

US cabotage protection gets more expensive

The continuing reservation of US cabotage cargo to US flagged vessels only is getting increasingly costly for US consumers.

The recent news that Matson has ordered two 3,600 teu vessels from Aker Philadelphia Shipyard in the US for approximately \$209 million each underlines the possibility that US flag protectionism is an increasingly expensive luxury. Ignoring differences in ship specification, comparable sized vessels could be built in Asia today for less than a fifth of that price (see Figure 1). As Matson's last order for 4 x 2,890 teu vessels, delivered between 2003 and 2006, cost around \$125 million each, which was around four times higher than the market price in Asia at the time, the differential appears to be getting bigger.

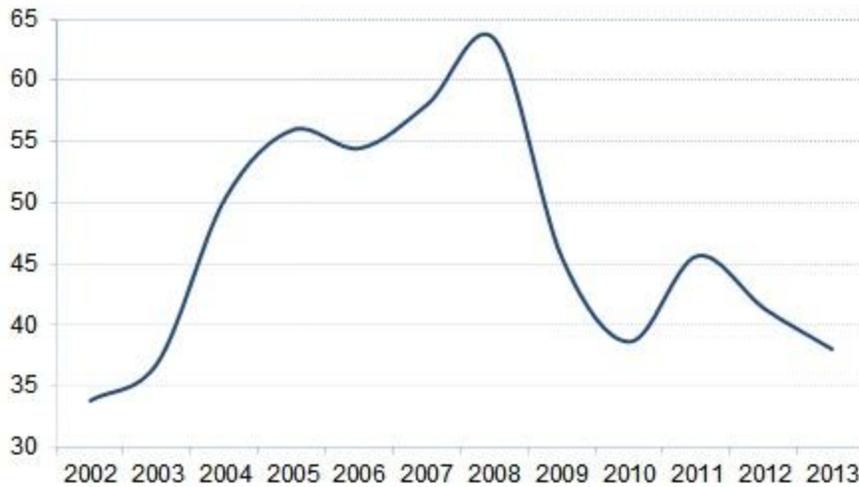
Matson's new 3,600 teu vessels will only be delivered in 2018, however, so the price differential will change in the interim – for better or worse. Moreover, the new vessels are being built to a high specification, having a high reefer intake, double hull fuel tanks, and the ability for their main engine to be run on LNG as well as normal bunker fuel, which explains some of the price differential.



On the other hand, the stipulation that US flagged ships must be manned by a crew which is at least 75% American must be a growing burden, although it is a small part of the equation. Over the past 10 years maritime wage inflation for container vessels between 2-3,000 teu has soared by 31% according to Drewry's Ship Operating Costs 2012/13 report, up to \$2,306/day, and it would have been much higher were it not for the increasing recruitment of seafarers from developing countries.

Figure 1

Newbuild Price for 3,500 teu Vessel (US\$m)



Notes: 2003 = Jan-June average

Source: Drewry Maritime Research

Be that as it may, US consumers will, no doubt, be concerned at the increasingly high price of protecting US domestic or coastal traffic for US flag ships only, particularly at a time when even China, one of the most state-controlled countries in the world today, is beginning to have second thoughts about the high level of protectionism afforded to its cabotage industry (see '[Shanghai's new cabotage laws a disappointment](#)' in Port Development section), and the EU has already become home to a very liberalised and cost effective cabotage industry.

Most coastal container moves between EU ports can now be carried out at a free-in-and out (fios) rate of less than \$75/teu (i.e. sea transportation only), and there is no flag protectionism. Anyone can play the game, and many increasingly do between such regions as the UK and continental Europe, and between continental Europe and the Baltic. Approximately a third of the container traffic handled in Rotterdam, Europe's largest port, consisted of feeder and short-sea cargo last year, for example.

Although there is much discussion about making trade between Europe and the US fairer through the Transatlantic Trade and Investment Partnership (TTIP), which is currently under negotiation, no mention has yet made to this disparity in coastal transportation legislation. The US' cabotage laws, commonly referred to as the Jones Act (see Table 1), still appear to be non-negotiable, therefore.

The consequence is twofold. Firstly, transshipment of containerised deep-sea cargo between US ports remains limited and expensive (i.e. there is no thriving feeder industry moving cargo between US ports; it is far worse for transportation via oil tankers). Secondly, only the largest carriers have enough business to call at small ports such as Boston (Massachusetts) directly, leading to polarisation of the industry.

There is also an environmental impact, as sea-transport is far greener than both road and rail transport, which is recognised in the EU through its 'Motorways of the Sea' project. If low-cost ships were also able to move cargoes between port-cities in the US, as in Europe, there would surely be less road pollution and congestion.

On the face of it, shipping lines therefore appear ready to order extremely expensive ships in the US mainly to have access to protected transport between its mainland and island states, such as Hawaii, Puerto Rico and Virgin Islands, where there is little to no competition from other transport modes. In other words, the lack of a vibrant coastal feeder shipping industry in the US is just an unfortunate by-product of the Jones Act.

A further benefit to shipowners investing in US-built ships is access to the transportation of US military cargo, which for Matson, is an important consideration, bearing in mind that Guam, one of its principle ports of call in the Pacific, remains a major US military base (see Table 1).

Table 1

US Jones Act in More Detail

Vessels transporting goods between US ports must be:

- a)** owned by US companies that are controlled by US citizens with at least 75% ownership
- b)** at least 75% crewed by US citizens
- c)** built (or rebuilt) in the US
- d)** registered in the US

These requirements apply to all trade between ports in the US mainland, Alaska, Hawaii, Puerto Rico and the Virgin Islands. While excluded from the Jones Act, the outlying territories, such as Guam, are covered by similar laws that require vessels be US flagged, owned, and crewed, but not US built.

The Jones Act fleet includes over 39,000 commercial vessels and annually transports approximately one billion tons of cargo. In 2006, an estimated 73,787 jobs were directly attributable to the Jones Act fleet and provided US citizens with employment. These jobs included the crewing of vessels, the building, maintenance, and repair of those vessels, and the shore-side management and support of trade. Another 425,889 jobs arose from indirect and induced employment.

Source: Transportation Institute

Our View

As the political need for the US' Jones Act is much diminished, and most of its foreign trade is already carried in non-US flag vessels, there are strong commercial and environmental arguments in favour of its repeal.

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