THE JONES ACT

By Sally Saddler

The final report of the Alaska Statehood Commission states that "repeal of the Jones Act will serve Alaska's and the nation's interest." In response to this recommendation, Alaska Senate Joint Resolution No. 13, of the thirteenth legislature, urges Congress to repeal this act.

THE JONES ACT

Section 27 of the Merchant Marine Act of 1920, commonly known as the Jones Act, regulates trade between American ports. Domestic trade is restricted to vessels built and registered in the United States, and owned and operated by Americans. Protection of domestic trade from foreign flag vessels has existed in various forms since late 1790 and is intended to promote and maintain a strong domestic merchant marine fleet. There are two underlying reasons for maintaining a domestic fleet.

* For the economic good of the nation (protection from "unfair" foreign competition)

* For the benefit of national security

Many, but not all, foreign countries restrict some form of merchant marine trade to national flag ships. European countries with relatively short coastlines do not widely restrict trade, but often institute financial aid and incentives to all segments of national shipping.

THE JONES ACT FLEET

According to the U.S. Maritime Administration, 326 of the 575 vessels in the Jones Act fleet accounted for 61% of all U.S. flag vessel tonnage in January 1982. Half of all vessels are tankers. Although nearly 30% of the U.S. fleet engaged in Jones Act trade operate in Alaska, these 94 vessels account for half of total U.S. tonnage. Ninety-four percent of Alaska's Jones Act fleet are tankers.

ALASKA EXEMPTIONS FROM THE JONES ACT

Foreign built, owned, and registered vessels can carry merchandise between the contiguous states and Alaska if the cargo moves for a short distance on a Canadian rail line. Alaska benefits from the fact that the Virgin Islands are exempt from the Jones Act; between 5 and 15% of Alaska oil shipments are made to a refinery in the Virgin Islands. The Virgin Islands are one of several islands in U.S. possession that are exempt from the Jones Act.

Laws affecting trade in coastal waters can be changed using administrative waivers and legislative exemptions which are occasionally granted to individual ships.

EFFECT OF THE JONES ACT ON ALASKA

Virtually every industry that imports or exports some type of good or service to the lower 48 is affected by the Jones Act. Capital costs of building U.S. flag vessels are estimated to be twice as high as their foreign flag counterparts due to the combined effect of relatively high U.S. labor costs, low productivity, and lack of competition as a cost reducing incentive. Costs in manning U.S. flag vessels are also estimated to be twice as high as foreign counterparts due to high labor costs. Additionally, high labor costs increase the cost of vessel maintenance and repair which must be made in the U.S.

According to the Alaska Statehood Commission report, the Jones Ac burdens Alaska in several ways.

* Reduces state oil revenues by increasing transportation costs; state revenues which depend upon the well-head price of oil would increase if transportation costs decreased.

* Discourages development of new oil fields and mineral deposits by increasing the costs of getting products to market.

* Increases the cost of domestic freight entering Alaska making virtually all consumption of goods and services higher priced than without the Jones Act.

REPEAL OF THE JONES ACT

In a report prepared for the Alaska Statehood Commission, Simat, Helliesen and Eichmer, Inc. states "crude oil shipments from Valdez. . .accounted for 89.5% of Alaska's total port activity in 1979." The oil industry could be especially affected by the Jones Act due to oil dominance of Alaska's waterborne commerce. However, foregone state revenue may actually be the result of the Export Administration Act of 1979 and the Transalaska Pipeline Authorization Act of 1973 which effectively ban export of North Slope oil to foreign countries. If export were permitted, Alaska oil, currently shipped to the U.S. Gulf and East coasts, would probably be exported to Japan and other Pacific Rim markets. Should this occur, the Jones Act would not affect Alaska oil shipments outside the U.S.

Crude oil producers own or charter the Alaska oil tankers and are committe to pay off high transportation investment costs. As a result, transportation costs would not immediately fall upon repeal of the Jones Act. Additionally, Arlon Tussing reports the incentive for oil producers to seek transportation cost reductions is "weak because the combination of royalties and severance taxes, 'windfall profits' taxes, and federal and state income taxes leave the producers less than 10% of any increase in well-head prices stemming from lower ocean transport costs".

The extent to which the Jones Act discourages development of new oil fields and mineral deposits is difficult to measure and affects only those resources that would be shipped to U.S. ports. High transportation costs to the U.S. tend to make foreign markets more attractive for Alaska products.

An undisputable transportation cost penalty disproportionately affects Alaska to the extent that we rely more heavily on water transportation than most of the U.S. (Development of alternate transportation modes in the rest of the U.S. may have been boosted by high costs imposed by the Jones Act.) However, it is difficult to measure the impact of transportation costs on general merchandise imports (excluding crude oil, Alaska's exports to the U.S. are minor).

Arlon Tussing states that "the methods by which shippers could circumvent Jones Act cost penalties are virtually unexploited" and, that this supports the contention that "these penalties are insignificant".

Repeal of the Jones Act may reduce transportation costs if foreign owned and operated vessels enter the Alaska market. Outright repeal would displace both Alaska and U.S. employment. Use of foreign built vessels owned and operated by the U.S. could reduce transportation costs to Alaska consumers while protecting both Alaska and U.S. water transportation related employment.

MISCELLANEOUS ISSUES

The Alaska Statehood Commission failed to address the impact of the Jones Act on the Alaska Marine Highway Transportation System. Use of foreign built vessels is prohibited. If allowed, Alaska could save half the acquisition cost of new ferries.

Repeal of the Jones Act could increase the number of tourships to Alaska. Increased tourism on foreign ships would indirectly contribute to local Alaska economies. Repeal would not guarantee an increase since the volume of passengers depends upon various factors including marketing strategies, the condition of the national economy, and foreign exchange rates. Since many tours originate in California, further study would be required to determine whether foreign tourships currently operating in Alaska abide by the Jones Act provisions that prohibit carrying passengers between U.S. ports.

Current national sentiment that Alaska has excessive oil wealth could increase the difficulty of repealing the Jones Act particularly on the basis of cost penalties to Alaskans. An amendment to the Jones Act to allow foreign built vessels to be owned and operated between U.S. ports holds more promise. U.S. shipbuilders would be most affected by this amendment, in addition to that portion of nonagricultural employment related to construction of Jones Act fleets. Employment related to the construction of non-Jones Act vessels would not be affected so that the U.S. shipbuilding capacity would be preserved for the benefit of national security.