

DEPARTMENT OF TRANSPORTATION  
STATEMENT OF MARITIME ADMINISTRATOR  
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BEFORE THE SUBCOMMITTEE ON COAST GUARD AND MARITIME  
TRANSPORTATION  
OF THE  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
U.S. HOUSE OF REPRESENTATIVES  
ON OVERSIGHT OF THE JONES ACT  
JUNE 12, 1996

Mr. Chairman and Members of the Subcommittee:

I welcome the opportunity to be with you today, at this oversight hearing on the impact of U.S. coastwise trade laws on the U.S. cargo transportation system. I am pleased to state at the outset that the impact is overwhelmingly positive. We have a robust domestic shipping industry providing efficient, environmentally sound transportation and supporting thousands of jobs for American citizens.

The coastwise trade laws, including the Jones Act, generally require that U.S.-built, crewed, owned and registered vessels be used in domestic waterborne commerce. The fundamental purpose of

these laws is to maintain reliable domestic shipping services and to ensure the existence of a domestic maritime industry available and subject to national control in time of need.

The U.S.-flag Jones Act fleet transports cargo between U.S. ports, including U.S. ports on the east and west coasts through the Panama Canal, in the offshore domestic trade between the contiguous 48 states and Alaska, Hawaii, Puerto Rico and Guam, and on the inland waterways and the Great Lakes.

### **Introduction**

In the aftermath of World War I, Congress determined it was important for our national defense and the growth of our commerce for the United States to have its own merchant marine. Under the 1920 Merchant Marine Act, the Maritime Administration (MARAD) is charged with the development and maintenance of a merchant marine necessary for "national defense and proper growth of its foreign and domestic commerce." As part of this policy, section 27 of the 1920 Merchant Marine Act provides that merchandise transported entirely or partly by water between U.S. points, either directly or via a foreign point, must travel in U.S.-built, U.S.-citizen owned vessels that are documented by the U.S. Coast Guard for such carriage. This law is known as the Jones

Act after its sponsor, Senator Wesley L. Jones of the State of Washington.

Some exceptions to these requirements are allowed, generally described in the 14 provisos to the Jones Act.

The Jones Act and related coastwise laws may be waived by the Treasury Department in the interest of national defense under the Act of December 27, 1950 (1950 Act). The 1950 Act is often referred to as the national defense waiver provision of the Jones Act.

The reservation of a nation's coastwise trade exclusively to that nation's own vessels is called cabotage, and is common among maritime nations. It has been part of U.S. law and policy, in some form, since the first Congress in 1789. Forty industrialized nations have laws similar to the Jones Act, including most of our major trading partners -- Japan, Canada, France, Germany, Greece, Italy, Portugal, and Spain. The Jones Act has served the Nation well.

The Administration supports the Jones Act as an essential element of U.S. maritime policy.

The preeminence of American national security objectives is broadly accepted and readily understood. At the same time, we have a parallel economic security interest to ensure the uninterrupted flow of vital commodities necessary to avoid disruption to our Nation's economy and industrial base during an emergency. Our overall national maritime policy, of which the Jones Act is a key part, is designed to promote national and economic security. U.S.-flag ships perform these services in all political or economic situations, during peace or war.

The coastwise laws provide a domestic fleet for national and economic security. In like measure, the Maritime Security Program in the House-passed bill, H.R. 1350, will provide an active U.S.-flag fleet engaged in international commerce in peace time that is available to support military operations in a contingency.

As a matter of perspective, Mr. Chairman, we should recognize that cabotage, in general, is common to transportation operations.

In recent years, there has been a dramatic change in the productivity of ocean and intermodal transportation, and the prime innovators have been American domestic and international carriers. American entrepreneurs have pioneered specialized

ships, containerization, double stack rail cars, specialized containers, electronic equipment identification, satellite tracking and just-in-time, door-to-door services which reduce inventory and warehousing costs for American industry. The American public, as producers and consumers of raw materials and finished products, greatly benefit from this innovative and expanding global intermodal system. These advances benefit shippers and consumers in both the domestic and international trades.

#### **National Security**

One of the most important roles of the Jones Act fleet is its contribution of qualified citizen mariners to the U.S. seafaring labor base. Of the citizen mariners who sail on Jones Act vessels, nearly 8,000 are qualified to crew the government's controlled fleet in time of national need. The crews who work aboard the ships of both the domestic and international U.S.-flag carriers are the primary source of crews for MARAD's Ready Reserve Force of 92 vessels located throughout the Nation ready for action. The U.S.-flag fleet also provides crews for Department of Defense (DOD) sealift ships when needed.

Over 75 percent of the oceangoing Jones Act vessels that are 1,000 gross tons (GT) and above are militarily useful, as defined

by DOD. Jones Act dry cargo ships and tankers were chartered by DOD for sealift support during the Persian Gulf conflict, and Jones Act seamen proved as essential to this effort as they have in past conflicts. Many seafarers who normally crew Jones Act vessels volunteered during this conflict to crew government-owned ships, including the Ready Reserve Force. Maritime unions voluntarily changed their labor contracts to accommodate national security needs. Also, the unions were able to bring back retired officers and seamen. Actively sailing crews on Jones Act vessels delayed taking time off during the Persian Gulf War, thereby freeing up their normal relief crews to take jobs on sealift support ships.

The Jones Act assisted greatly in our ability to deliver military supplies during the Persian Gulf conflict. In fact, two Jones Act roll-on/roll-off ship and six Jones Act tankers were chartered by DOD for sealift operations.

Jones Act seafarers have continued to volunteer during more recent missions. In 1994, during Operation UPHOLD DEMOCRACY which helped stabilize conditions in Haiti, DOD used oceangoing Jones Act vessels under 1,000 GT to transport equipment. During Operation JOINT ENDEAVOR, 70 percent of the civilian crew serving on Ready Reserve Force ships activated for Bosnia had been

employed in the domestic fleet at some time during the five years following the Persian Gulf conflict.

Following the successful Persian Gulf experience, both domestic and international U.S.-flag vessel companies joined to form the Voluntary Intermodal Sealift Agreement (VISA) program, a joint initiative by the Departments of Defense and Transportation, which is designed to make commercial, intermodal, dry cargo capacity available to meet the contingency deployment requirements of DOD. The purpose of the VISA is to meet DOD sustainment sealift requirements from existing commercial services to the maximum extent possible, while at the same time allowing carriers to continue to serve their commercial commitments.

It is important to note that the entire Jones Act fleet is available for national defense in an emergency. For example, during a conflict, domestic carriers (inland waterways, Great Lakes and deep sea) are part of the pipeline moving sealift cargoes from inland points to coastal ports for shipment to the theater of operations. In addition, domestic carriers continue to support the civilian economy and move the cargo necessary to supply wartime production in the U.S. industrial base, including crude oil from Alaska, petroleum products coastwise, and coal to

electric utility plants. Additionally, Great Lakes ore carriers carry iron ore to steel mills on the Great Lakes.

### **Economic Security**

The domestic maritime industry is deeply rooted in the Nation's economy. Over \$26 billion in private funds have been invested in a domestic fleet of 44,000 vessels and barges. Domestic vessel owners must comply with U.S. labor, environmental, safety, and tax laws and regulations, and by doing so, they protect our waterways and workers.

In 1995, 124,000 U.S. citizens were employed directly in the maritime industry as vessel crews, other shipboard workers, or in shoreside jobs. Of this total, about <sup>7</sup>80,000 represent Jones Act maritime labor. They pay Federal, state and local taxes and their salaries contribute to the well-being of local economies throughout the Nation.

Domestic shipping moves over 30 percent of the cargo in America annually, at less than 2 percent of the entire domestic freight bill, including oil pipelines. The cost of shipping this 30 percent in 1994 was \$8 billion, compared to the total 1994 domestic freight bill of \$402.2 billion. The cargo carried on our Great Lakes, rivers and canals, and coastwise waters had a

value of some \$222 billion, or about 3.3 percent of the national GDP.

The costs of waterborne shipping in the lower 48 states are small relative to other domestic transportation services, because shippers have competitive transportation alternatives in our outstanding infrastructure of highways, railroads, pipelines and air service. Part of the strength of our domestic transportation system is its diversity. Commercial factors unrelated to the Jones Act determine a modal transportation choice; these include volume and value of cargo carried, distance, time sensitivity, frequency of shipments, cost and convenience.

For example, significant time and costs are incurred in transporting merchandise from an inland point-of-origin to the coast, loading the cargo onto a vessel, shipping the cargo from one port to another, discharging cargo from a vessel, and moving the freight from the coast to an inland point-of-destination. Many of these handling costs can be avoided by direct overland transportation. Since travel by water may not provide the most direct routing for shippers, a ship is chosen as a link in the movement of a commodity only if both timely delivery and a lower total transportation bill result.

Shipping by water is more cost-effective where navigable ship channels and ports are nearby. Also, relatively lower value commodities of high weight and volume -- such as coal or corn -- require less costly, reliable transport rather than speed. Still, the logical routing of grain from midwest producers to markets in the continental United States favors rail or truck. Water is the economical and efficient choice only after all the factors I have stated have been taken into account.

#### **Conclusion**

The domestic maritime fleet plays a vital and essential role in the nationwide intermodal transportation system that moves cargo interstate and offshore. Jones Act vessels employ about 80,000 American citizens, generate another 45,000 jobs in the shipbuilding, ship repair and related industries, and support \$26 billion in capital investment.

The coastwise trades are active and competitive, serving American national and economic security needs dependably and efficiently. The Jones Act fleet is an essential link in our national transportation infrastructure. The Administration supports the Jones Act and believes it will continue to serve the Nation's interests well into the 21st century.

This concludes my prepared statement. I will be pleased to answer any questions you may have.

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