Expanded Cargo Preferences May Be The Easiest Way To Rebuild The U.S. Maritime Industry

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The U.S. commercial maritime industry appears to be in a secular decline. Less than 2% of the nation's waterborne exports and imports are transported on ships flying the U.S. flag. The last time that 10% or more of U.S. trade was carried by American-made and manned vessels was 1960.

As the role of the U.S. merchant fleet in global trade has receded, so have the ranks of merchant seamen and the fortunes of commercial shipbuilders. The head of the Transportation Department's Maritime Administration told Congress last year that "U.S. commercial shipbuilding of large merchant-type ships has been locked into a downward spiral of decreasing demand and an increased divergence between domestic and foreign shipbuilding productivity and pricing."

The extent of U.S. decline is startling. As former congressman Ernest Istook observed in an assessment several months ago, only 182 of the 44,000 ocean-going cargo ships in the world are American. In a typical year, less than ten vessels suitable for oceangoing trade are produced in America; over 2,000 are being produced at shipyards in Asia.

Bad as these numbers are, they could be worse. If Congress were to eliminate provisions of the Merchant Marine Act reserving waterborne commerce within the U.S. for American-made and manned vessels, the commercial maritime industry would likely disappear entirely. Most of the U.S. merchant vessels suitable for oceangoing trade, 99 to be exact, operate in the protected domestic market.

Although critics sometimes assail the Merchant Marine Act, popularly known as the Jones Act, it serves important economic and security purposes. Timothy Walton and Brian Clark of the Hudson Institute summarized the role of the Jones

Act in a July 4 commentary for Real Clear Defense: “Killing the act or reforming it by eliminating U.S. mariner or U.S.-build requirements would gut the domestic maritime industry by exposing it to subsidized Chinese and other foreign competitors and prompt a flight of private capital.”

Most policymakers presumably would not want to see Chinese vessels delivering natural gas from Texas to New England, or transporting iron ore across the Great Lakes. But because the costs to users of foreign commercial shipping are well below those of the domestic fleet, it would be hard to resist their appeal in a highly competitive marketplace.

Congress has generally concluded that the security and safety advantages of protecting domestic routes outweigh the cost appeal of turning to foreign operators. One reason is that the U.S. military relies on U.S.-flagged vessels, both those engaged in domestic and those in international trade, to support overseas military operations in wartime. Roughly 90% of military supplies move by sea to foreign war zones, and the U.S. Navy does not maintain an organic surge capacity big enough to move all the supplies required. It needs the support of commercial ships and the mariners who operate them.

The problem is that even with Jones Act restrictions and various other set-asides in place, the U.S. commercial fleet isn’t big enough to cope with the kind of demands likely to arise in future conflicts. One government official told me that such conflicts could involve extensive attrition to commercial shipping, and the current fleet isn’t big enough even without any attrition. There is also a potential problem with so-called “balkers”—operators who refuse to carry military supplies into war zones.

Beyond that, there is the broader economic issue of why one of the world’s premier trading nations manages to carry less than 2% of its trade on domestically-owned and operated ships. For instance, there has been much talk in recent years of shipping natural gas overseas from America, but there is not a single carrier capable of conducting such trade in the U.S. fleet. They are all flying under foreign flags, and mainly crewed by foreign nationals.

That brings me to the subject of cargo preferences. At its heart, the Jones Act is a system of cargo preferences for domestic commerce. It reserves all waterborne movement of goods within the U.S., including to non-contiguous territories like Alaska and Hawaii, for the domestic fleet.

There are also set-asides for what Washington calls “government impelled” international trade, meaning trade that results from federal contracts, federal loans or federal grants. That system mandates that 100% of military cargo, 50% of food aid, and various other federally-supported transactions be carried on U.S.-flagged ships.

These cargo preferences are the proximate reason why the U.S. has a merchant fleet involved in international trade. Without the cargo preferences, America’s merchant fleet would withdraw from global trade, just is its role in domestic commerce would plummet in the absence of Jones Act protection.

But the truth of the matter is that 100% of military cargo isn’t actually carried on U.S. shipping, nor is 50% of food aid, because shippers can escape the requirement if they convince the Maritime Administration that no U.S.-flagged vessels are available at a reasonable price. This dilution of the mandate is one reason why U.S. shipbuilders can’t count on steady demand for new oceangoing vessels and are gradually disappearing.

But there is a bigger issue here. If Washington were to require that a certain percentage of U.S. trade be carried on U.S.-made and manned vessels, that would enable the commercial shipbuilding sector and ranks of commercial mariners to grow for the first time in decades. The mandate would require virtually no federal funding, and would counter the subsidies that other countries such as China employ to skew the market for shipping in favor of their own nationals.

The main objection to doing this—other than the laughable contention that it would “distort market forces”—is that the cost of shipping goods into and out of the U.S. would rise. That is probably true, but the impact would be negligible. The current cost of assisting U.S.-flagged ships to remain engaged in international trade is around $7 million annually per vessel. If that amount is divided among thousands of containers on a ship than makes numerous round trips per year, the cost per container is only a few hundred dollars. It is not a significant cost—especially if it is the price of access to the world’s largest market.

Moreover, the current high cost structure of U.S. merchant shipping is directly related to the loss of economies as subsidized foreign carriers have driven U.S. ships from the marketplace. If U.S. shipping and shipbuilding made a comeback as a result of expanded cargo preferences, the cost structure would likely change. Meanwhile, a vital domestic industry could begin to rebuild from its current depressed state. Requiring use of U.S. vessels for a portion of all U.S. trade thus is an idea that merits consideration regardless of who is elected president in November.