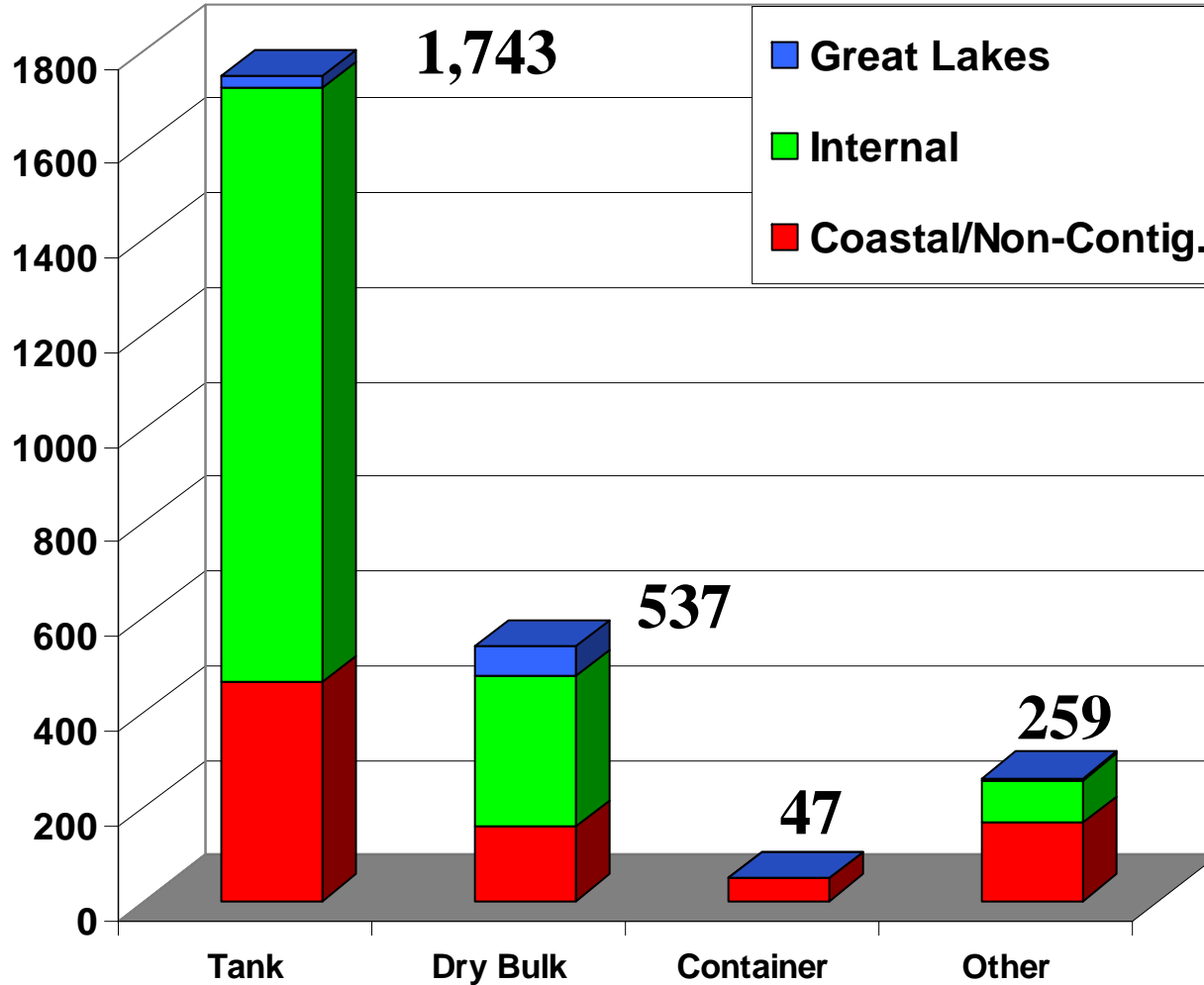


Capacity



Cargo Fleet -- By Type Vessel

Number Vessels >1,000 Grt



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Coastal/Non-Contiguous

	<u>Tank</u>	<u>Dry Bulk</u>	<u>C/S</u>	<u>Other</u>	<u>Total</u>
>1,000 grt	463	157	47	166	833
<1,000 grt	84	340	0	1,176	1,600
Total	547	497	47	1,342	2,433

Maritime Administration U.S.-Flag
Fleet (January 1, 1999)

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Inland

	<u>Tank</u>	<u>Dry Bulk</u>	<u>CS</u>	<u>Other</u>	<u>Total</u>
>1,000 grt	1,255	318	0	89	1,662
<1,000 grt	1,534	20,373	1	2,738	24,646
Total	2,789	20,691	1	2,218	26,308

Maritime Administration U.S.-Flag
Fleet (January 1, 1999)

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Great Lakes

	<u>Tank</u>	<u>Dry Bulk</u>	<u>CS</u>	<u>Other</u>	<u>Total</u>
>1,000 grt	25	62	0	4	91
<1,000 grt	19	25	0	71	115
Total	44	87	0	75	206

Maritime Administration U.S.-Flag
Fleet (January 1, 1999)

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Tank Vessel Fleet

	1995		1999	
	<u>SP</u>	<u>NSP</u>	<u>SP</u>	<u>NSP</u>
>1,000 grt	92	1,180	87	1,656
<1,000 grt			1	1,636
Subtotal			88	3,292
Total			3,380	

Maritime Administration U.S.-Flag
Fleet (January 1, 1999)

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Tank Vessel Fleet

Capacity
(Millions Tons)

1995

1999

	<u>SP</u>	<u>NSP</u>	<u>SP</u>	<u>NSP</u>
>1,000 grt	92 6.3	1,180 5.5	87 6.2	1,656 7.5
<1,000 grt			1	1,636 2.5
Subtotal			88	3,292
Total				3,380

Maritime Administration U.S.-Flag
Fleet (January 1, 1999)

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Tank Vessel Fleet (By Trade)

	<u>Coast/ Non-Cont.</u>	<u>Inland</u>	<u>Great Lakes</u>	<u>Total</u>
>1,000 grt	463	1,255	25	1,743
<1,000 grt	84	1,534	19	1,637
Total	547	2,789	44	3,380

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Fleet (January 1, 1999)

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Dry Cargo Fleet

	<u>Bulk</u>	<u>Container</u>	<u>Other</u>	<u>Total</u>
>1,000 grt	537	47	259	843
<1,000 grt	20,738	1	3,377	24,116
Total	21,275	48	3,636	24,959

Maritime Administration U.S.-Flag
Fleet (January 1, 1999)

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Dry Bulk Fleet (By Trade)

	<u>Coast/ Non-Cont.</u>	<u>Inland</u>	<u>Great Lakes</u>	<u>Total</u>
>1,000 grt	157	318	62	537
<1,000 grt	340	20,373	25	20,738
Total	497	20,691	87	21,275

Maritime Administration U.S.-Flag
Fleet (January 1, 1999)

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Today's Domestic Fleet

- Productivity
 - Can carry more cargoes with fewer ships
- Increased Role of Non-Self-Propelled Vessels
 - With increased ability to serve shippers in all trades, not just bulk cargoes
- New Construction
 - New ships and new ideas for serving American business



Change in Domestic Fleet

In services where self-propelled vessels are economically or operationally more effective --

... increased vessel, crew, and system productivity have allowed increased services at lower cost with fewer vessels

Elsewhere, the lower capital and operating costs and greater operating flexibility of non-self-propelled vessels has led to increased use:

- New cargoes (growth)
- Cargoes previously carried by self-propelled vessels

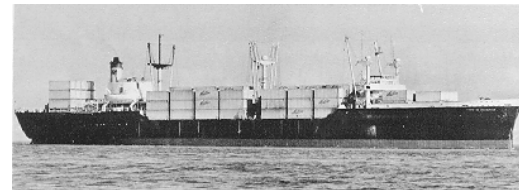
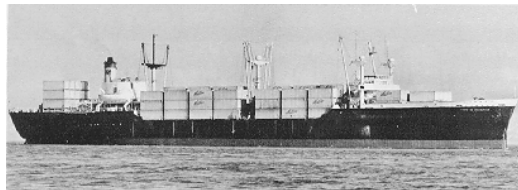
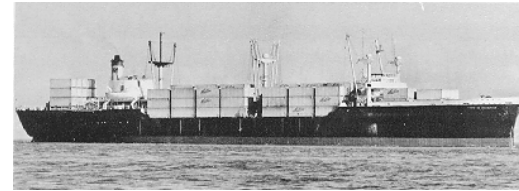
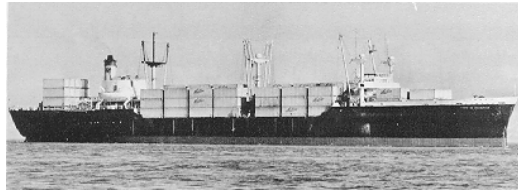
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A MORE PRODUCTIVE FLEET



EQUALS



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Domestic Cargo Fleet

(Number Vessels >1,000 grt)

(Cargo Capacity (Millions Tons))

	<u>1965</u>	<u>1995</u>	<u>1999</u>
Self-Prop. (o/t Lakes)	212 3.9	126 7.0	120 7.2
Non-Self Propelled	438 1.9	1,703 8.0	2,407 11.1
Great Lakes (Self-Prop)	211 2.1	65 1.6	59 1.9
Total	861 7.9	1,894 16.6	2,586 20.2

Maritime Administration U.S.-Flag
Fleet (January 1, 1999)

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Matson Fleet Productivity

1950

28 Ships

1,316 Crew

150 Round
Voyages

1.4 M tons
Delivered

1995

8 Ships

240 Crew

196 Round
Voyages

4.7 M tons
Delivered

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A MORE PRODUCTIVE FLEET



EQUALS

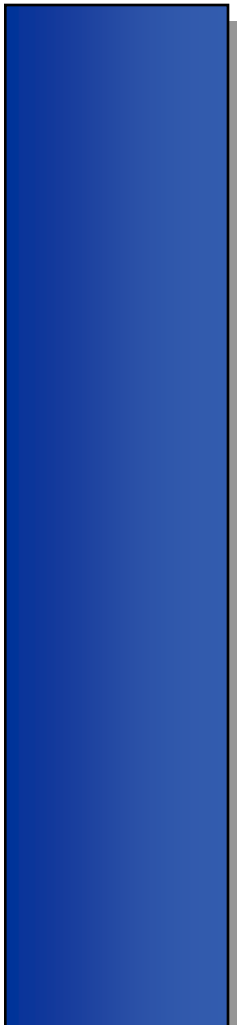
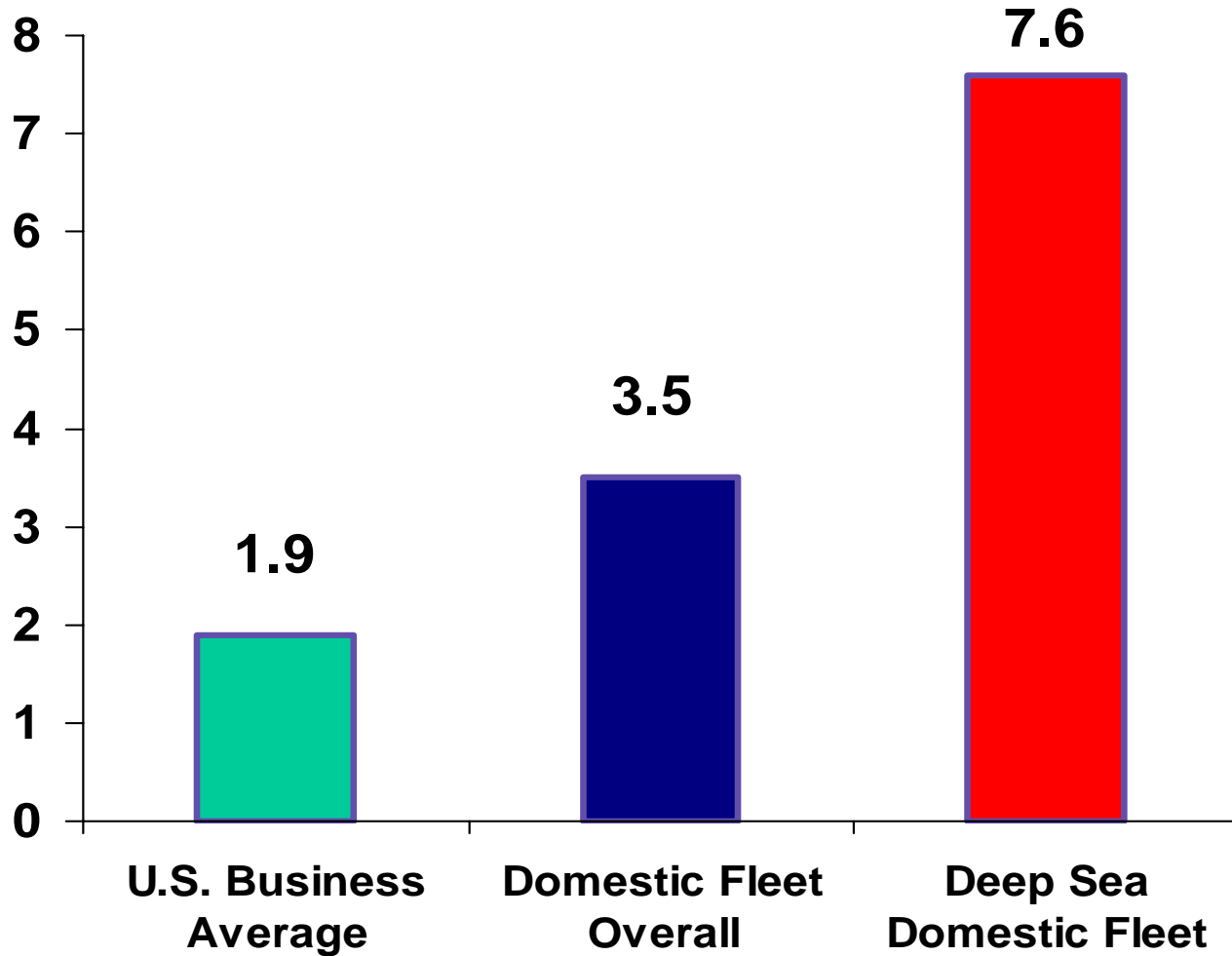


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MARITIME PRODUCTIVITY GROWTH (1965-95)

Percent Annual
Increase



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Barges Today

Transport every one of the 138 commodity groups used by the Corps of Engineers to track waterborne commerce:

From:

.4% of shellfish

50 tons of
radioactive
materials

To:

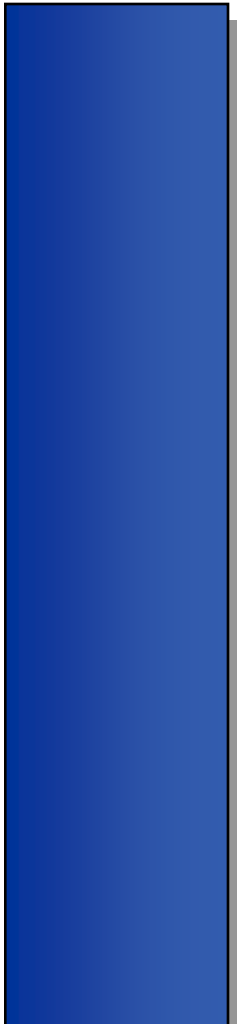
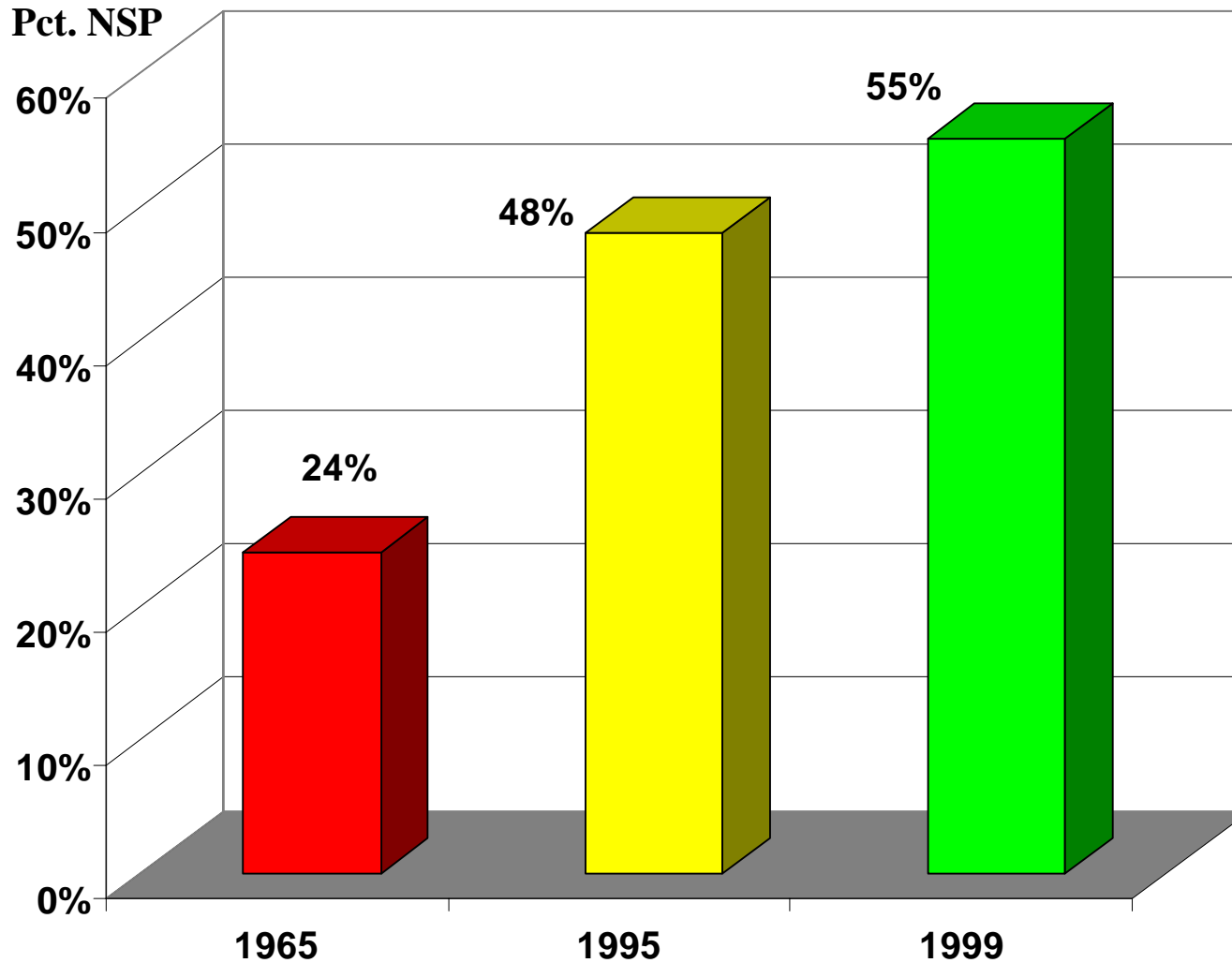
100% of commodities like
corn, various ores, wood
chips, soybeans, etc.

228 million tons of
lignite coal

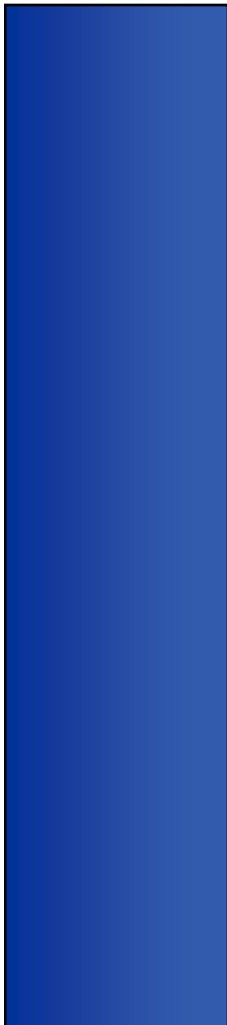
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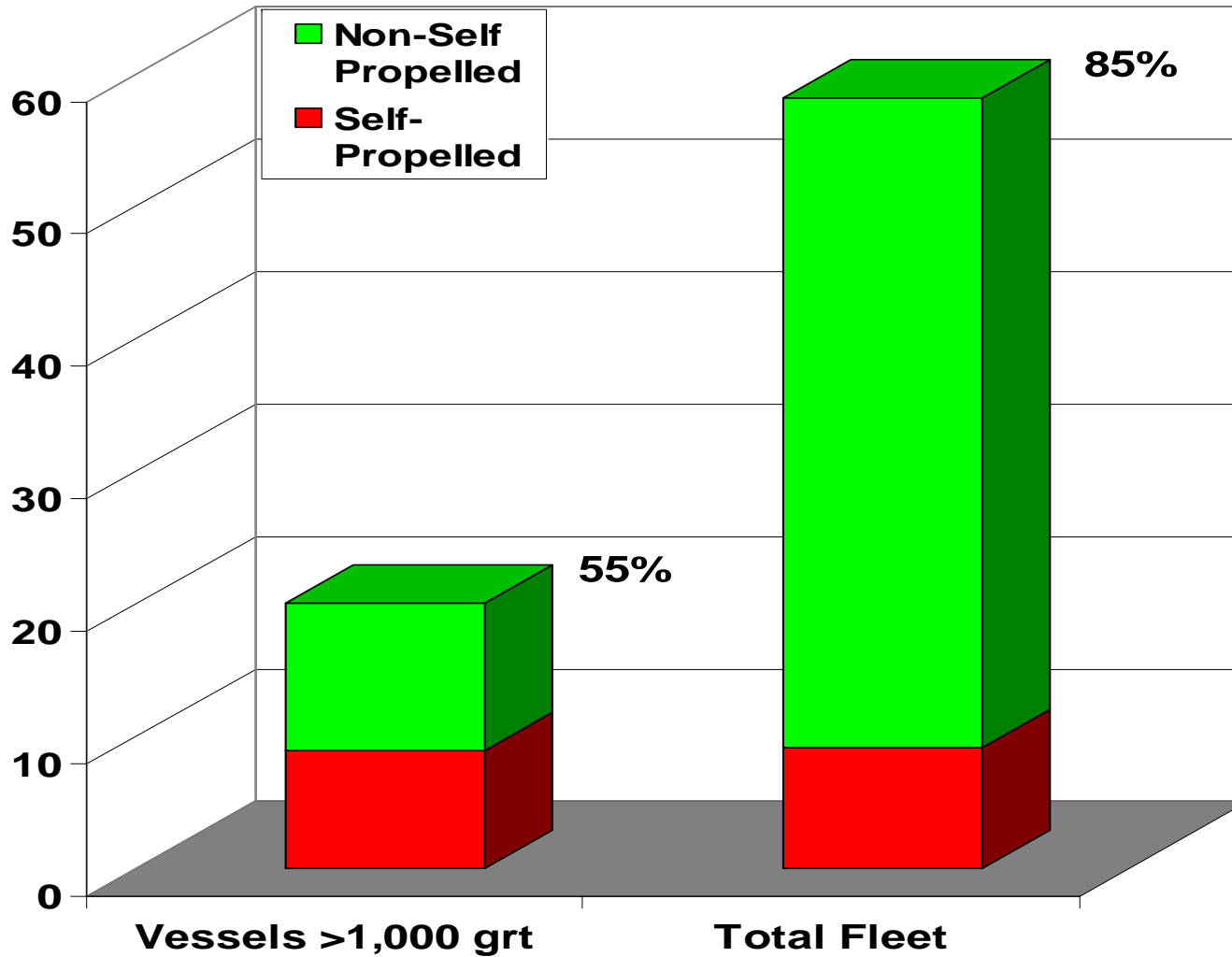
Increasing Share of Commercial Capacity (>1,000 grt)



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Capacity -- Pct. Non-Self Propelled

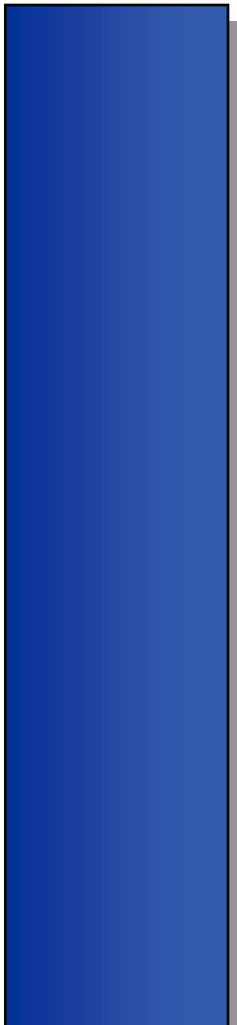
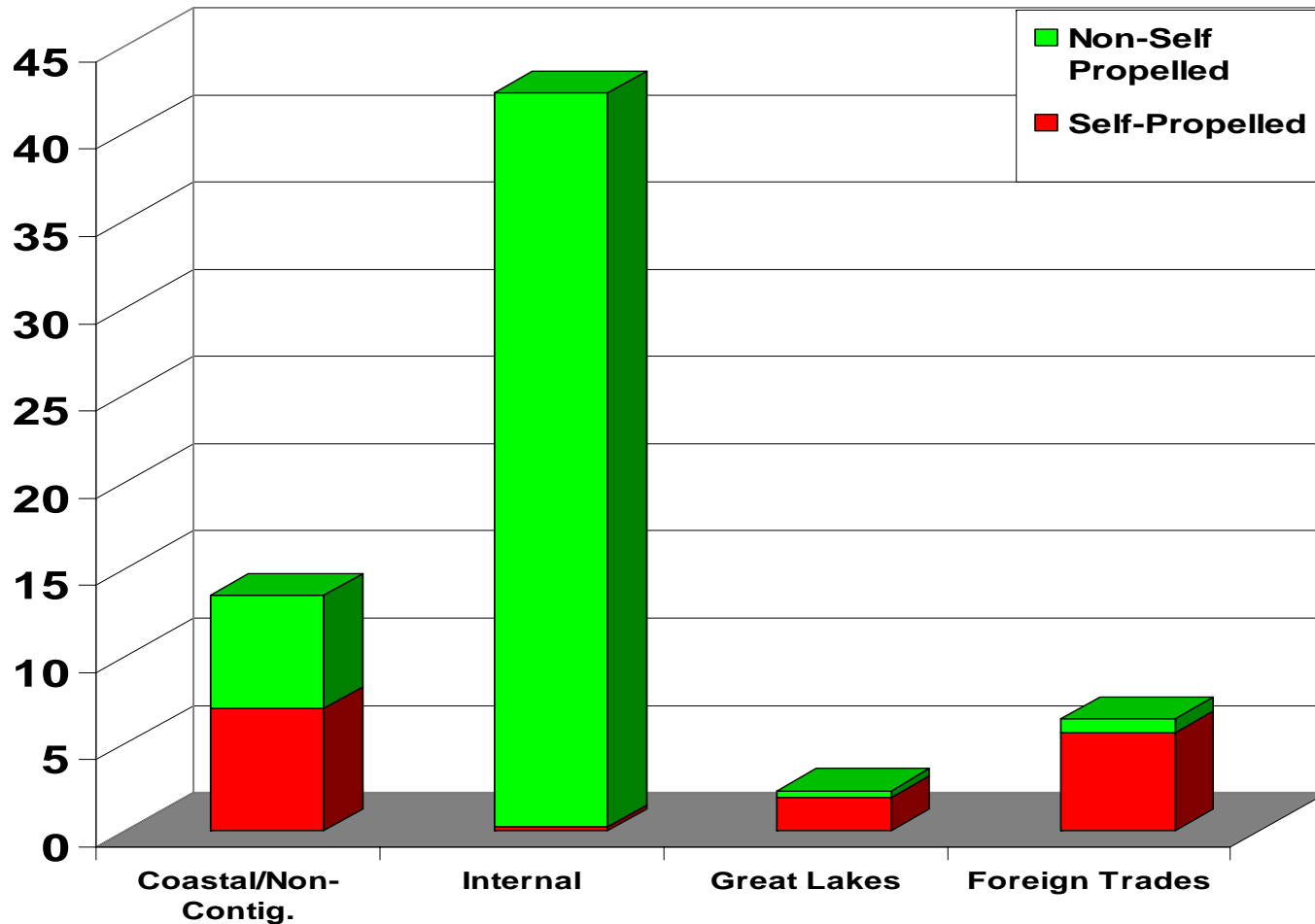


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Capacity Comparisons -- By Trade

Million Tons (M)

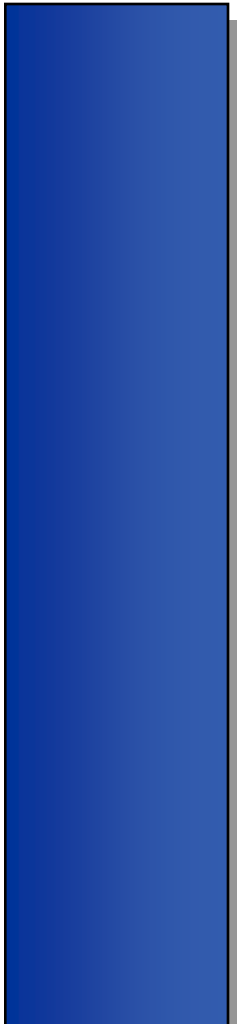
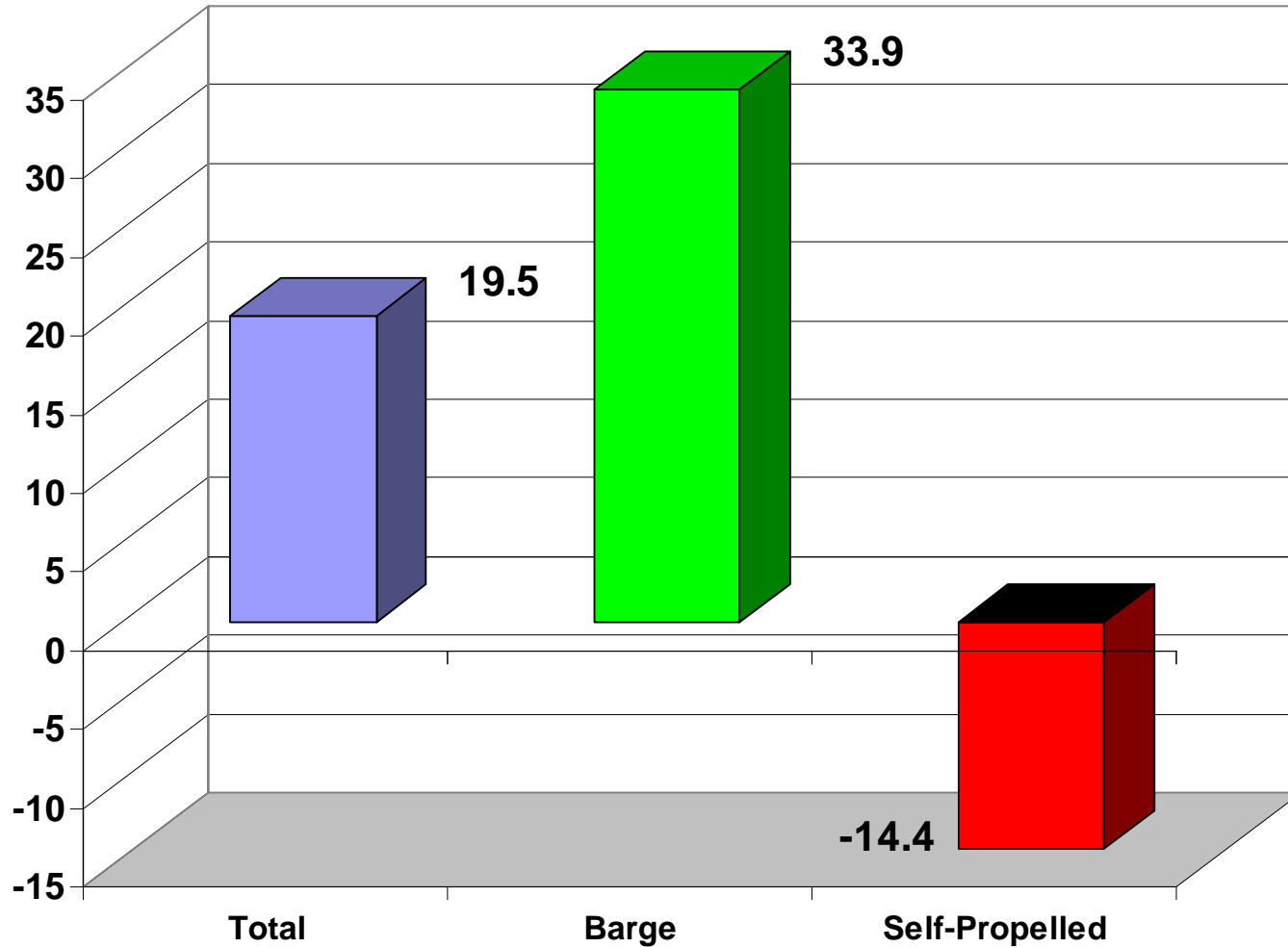


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Changing Face -- By Cargoes 1995-97

Tons (Millions)



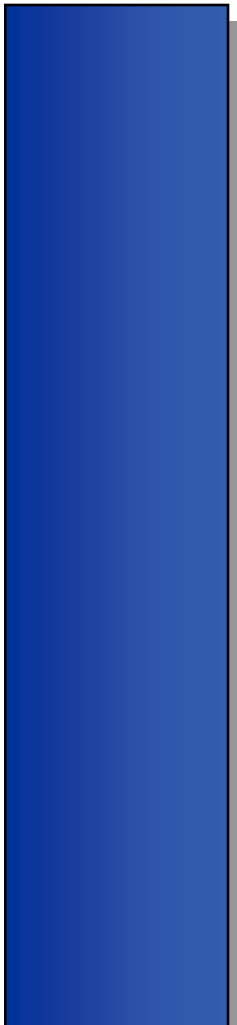
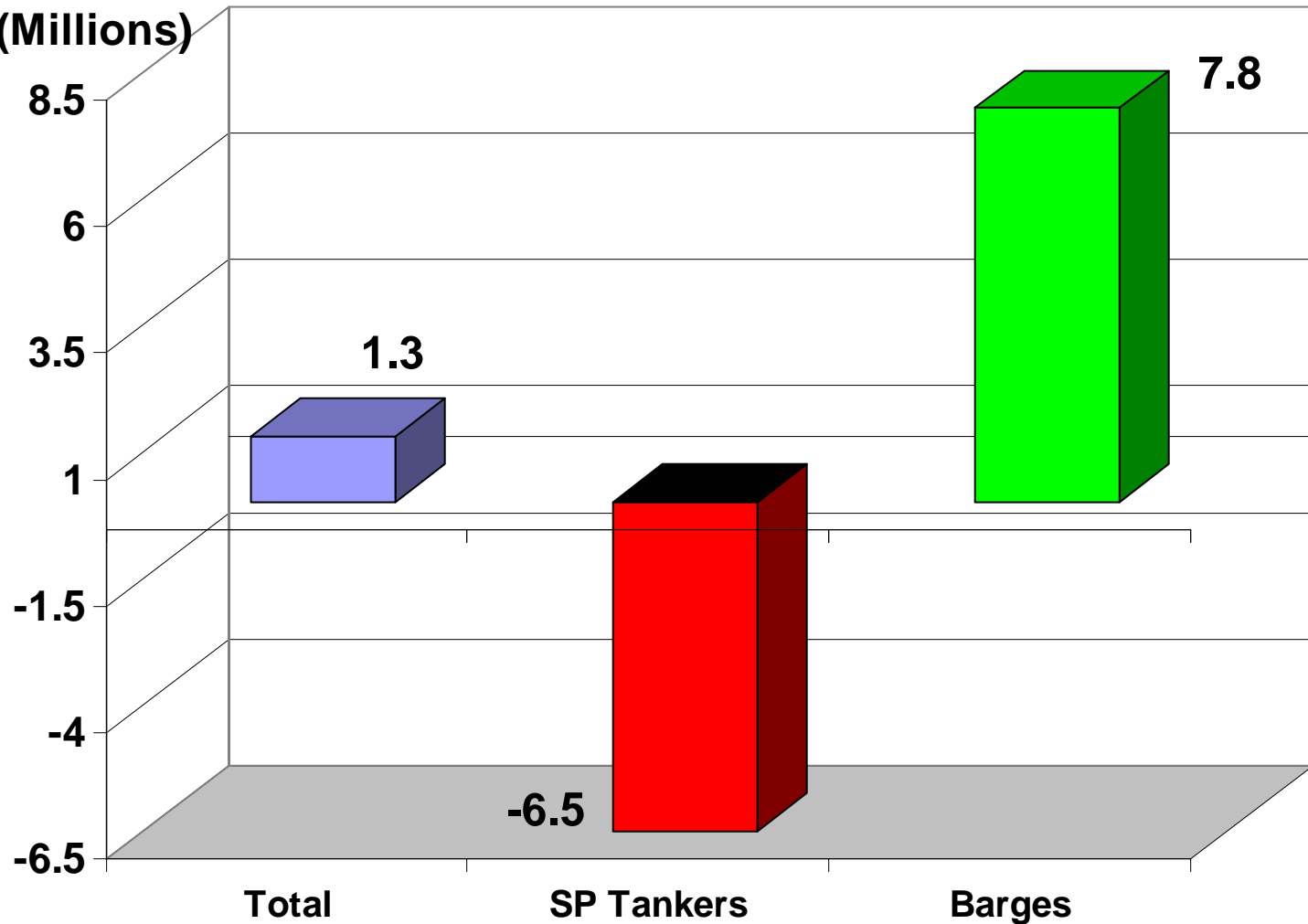
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Coastwise Product Trade (1995-97)

Tons

(Millions)



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Two Case Studies

- Steel Products
- Coastwise Intermodal

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Scrap Metals

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Transporting Finished Steel Products





Iron & Steel Scrap

(Millions of Tons Carried)

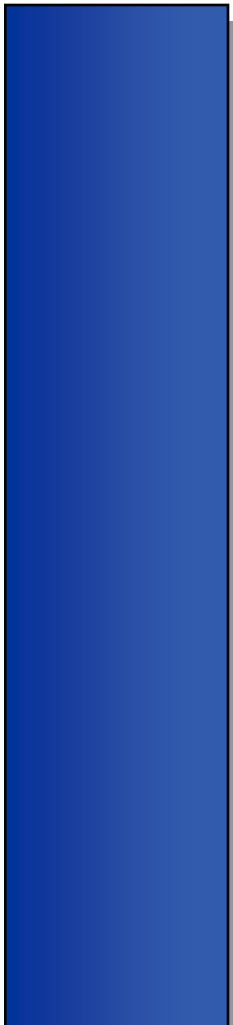
	<u>Domestic Total</u>	<u>Barge Total</u>	<u>Coastwise</u>	<u>Coastwise Barge</u>
1995	5.5	5.4	.22	89%
1996	5.7	5.6	.34	92%
1997	6.7	6.4	1.04	91%

+22%

**96% of
Total**

+462%

**Growth in Just 3
Years!**



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Primary Iron & Steel Products

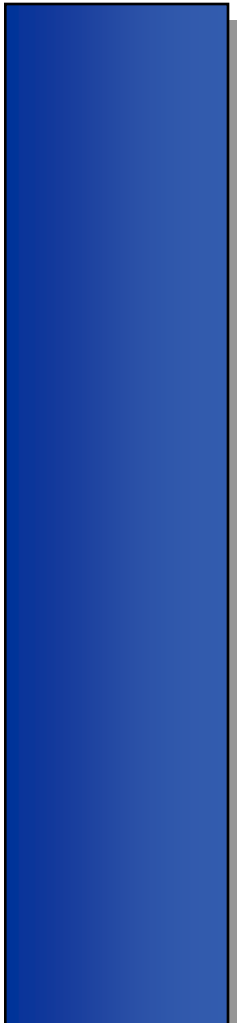
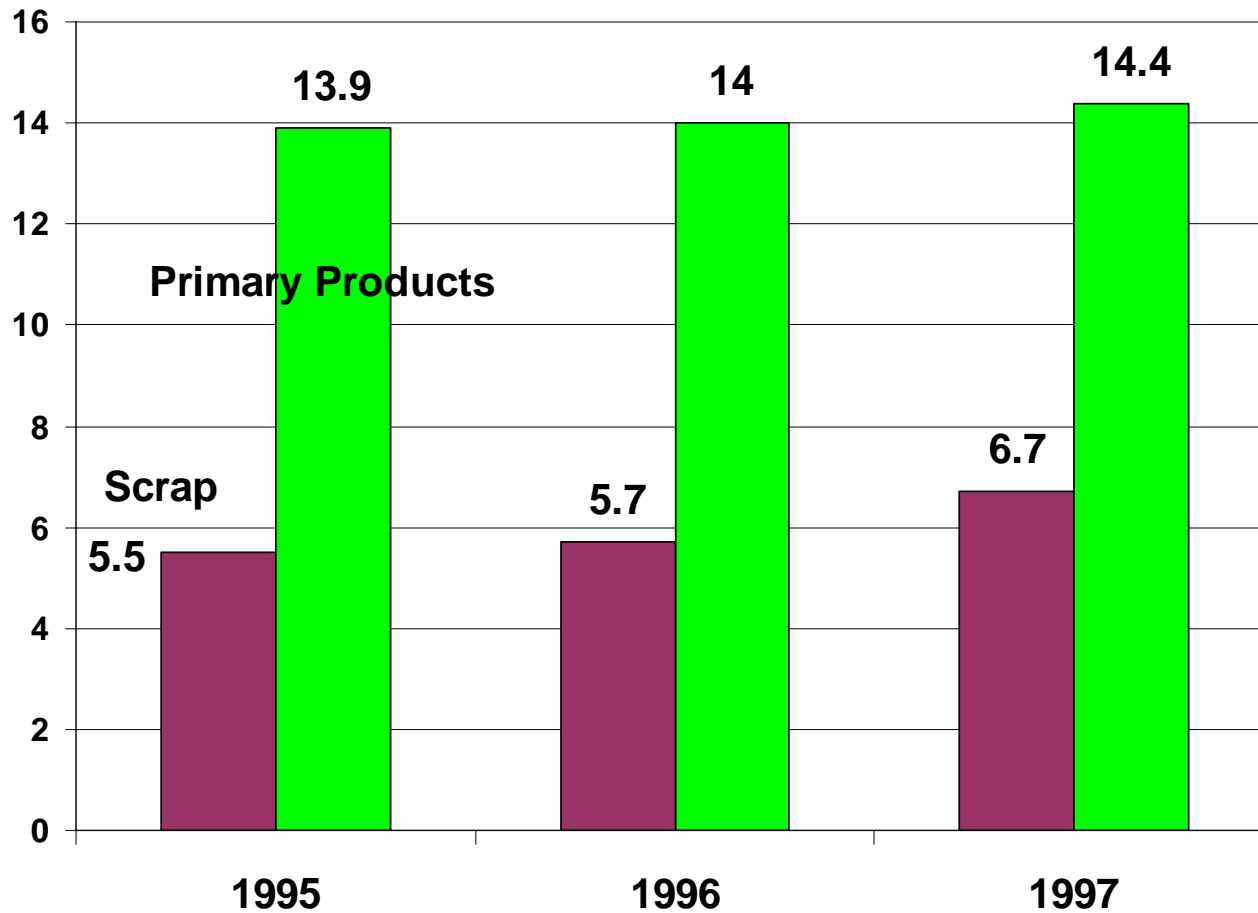
(Millions Tons Carried)

	<u>Domestic Total</u>	<u>Barge Total</u>	<u>Coastwise</u>	<u>Coastwise Barge</u>
1995	13.9	13.8	.21	72%
1996	14.0	13.1	.20	73%
1997	14.4	14.2	.16	64%
	+4%	99%	-20%	



Waterborne Trade in Steel Scrap and Primary Products

Tons (Millions)



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Lessons Learned

- Steel scrap and primary products are moving in domestic waterborne trade (inland and coastwise)
- Barges are not only capable of transporting such cargoes but account for 90+% of that traffic (including coastwise)
- Annually the equivalent of 5,150 vessels >1,000 grt carry such cargoes or @ 14 on any given day

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OCEANGOING INTERMODALISM



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A Tale of Two Companies

Green Cove Maritime

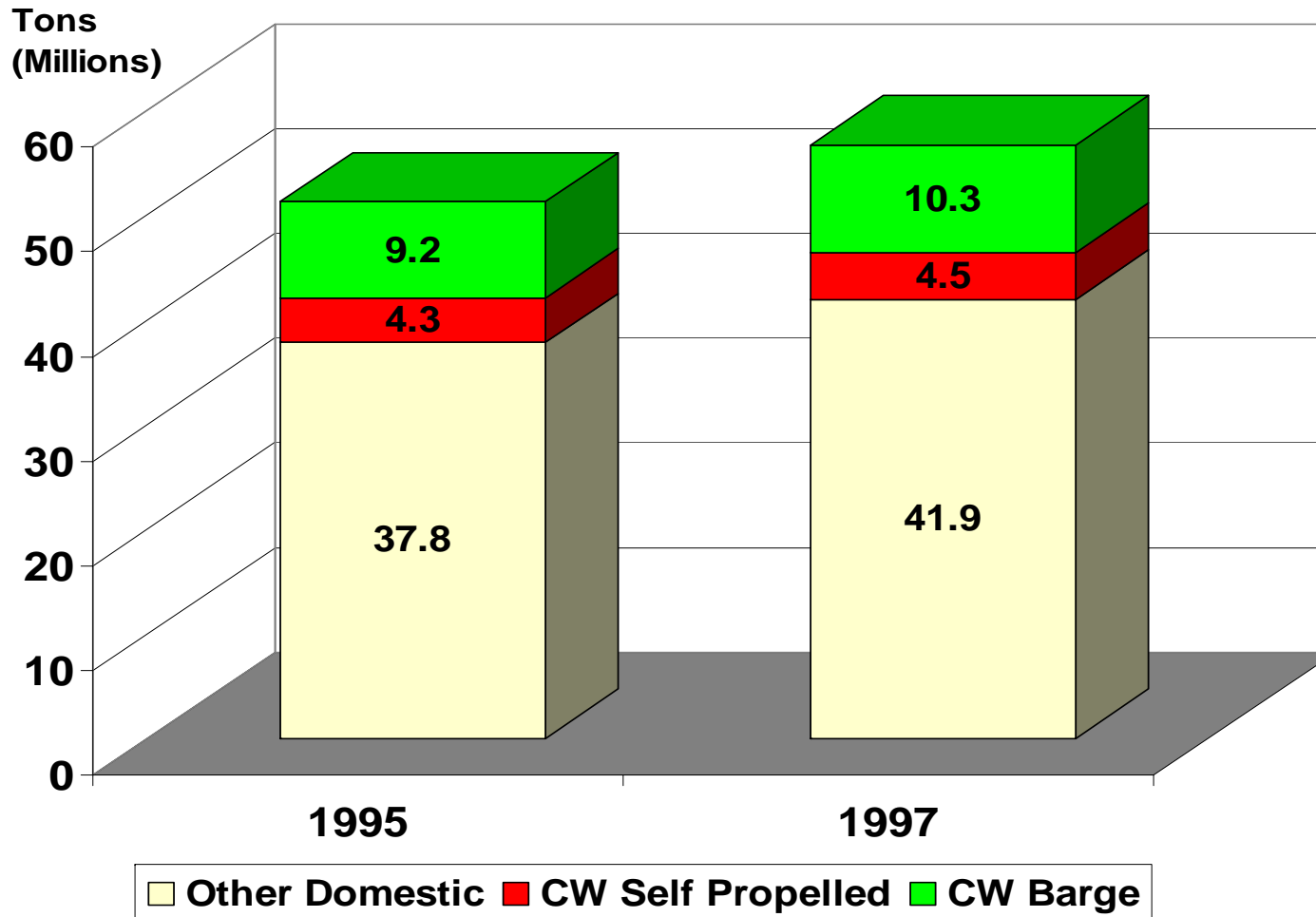
JARC member whose President in 1996 came to Washington to testify that he wanted to start a coastwise shipping service but couldn't do so because of the Jones Act ... remains agent for foreign carriers serving the Bahamas.

Columbia Coastal Transport

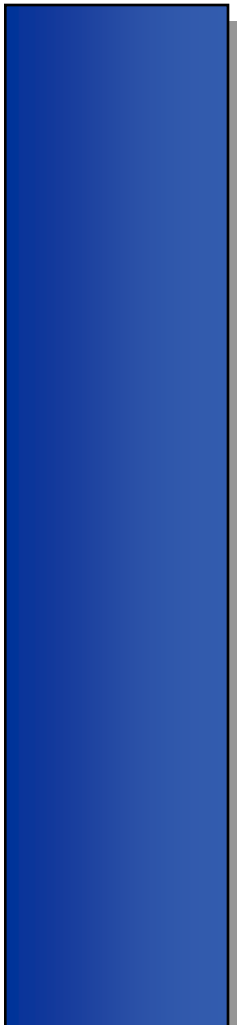
In 9th year of providing coastal container service on East Coast with 10 barges of 400 - 600 TEU capacity (and a 760 TEU barge scheduled for delivery soon). Next year anticipates carrying **200,000** containers in coastal service.



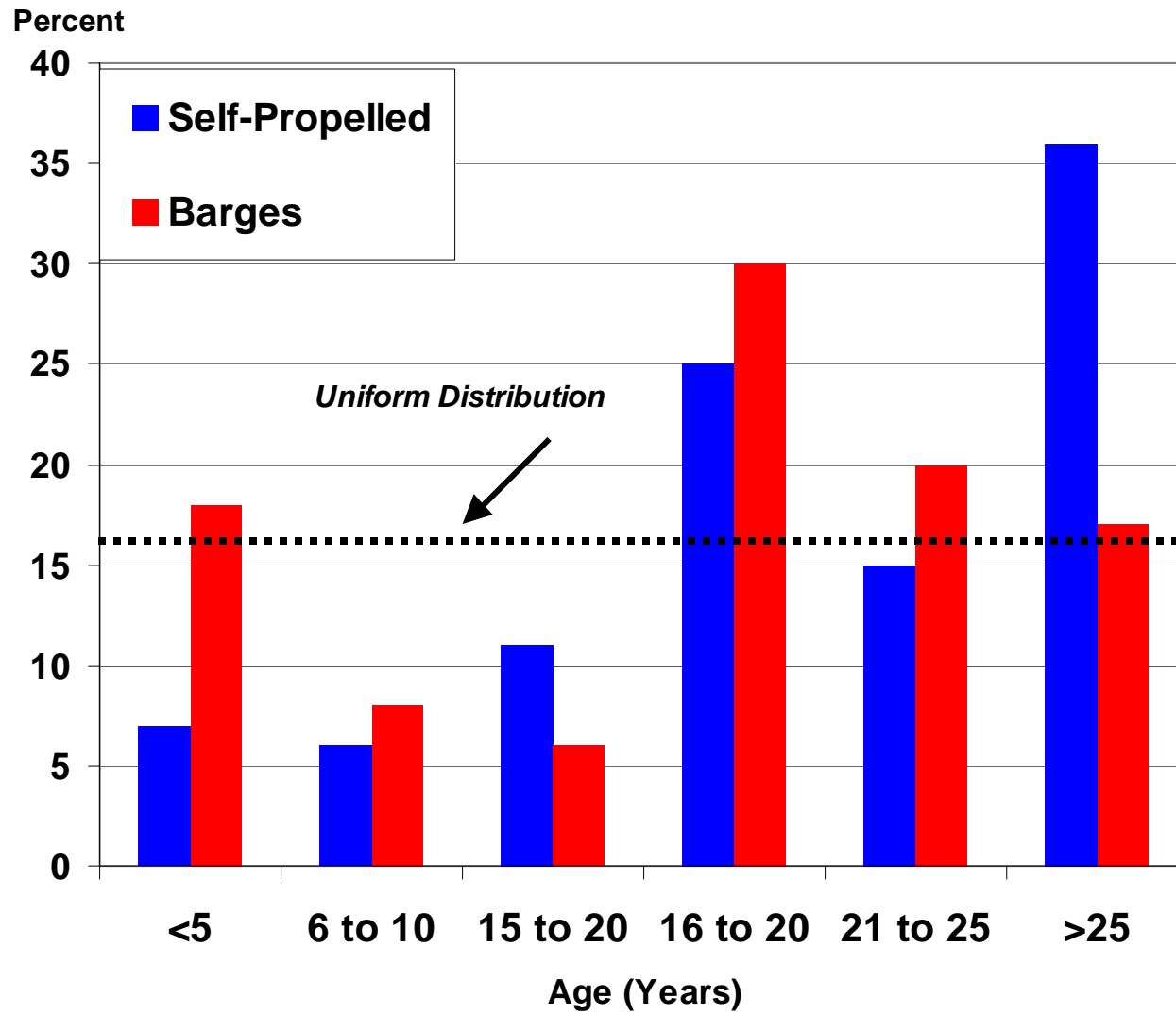
Trade in Manufactured Goods (1995-97)



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Age Profile



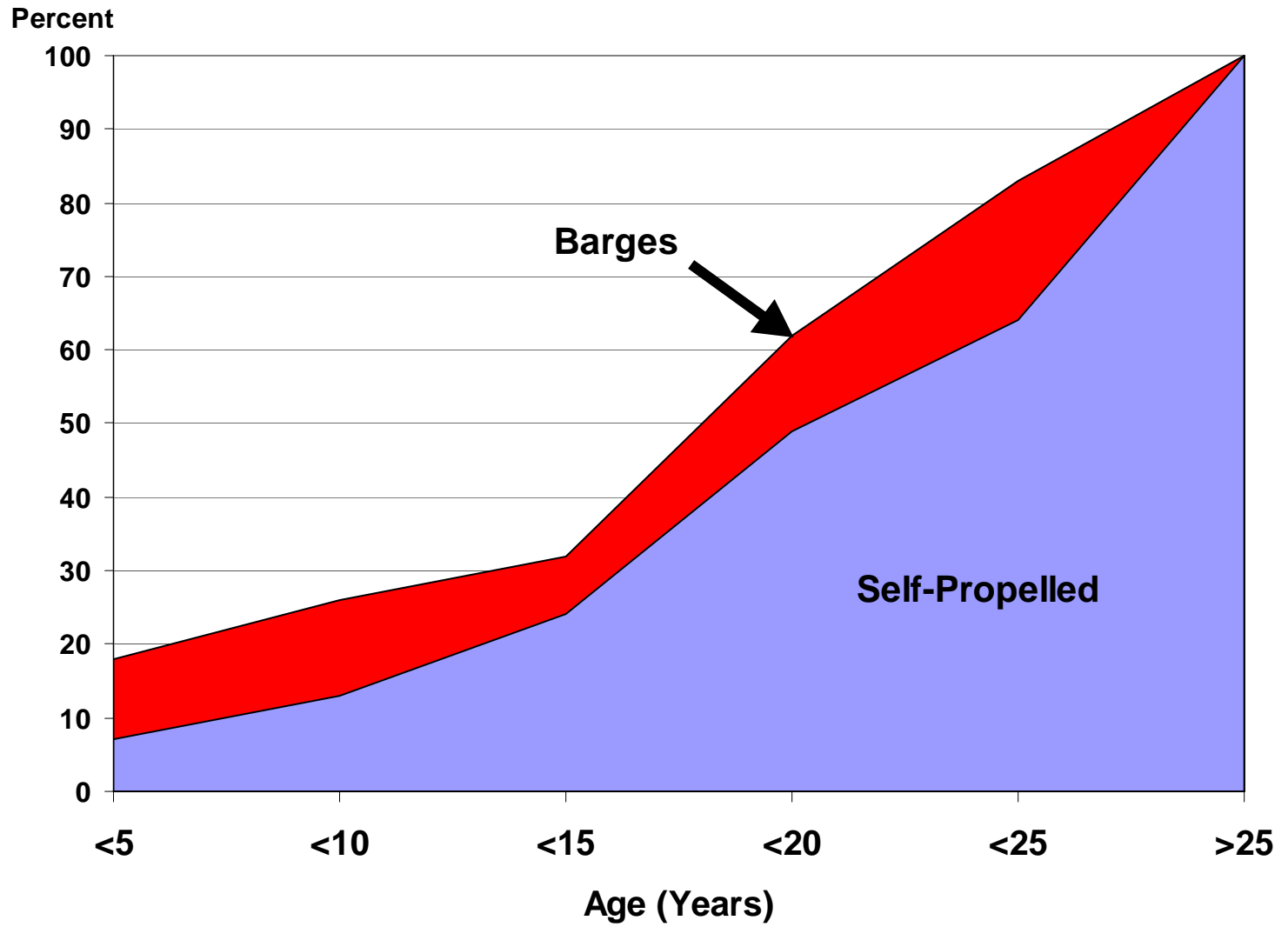
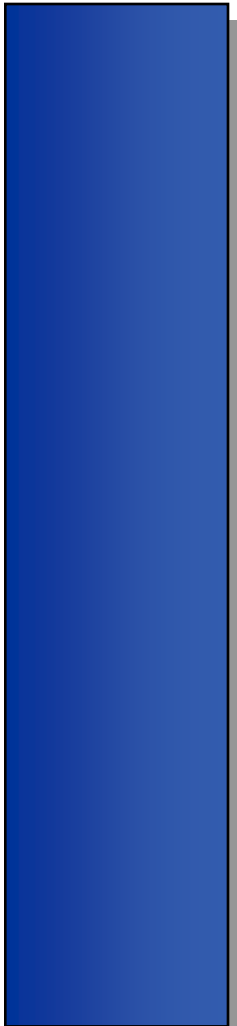


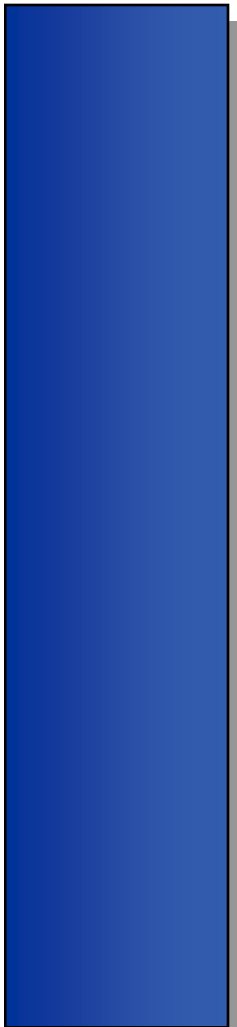
New Construction 1993-97

- During this 5-year period, U.S. shipyards on average delivered --
 - 3 new barges every day
 - 1 new self-propelled vessel every 5½ days
- While operating at only about 50% of shipbuilding capacity

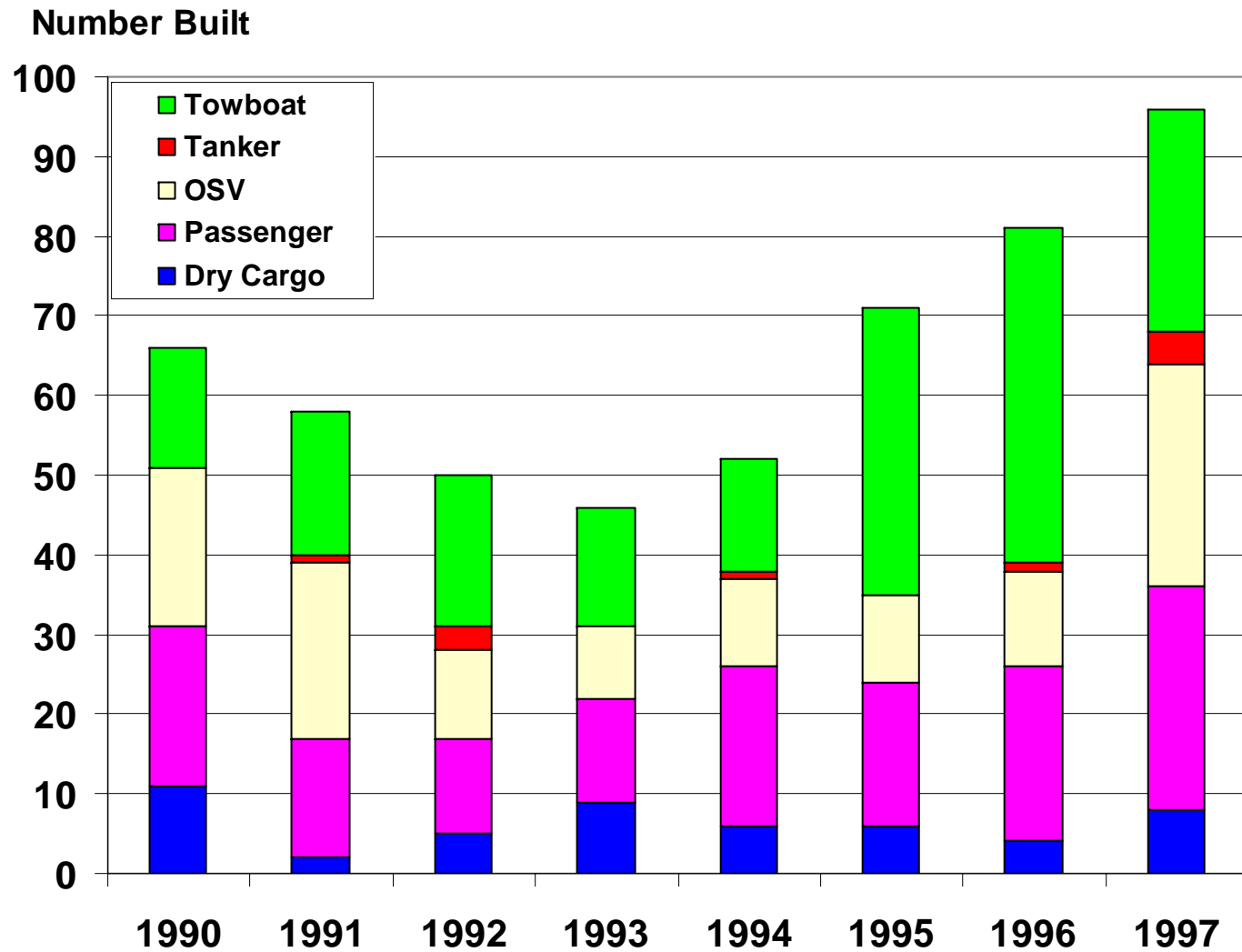
Source: U.S. Army Corps of Engineers
(1997)

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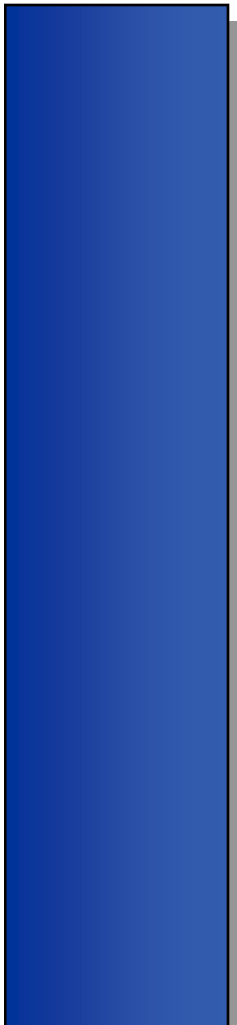
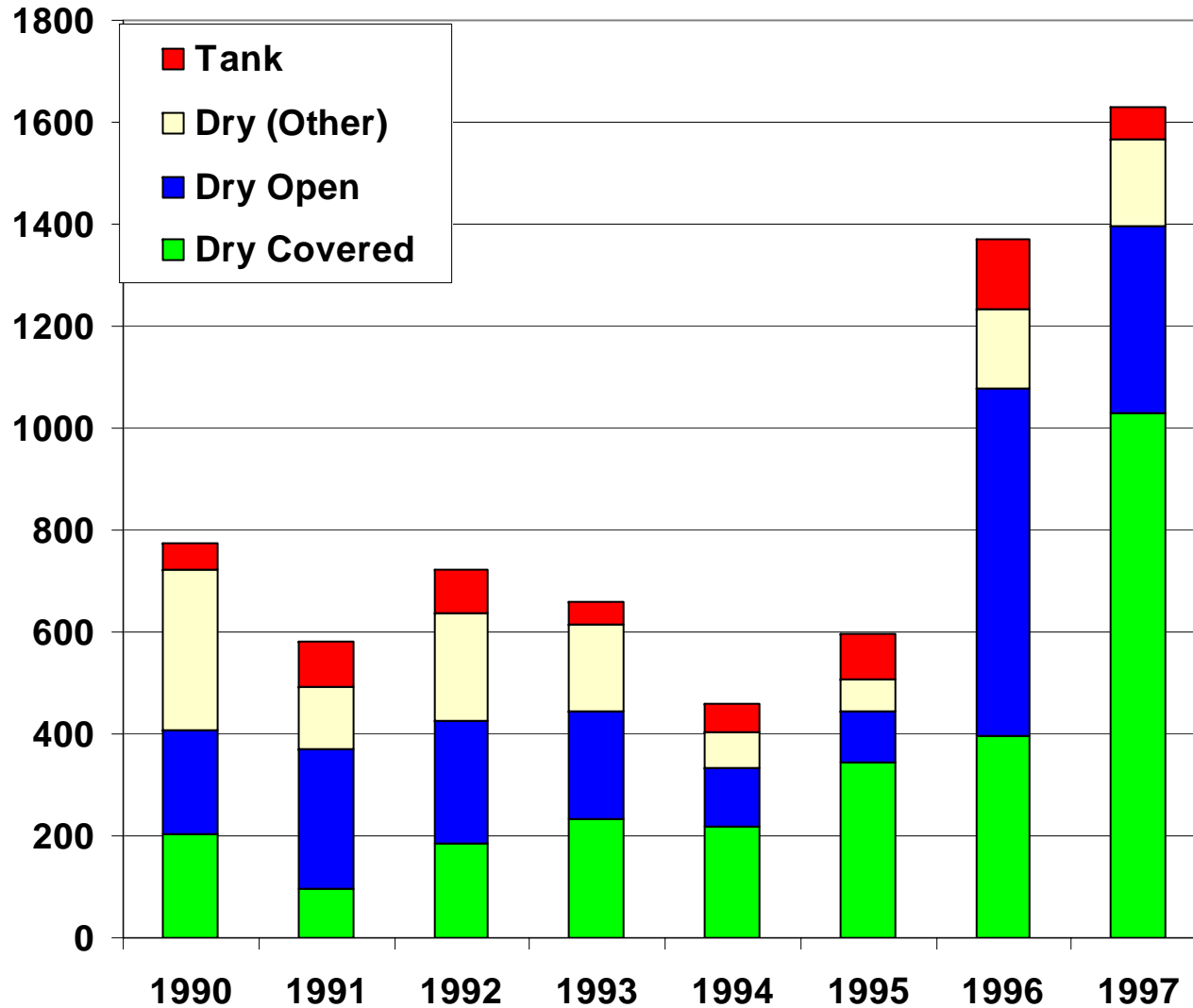
New Construction -- Self Propelled





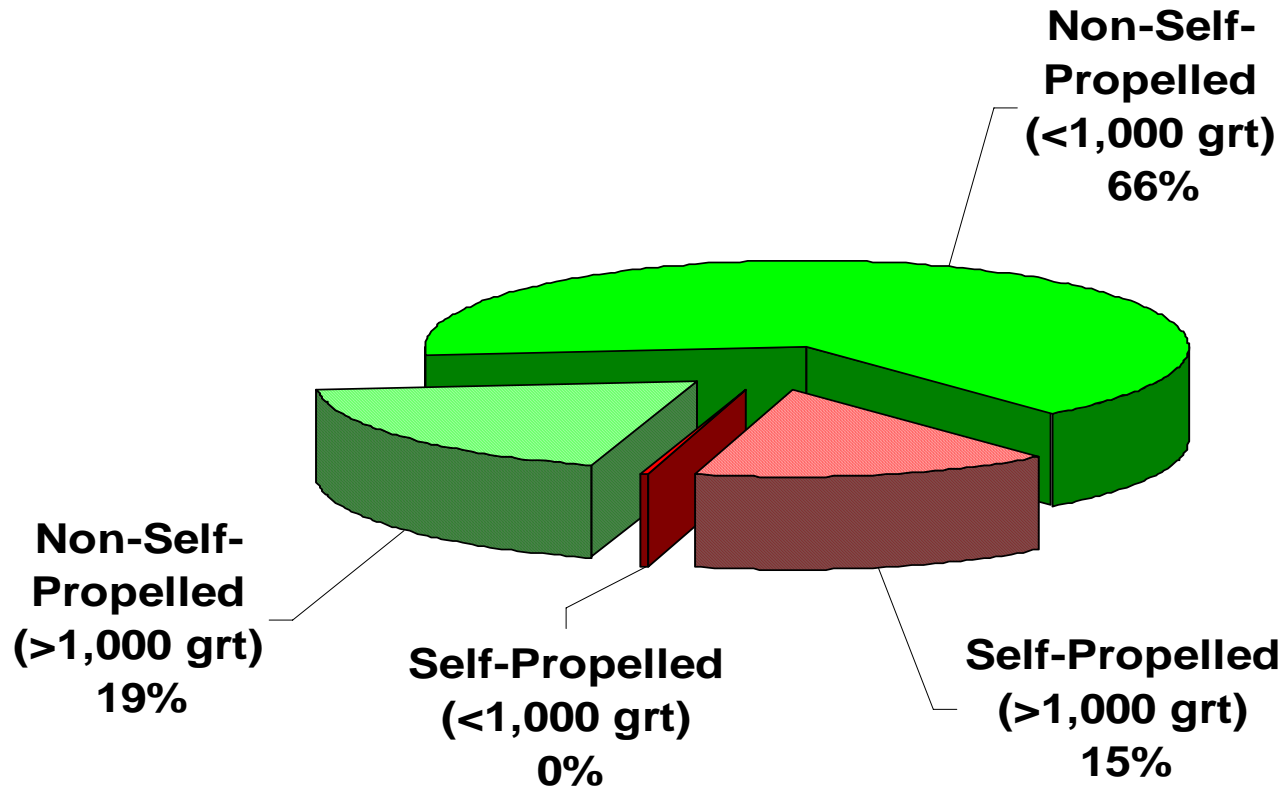
New Construction -- Non-SP

Number Built





Distribution of Total Cargo-Carrying Capacity



85% of capacity is accounted for by vessel types in which U.S. construction is competitive

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Logistics Planning Factors

- Mode Selection
- Distance
- Modal Transfers



Cost

Cost Per Ton-Mile

Water (All)	\$.008
Inland	\$.010
Rail	\$.025
Truck	\$.550

ENOS Transportation in
America (1998)

Cost Per TEU/Mile

Barge (1000 mi.)	\$.29
Ship (1000 mi.)	\$.55
Barge (500 mi.)	\$.59
Rail	\$.60
Ship (500 mi.)	\$1.09
Truck	\$1.3

Maritime Administration Coastwise
Analysis (1997)



Modal Crossover Points

**Miles At Which Cost/FEU Becomes
Less Than Option Shown**

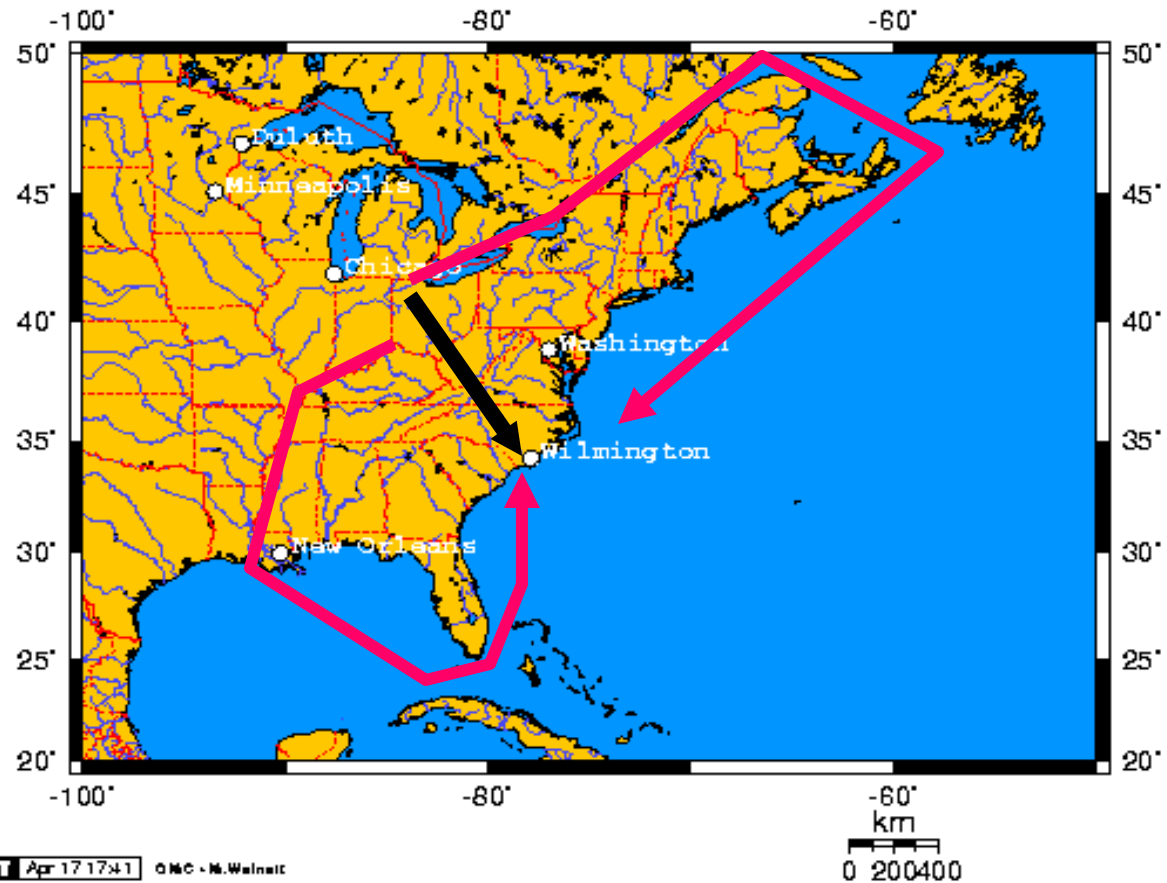
	<u>Truck- Rail</u>	<u>Truck- Barge</u>	<u>Truck- ContShip</u>
Direct Truck	340	420	690
Truck- Rail		540	1,160
Truck- Barge			*

* For waterborne portion of journey, barge will always be @40% less per FEU than CS; delivery time thus becomes the deciding factor.

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North Carolina Feed Grain Market -- Rail vs Water



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Time-Distance Factors

Sailing Time (Days)

	<u>500 nm</u>	<u>1,000 nm</u>	<u>2,000 nm</u>
8 kts.	2.6	5.2	10.4
11 kts.	1.9	3.8	7.6
15 kts.	1.4	2.8	5.6
21 kts.	1.0	2.0	4.0



Cost of Vessel Speed

Comparing a 21-kt. 1,400 TEU new build containership (\$42M) with a 9-kt., 1,200 TEU new build Tug/Barge combination (\$11.6M).

Cost Per TEU Per Hour for Earlier Delivery By Self-Prop Ship

500 mi. \$7.96

1,000 mi. \$4.14



Impact of Transfer Costs on Feeder Ship Options

Cost per TEU discharged from linehaul ship and transported to destination by modes shown.

<u>Mode</u>	<u>L/H Disch.</u>	<u>Load</u>	<u>Transport 500/1000</u>	<u>Unload</u>	<u>Dest. Truck</u>	<u>Total (\$)</u>
Rail	500	50	235	50	100	935
			470			1,170
Truck	500		525		50	1,075
			1,050			1,600
Water	500	500	58	500	100	1,658
			92			1,692

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Shipping Feed Grain From Midwest to North Carolina

	<u>Via Mississippi and U.S. Gulf</u>	<u>Via Great Lakes and Atlantic</u>
Inland Mvt. & Ancillary Costs	\$22.18	\$14.82
Ocean Shipping	TBD	
Rail Cost	\$13.00 - \$16.00	

By avoiding intermediate handling costs, U.S. railroads can provide lower cost, direct service, even if the ocean shipping were free!!

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Common Mistakes About the Jones Act

- Cost to U.S. Economy
- Barrier to Entry Into Trade or Service
- Barrier to Investment in U.S. Fleet
- Elimination Would Deregulate the Industry
- Elimination Would Be Same as NAFTA & Open Skies in Trucking and Aviation

In each case, the answer is **NO!**



No \$18B “Cost” to U.S. Economy

USITC “estimates” of
Jones Act impact:

1991	\$4.2-\$10.4B
1993	\$3.1B
1995	\$2.8B
1999	\$1.3B

**An 83% improvement
over just 8 years!**

- All based on flawed assumption that foreign ships could operate in domestic commerce without incurring the same cost of compliance with U.S. laws as U.S. ships!
- In 1998, GAO found USITC data to be **unverifiable!**



No Impediment to Entry

1997 USDOT Report to Congress on non-contiguous trades included entry/exit data for operators in each of the four trades studied -- Alaska, Hawaii, Guam and Puerto Rico

- Cumulatively **30 new entrants** since base years of study (1974/1980)
- In each trade, **as many or more carriers today** than in base year
- Only **46%** of of carriers in trade today were in same trade in base year, but **43%** of new entrants remain in operation today

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No Impediment to Investment

Jones Act requirements apply to the vessel and its owner ... **not** the carrier.

Allow broad opportunities for foreign investment in Jones Act shipping companies:

Up to **25%** of Vessel Owning Entity

100% of:

Vessel Operator/Carrier if using coastwise qualified vessel under time charter from U.S. citizen owner

Vessel Owner if not shipping company and vessel is bareboat chartered to a U.S. citizen operator

Vessel Owner and Operator/Carrier if transport only own materials (Bowaters)

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Deregulation

**Economic
Deregulation**



**Elimination of
Cabotage**

In competitive terms, rail, trucking, and airline deregulation over the few years have moved those industries to where the maritime industry has been for decades!



NAFTA & Open Skies

Contrary to popular belief, neither NAFTA nor “Open Skies” agreements waived cabotage rules in trucking or aviation:

- Mexican truckers under NAFTA will be engaged in **international transport** between U.S. and Mexico.
- Open Skies agreements expand U.S. landing and service opportunities for foreign airlines engaged in **international air travel**.

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THE FACTS SHOW

- **Highly Productive**
Tripled In Size
Quadrupled In Productivity
- **Vital to National Security**

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Vital To National Security

Our bottom line is: the Jones Act is a proven performer that supports both our nation's military security and its economic soundness.

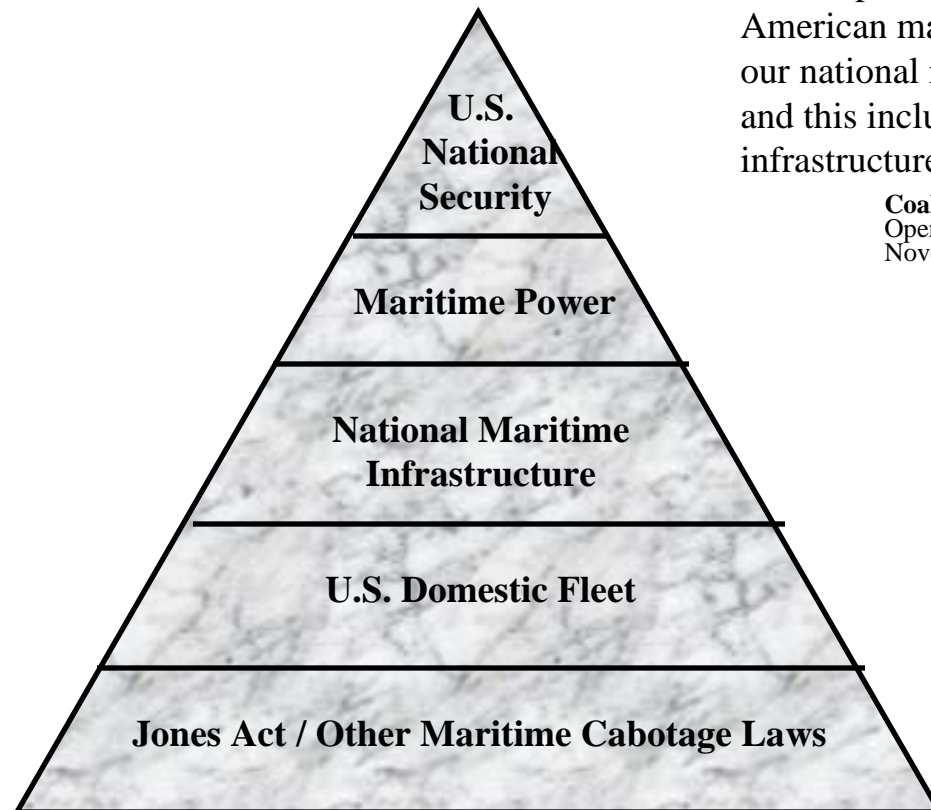
General Walter Kross USAF
Commander in Chief
U.S. Transportation Command

January 14, 1998

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The Jones Act Is The Very Foundation of Our National Military and Economic Security.



“We hope the Congress will realize that American maritime power is the sum of our national maritime infrastructure, and this includes every element of that infrastructure.”

Coalition for Peace Through Strength
Open Letter to Congress
November 30, 1995

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The Jones Act Fleet Contributes to National Security

- Direct Contribution of Ships, Seafarers, and Transportation Systems
- Critical Mass Sustaining National Maritime Infrastructure

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Direct Contributions to National Defense

- 75% of oceangoing Jones Act vessels over 1,000 grt are militarily useful
- Jones Act tankers delivered 20% of all fuel delivered during PG Conflict
- 70% of all crews on ROS sealift ships serve on Jones Act ships in peacetime
- 30% of capacity enrolled in VISA is by non-MSP companies

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The Critical Mass Needed to Sustain the National Maritime Infrastructure in the United States.

Neither the U.S.-flag commercial foreign trading fleet, the U.S. Government-controlled sealift fleet, nor the U.S. Navy, individually or collectively, is capable of sustaining a maritime infrastructure of sufficient size and robustness to ensure U.S. national security, economic as well as military.

Ltr. Signed By 48 Retired U.S. Navy Admirals (30 Nov. 1995)

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Jones Act Fleet Critical to Maritime Infrastructure:

- **58% of Projected U.S. Shipbuilding Opportunities**
- **87% of All Shipboard Employment Opportunities**
- **94% of U.S. Vessels > 1,000 grt in Commercial Service**
- **97% of All U.S.-Flag Waterborne Commerce (Intl. and Domestic)**

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Innovative Solutions to Customers Needs

- Integrated tug/barges for ocean transport
- Self-unloading bulk gear for Great Lakes vessels
- River flotilla towing systems (leading to 35-55 barge tows)
- Trailer barges
- Railcar on barge carfloats
- Log tows and the log dumping barge
- Chemical parcel tankers
- Automated engine rooms
- Double-skinned tank barges
- Open-top containerships
- Specialized “cowtainers” for transporting live cattle
- Triple axle container chassis allowing increased weight per container
- 1,000 ft. self-unloading bulk ships on the Great Lakes

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Formula For Success

- Identify cargo
- Work in partnership with the shipper to meet marine transportation needs
 - » New Ships
 - » New Systems
 - » New Solutions

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Proposal

To establish a Joint MCTF/NITL
Working Group to --

- Eliminate the “perception gap” that hinders communications
- Investigate means by which to facilitate finding “business solutions for business problems”
 - Increased availability of waterborne transportation for shippers
 - Increased cargo opportunities for operators

MARITIME CABOTAGE

