Jones Act report affirms CB math, leaves bulk cargo adrift

Controversial GAO study ill-received, new one called for; August 2011 Front Page validated

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Last week's long-awaited report on the Jones Act by the U.S. Government Accountability Office (GAO) was received almost universally in the Puerto Rico business community with expressions of disdain.

"It left a lot to be desired," said Puerto Rico Manufacturers Association President Waleska Rivera. "We expected something conclusive that would guide policy on this matter. It didn't even make a single recommendation."

"By the report's own admission," affirmed Puerto Rico Chamber of Commerce President Pablo Figueroa, "the Jones Act defeats the purpose for which it was created, since it is now harming those it sought to protect."

On and on the feedback went, with nearly everyone now pressing for yet another study that would pick up where this one left off, clarifying the Jones Act math that has been the subject of so much speculation, and if called for, exempting Puerto Rico from some or all of the law's provisions.

The result would presumably be lower prices on the goods shipped to and from the U.S. mainland by U.S.-made ships protected by the law, a conclusion that may or may not be accurate, according to the GAO study—originally requested by Resident Commissioner Pedro Pierluisi.

"The prices of goods sold in Puerto Rico are determined by a host of factors, and therefore, the impact of any [shipping] costs between the [mainland] and Puerto Rico on the average prices of goods is difficult, if not impossible, to determine with precision," cries the report.

On this count, the report's findings mirror almost to the letter the Aug. 4, 2011 CARIBBEAN BUSINESS Front Page and special investigation on the validity of the often-repeated claim that the Jones Act imposes a cost on the local economy—mainly higher consumer prices—to the tune of $200 million to $1 billion a year.

The Jones Act imposes higher costs in terms of inefficient vessels and higher-cost crews. But that's only a fraction of the total cost of shipping—9.7% of the total, according to the August 2011 CB review. The other 90.3% would be borne by international carriers, were they to replace U.S.-flagged vessels.

The estimate stems from a 2002 report by University of Puerto Rico economist José Alameda, but when questioned for the CB story, even he admitted his figures were mere guesswork. "There seems to be no consensus on the issue."

Other economists cautioned against bashing the law. "The negative effects on the local economy have constantly been overestimated," Mohinder Bhatia told CB. Added Joaquín Villamil: "I don't think the Jones Act has the negative effects on our economy that most detractors say. It isn't an obstacle to growth."

The reason the Jones Act math has proven so elusive is found in the complicated dynamics of logistics. Yes, says the GAO report, the Jones Act imposes higher costs in terms of inefficient vessels and higher-cost crews. But that's only a fraction of the total cost of shipping goods between Puerto Rico and the mainland—9.7% of the total, according to the August 2011 CB review.

The other 90.3% would be borne by international carriers, were they to replace U.S.-flagged vessels, including such items as fuel costs, terminal and port fees, inland transport, compliance with a host of federal regulations and various expenses.

As did the CB investigation, the GAO surmised the excess cost is compensated by significant savings on logistics management unique to the Jones Act trade, most notably the existence of dedicated routes that enhance the reliability and punctuality of deliveries and therefore avoid costly warehousing and delays. The standard size of containers in the Jones Act trade is much larger than the international standard, allowing for greater efficiencies. Northbound ships, which travel light because the routes are dedicated and prescheduled, are therefore less expensive than international ships would be, since the latter would make San Juan one of many pickup stops on the way to the mainland.

To be sure, the GAO report agreed with industry executives who argue that these favorable logistics apply to scheduled container shipments but not to bulk cargo, particularly when it is unscheduled. This applies most worryingly to perishable and seasonal agricultural produce, as well as the pending purchases of less-expensive liquefied natural gas from mainland suppliers.

The report points to one solution: "Over the longer term, the market may adjust through new shipbuilding, as long as expectations of demand and rates are sufficient to support that capital investment." Given the current drought in demand, no one expects carriers to build new ships beyond the two now in construction.

Which leads Jones Act opponents to lobby Congress for the island's exemption from the law for bulk cargo. There is also a call to exempt foreign-built ships, which are newer and less costly, but the GAO report said this would weaken the U.S. shipbuilding industry on which the Navy depends. "The original goal of the act remains important to military preparedness." ■