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MIDA: Jones Act has 'devastating effects' on P.R. economy, with losses of up to \$1.5B

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The study documents the dramatic reduction in employment on U.S.-flagged vessels and on shipyards since the 1950s and how stateside producers have lost the Puerto Rico market in terms of bulk merchandise in which they have strong export markets due to the lack U.S.-flagged ships. (Credit: © Mauricio Pascual)



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to two independent investigations unveiled today.

The study to determine the “real and transparent data” on the effect of cabotage laws in Puerto Rico, was commissioned jointly by the Chamber of Marketing, Industry and Food Distribution (MIDA) together with the Puerto Rico Chamber of Commerce, the Restaurant Association (ASORE), the United Retailers Association (CUD), Puerto Rico Products Association and the Puerto Rico Bar Association.

“Despite the large number of studies that exist on the issue of cabotage and the Jones Act, last summer there was a debate surrounding the government’s report for the recovery of the island after María,” said MIDA Executive Vice President, Manuel R. Reyes-Alfonso.

The draft version of this report, which was prepared with the participation of FEMA, Homeland Security Operational Analyst Center (HSOAC) and RAND Corporation, recommended the need to exclude Puerto Rico from the cabotage laws, he said.

“Unfortunately, after some opposition based on a study commissioned by the American Maritime Partnership and curiously published a few days after the draft was made public, the final version was edited,” Reyes-Alfonso said.

“And although the recommendation was maintained, the need for more information was indicated. That is why this group decided to collaborate to clear up any doubts that may remain about this matter,” he said.

The local firm selected was Advantage Business Consulting, which designed a strategy to fill the lack of official





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importers of food, beverages and general products to obtain real data on transportation costs. In that questionnaire, the firm requested transportation information to Puerto Rico not only from the U.S. mainland but also from various international ports with which Puerto Rico frequently trades.

The sample response percentage was extremely high at 70 percent representing 32 companies that imported around 40,000 containers in 9 months.

“This is the first time that this type of information is available, making the value of this analysis unquestionable. The high participation also demonstrates the interest of importers with this issue,” Feliciano said.



From left: Vicente Feliciano and Manuel Reyes-Alfonso

For the economist, although a significant difference was expected, the result was surprising. According to the data obtained,

transporting containers from the U.S. mainland, costs on average 2.5 times or 151 percent more than transporting from non-US ports (\$3,027 US vs. \$1,206 non-US). This after having made the corresponding adjustments for size of container and distance.



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Rico.

“Individually, families pay \$300 more or \$107 per person for food and beverages only,” Feliciano noted.

To validate the impact on product prices, Juan Lara, a partner at ABC, explained that the firm used the same model as the study commissioned by the American Maritime Partnership last summer where they concluded there were no differences in prices among the items sold at a national retailer in its stores in Jacksonville, FL and in Puerto Rico.

That exercise looked for prices for a small basket of 12 items on the retailer’s website. By changing the sample 12 products, the difference in prices averaged 22 percent more expensive in San Juan than in Jacksonville, he said.

This in turn was compared with the Cost of Living Index Model used by the Puerto Rico Institute of Statistics, whose most recent report placed the difference in the cost of food in both cities at 19.7 percent.

“It is evident that the sample used by that study was not representative of the typical purchase of Puerto Rican households,” said Lara.

Although the impact of ground transportation was not calculated, Lara explained that they were able to obtain enough data to present an example to showcase the importance of this cost, which the island could possibly save if there were no cabotage laws deterring maritime service from the U.S. mainland’s west coast.

For this, they analyzed the cost of bringing a container from California by land, because there is no maritime service, and





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According to the example, bringing a container by land from California to Jacksonville currently costs around \$7,000, which is then added to the maritime cost of \$2,404 for a total of about \$9,404. This contrasts greatly with bringing a container from Chile by sea at a cost of \$2,483, for a difference of 279 percent.

“With these results there can be no doubt that the land cost should be part of the list of damages caused by the Jones Act and should be expanded in future studies,” Lara said.

Second study includes six exercises

The second study was conducted by the New York firm, John Dunham & Associates (JDA), whose chief economist John Dunham, has extensive experience in the maritime transport sector, having worked for the Port Authority of New York and New Jersey, the Port Authority of Philadelphia and the Ports and Commerce Department of the City of New York.

According to Dunham, his firm used data from various sources such as PIERS, published rates and previous studies to feed the well-known econometric input-output model, IMPLAN, which calculates the impact through the economy.

Using the model and the data from various sources, the firm performed six exercises to calculate the impact of cabotage on the economy of the island. One of the exercises used the RA/Estudios Técnicos July 2018 report.

“All the calculations concluded that there was a significant impact. From this analysis, the firm chose and adapted the sources to make their own recommendation, concluding water transportation costs to Puerto Rico are \$568.9 million



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would have were there a free market for ocean freight. These jobs would pay residents \$337.3 million more in wages, and would result from nearly \$1.5 billion in increased economic activity, the report showed.

“Higher prices in Puerto Rico would cost the average resident nearly \$375 per year, or \$1,050 for a typical family of 2.8 members. Finally, overall tax revenues would be \$106.4 million higher were the island be exempted from the Jones Act’s provisions,” the report noted.

Dunham concludes that the Jones Act is also harmful to the U.S. mainland and has not met its intended objectives.

The study documents the dramatic reduction in employment on U.S.-flagged vessels and on shipyards since the 1950s and how stateside producers have lost the Puerto Rico market in terms of bulk merchandise in which they have strong export markets due to the lack U.S.-flagged ships. Specifically, commodities such as: Oil (91 percent from outside the US), grains (97 percent), cement (99 percent), “beet sugar” (95 percent) and “Oilseed farming” (98.6 percent foreign).

“With the results of these two economic studies, we have enough data to demand that we be heard here as well as in the U.S. Congress. The numbers are clear, the impact is devastating for the economy of our island and even more so being as vulnerable to natural disasters such a as Hurricane María,” said Chamber of Commerce President Kenneth Rivera.

Puerto Rico’s food security is directly tied to the “extreme dependence” on food imports, so the issue of maritime transportation is key, said Restaurants Association President José Salvatella.

P O D C A S T





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the lack of service,” he added.

Recommendations

In addition to the usual requests to repeal or give total or partial exemptions to the island, Feliciano made an analysis of the Shanghai Containerized Freight Index, saying the local government should evaluate having a similar index that would add transparency to transportation costs, allowing importers and future investors to have updated data on transportation costs.

The group sent a copy of the documents to Gov. Ricardo Rosselló, and Omar Marrero, executive director of the Central Office of Recovery, Reconstruction and Resiliency, known as COR3, with the expectation that the government will use the new reports to expand the efforts already being made in Washington to exempt the island from the Jones Act, as in the case of the transportation of natural gas.

“All of us support this request for natural gas, but we believe that the weight of the cabotage laws falls on everything and when thinking about long-term recovery, Puerto Rico being an Island must have a cost-efficient and transparent maritime service.” said Rivera.



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