SJR

11

# Alaska State Legislature

## House of Representatives

## House Transportation Committee

Official Business

P.O. Box V
Juneau, Alaska
99811

Phone:
(907) 465-4859

May 2, 1988

*************************************************************

COMMITTEE CALENDAR:

SCR 40: Relating to the revision of Title 2 of the Alaska Statutes.

SJR 11: Urging the repeal of certain portions of the Merchant Marine Act of 1920.

8) FOR THIS MEETING, EACH MEMBER HAS BEEN GIVEN:

a folder on SCR 40 that includes:

item #1: CS SCR 40
#2: statement - Senator Halford
#3: fiscal note - Senate Finance Committee
#4: memo from David Dierdorff, Revisor of Statutes
#5: AS 02 table of contents

a folder on SJR 11 that includes:

item #1: SJR 11
#2: statement - Sen. Coghill
#3: background information
#4: fiscal note - Dept. of Revenue
#5: position paper - DOT/PF
#6: impact of Jones Act on Alaska

Senator John B. (Jack) Coghill
Alaska State Legislature

Box V
Juneau, Alaska 99811
(907) 465-4797

Box 55028
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MEMORANDUM

TO: House Transportation Committee Members

FROM: Senator Jack Coghill

DATE: May 1, 1988

RE: SJR 11, Urging repeal of certain portions of the Jones Act

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Alaska is penalized over $200 million each year in higher costs and exported commodities are priced out of the market due to restrictions on ocean shipping by the federal Jones Act.

The Jones Act, as described in the bill text and the supporting information, requires "All-U.S." ships to carry commodities between Alaskan and Lower 48 ports, coming and going. The resulting higher overall shipping cost of "All-U.S." ships makes goods shipped to Alaska higher cost to us...and Alaska-produced goods shipped out of state must be priced less by the local Alaskan manufacturer, to absorb the added ocean freight cost, to make the product price competitive on the Outside.

An example of higher ocean freight cost is the comparison of an "All-U.S." tanker's total cost to a "Foreign-Flagged" tanker on a voyage between Los Angeles and Anchorage. The "All-U.S." tanker is 74 percent higher than a comparable "Foreign-Flagged tanker.

| Voyage: L.A. to Anch. | "All-U.S." | "Foreign-Flagged |
|---|---|---|
| Total Dollars | $449,000 | $258,000 |
| Cost Per Ton | $12.82 | $7.36 |
| Higher Cost | 74% | |

Another example: Please refer to line 15 of the bill: Last month, the ocean freight companies announced another freight rate increase of 7 percent. This is the third increase in 14 months. The ocean freight carriers justified the rate increase by saying, "...because of Alaska's economic downturn and increased competition,we were not making enough money, so we had to increase prices..." In a protected, monopolistic arena, the ocean freight carriers hold Alaska hostage. These higher ocean freight costs increase the cost of goods to us, and make our locally produced commodities less price competitive on the Outside.

Alaska would greatly benefit with repeal of certain portions of the Jones Act. Passage of SJR 11 will send a clear message to the U.S. Congress about the mandate of Alaskans.

**Senator John B. (Jack) Coghill**
Alaska State Legislature

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MEMORANDUM

TO: House Transportation Committee Members

FROM: Senator Jack Coghill Jack

DATE: May 1, 1988

RE: SJR 11, Urging repeal of certain portions of the Jones Act

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## BACKGROUND

The term 'Jones Act' refers to Section 27 of the Merchant Marine Act of 1920, which states:

> "No merchandise shall be transported by water, or by land and water,...between points in the U.S....either directly or via a foreign port or for any part of the transportation, in any other vessel than a vessel built in and documented under the laws of the U.S. and owned by persons who are citizens of the U.S."

The purpose of the Merchant Marine Act of 1920 was:

> "That it is necessary for the national defense and for the proper growth of its foreign and domestic commerce that the U.S. shall have a merchant marine of the best equipped and most suitable types of vessels sufficient to carry the greater portion of its commerce and serve as a naval or military auxiliary in time of war or national emergency, ultimately to be owned and operated privately by citizens of the U.S...."

## JONES ACT EFFECT ON ALASKA

### The Jones Act Cost Penalty

The Jones Act restricts the "coastwise" waterborn transportation of the U.S., including transportation between Alaska and the Lower 48 ports and transportation within Alaska, to vessels that are US-built, US owned, US-registered, and US -crewed. Detached and remote from other states, separated by a foreign country,Alaska depends disproportionately on ocean transportation for its economic

BACK GROUND AND EFFECT ON ALASKA

links with the rest of the nation. The Jones Act has long been a point of contention between Alaskans and other Americans --- it was one of the grievances that motivated Alaska's struggle against "colonialism" and the desire to become a State; 24 years after Statehood some Alaskans still regard the law as a symbol of their state's second-class membership in the American union.

Whatever transportation-cost penalty the Jones Act carries is imposed disproportionately on the Alaska economy. In general, the relatively small size of Alaska's economy makes it a "price-taker" in national and international markets. That is, both the prices of goods exported from Alaska and those of goods imported into the state tend to be set in larger markets outside its borders. Higher transportation costs are thus added to the cost of Alaska's imports, and subtracted from the market prices of her exports. Thus, the prices of most consumer goods in Anchorage are composed of a price determined in some outside market, plus the transportation cost from that market to Anchorage. This does not include local distribution markups.

Alaska's position as a price-taker means that its economy tends to suffer a double penalty from any adverse transport-cost differential. In general, the state's exports to Lower 48 markets will have lower prices at their point of origin than would otherwise have been the case. The most obvious impact of this kind is on the state government's natural resource royalties and severence taxes, which are keyed to netback prices.

The biggest cost impacts of the Jones Act will be on crude oil, Alaska's chief export commodity. The estimated reduction in the value of Alaska crude resulting from the Jones Act is $225 million per year.

Alaska North Slope Crude must be shipped pursuant to Jones Act regulations, which provide an exclusive monopoly to U.S. flag ships for all domestic intercity shipborne freight. The transportation of ANS crude accounts for more than half the business conducted by the Jones Act tanker fleet. It is contended that the majority of Jones Act tankers, however, are aging, inefficient, and uncompetitive with foreign flag vessels. The inefficiency stems from; very high labor costs; direct tax subsidies for construction and operating costs; indirect tax subsidies from wellhead-price manipulation by vertically integrated oil-and-tanker companies, allowing greater shipping costs to be offset against reduced wellhead netbacks.

Below is a comparison of transportation differentials between markets:

| | |
|---|---|
| Valdez to Japan | \$0.50 |
| Persian Gulf to Japan | 1.00 |
| | \$0.50 |

| | |
|---|---|
| Valdez to Gulf Coast | \$4.00* |
| Persian Gulf to Gulf Coast | 2.00 |
| | \$2.00 |

*With Trans Panama Pipeline (\$5.00 without)

As shown from these equations, there is an efficiency loss equaling \$2.50 per barrel. Consumers everywhere lose because economic efficiency has been sacrificed resulting in higher delivered costs to both markets. While Valdez to Gulf Coast is just twice the distance from Valdez to Japan, transportation costs are 10 times as high. The bulk of this expense is directly attributable to Jones Act tanker costs, which do not compete with foreign-owned tankers in the U.S. trades.

## SUMMARY OF FINDINGS ON THE JONES ACT FOR THE ALASKA STATEHOOD COMMISSION

The Alaska Statehood Commission prepared a report in January of 1982. In this report was the commissions conclusions on the Jones Act. Listed below are some of those conclusions:

> The costs of industry subsidies are not evenly distributed nationwide, but are borne by heavy users of Jones Act protected shipping.
>
> Many Alaskans have called the Jones Act a gross form of discrimination against Alaska.
>
> We (AK Statehood Commission) believe that if national security requires a protected merchant fleet, all the nation - not just the states heavily dependent on shipping - should support the cost.
>
> Transportation is Alaska's lifeline, and Alaska's growth needs may be severely restricted by the Jones Act because of its inflexibility and the unwillingness of interests that benefit from the act to allow even small changes.
>
> We find from our preliminary studies of the Jones Act... (that it) discriminates blatantly against Alaskans, helps drive up the cost of living here, and stifles economic development.

## NOT JUST ALASKA

The Jones Act repeal is not just an Alaskan issue. Other states are adversely impacted as well. A recent article in the Seattle Post Intelligencer, (2-22-85) mentions that the Jones Act has failed in many respects:

> The U.S. fleet has diminished over several decades from 1,300 to 400 vessels. Commercial shipbuilding in the country has come to a virtual standstill.

These laws "keep Seattle from becoming a premier destination for cruise ships. Foreign-flag ships, unable to transport passengers between U.S. ports, dock instead in Vancouver, B.C., when cruising to and from Alaska." "A cruise ship exemption could inject millions of dollars into the local economy from passenger traffic through Seattle."

## CONCLUSION

The largest adverse effects of the Jones Act for Alaska are likely to be in the future , as transportation costs for crude oil and other minerals can be an important factor determining the economic feasibility of developing specific deposits.

* Information for this committee report was taken from:

- More Perfect Union; A Final Report by the Alaska Statehood Commission. January 24, 1983
- The Jones Act And Its Impact On The State Of Alaska; Volume I: Executive Summary and Volume II: Final Report. July, 1982.
- Alaska's Economy and The Merchant Marine Act of 1920; September, 1982.
- The Alaska Oil Export Ban; A briefing paper by the Legislative Budget and Audit Committee, April 23, 1983.

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CS SJR 11 (FIN)
PUBLISH DATE: (SENATE) 1/22/88

FISCAL NOTE

REQUEST:

Revision Date: 1/19/88
Title: Repeal the Jones Act

Agency Affected: Revenue
BRU:

Sponsor: Senator Coghill
Requestor:

Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING | FY 88 | FY 89 | FY 90 | FY 91 | FY 92 | FY 93 |
|---|---|---|---|---|---|---|
| PERSONAL SERVICES | - | - | - | - | - | - |
| TRAVEL | - | - | - | - | - | - |
| CONTRACTUAL | - | - | - | - | - | - |
| SUPPLIES | - | - | - | - | - | - |
| EQUIPMENT | - | - | - | - | - | - |
| LANDS & STRUCTURES | - | - | - | - | - | - |
| GRANTS, CLAIMS | - | - | - | - | - | - |
| MISCELLANEOUS | - | - | - | - | - | - |
| TOTAL OPERATING | - | - | - | - | - | - |
| CAPITAL | - | - | - | - | - | - |
| REVENUE | $35 to $100 million | | | | | |

FUNDING: (Thousands of Dollars)

| | | | | | | |
|---|---|---|---|---|---|---|
| GENERAL FUND | - | - | - | - | - | - |
| FEDERAL FUNDS | - | - | - | - | - | - |
| OTHER | - | - | - | - | - | - |
| TOTAL | - | - | - | - | - | - |

POSITIONS:

| | | | | | | |
|---|---|---|---|---|---|---|
| FULL-TIME | - | - | - | - | - | - |
| PART-TIME | - | - | - | - | - | - |
| TEMPORARY | - | - | - | - | - | - |

ANALYSIS: (Attach a separate page if necessary)

The above numbers reflect the savings in transportation costs and thus the gain to the state.

THE ACTUAL AMOUNT DEPENDS ON VARIATIONS IN THE PROPOSALS AND MARKET RESPONSE

Prepared By: Vincent D. Wright
Division: Commissioner's Office/Research

Phone: 465-2173
Date: January 19, 1988

Approved by Commissioner: Hugh Malone
Agency: Department of Revenue

Date: January 19, 1988

Distribution (by preparer):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

page 1 of 1

DEPT. OF REVENUE FISCAL NOTE

# MEMORANDUM

# State of Alaska
Department of Transportation & Public Facilities

TO: The Honorable Jack Coghill
Senator
Alaska State Legislature

DATE: March 2, 1987

FILE NO:

TELEPHONE NO: 465-3900

FROM: Mark S. Hickey MSH
Deputy Commissioner
Operations

SUBJECT: SJR 11

The Alaska Department of Transportaiton and Public Facilities (ADOT&PF) has reviewed SJR 11 and is in general agreement with it. The thrust of the resolution to allow the use of foreign built vessels in domestic maritime trade - provided they satisfy the same standards of design, construction, ownership and crewing as US building vessels - is in line with the recommendations in the 1986 Jones Act Report to the Legislature. Inasmuch as ADOT&PF was the lead agency in developing that report, we have no problem in supporting the resolution.

Last year U. S. Senator Stevens introduced S 1935 which would have accomplished the purpose of your resolution for tourships which serve Alaska, allowing them to operate from Seattle rather than Vancouver, B.C. Unfortunately, the bill died in committee last year and no subsequent measure has yet been introduced into the present Congress.

DOT/PF POSITION STATEMENT AND SUPPORT LETTER

# THE JONES ACT AND ITS IMPACT ON THE STATE OF ALASKA

## VOLUME I: EXECUTIVE SUMMARY

Prepared for the

ALASKA STATEHOOD COMMISSION

by

SIMAT, HELLIESEN & EICHNER, INC.

SH&E

July 1982

"THE JONES ACT IMPACT ON ALASKA" BY ALASKA STATEHOOD COMM'N.

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## BACKGROUND

The purpose of the study is to provide "an expert and objective analysis of the economic effects of the Merchant Marine Act of 1920 (The Jones Act) on the economy of Alaska," considering:

- The costs which the Act adds to the ultimate price of important classes of freight coming to and leaving Alaska;
- The effect of the Act on the cost and standard of living in Alaska;
- The effect the Act has upon further development and expansion of shipping-dependent industries;
- The composition of the U.S.-flag Jones Act fleet;
- The effects higher shipping costs have on state revenues;
- Other important effects the Act may have upon Alaska's economy, resources, and future development.

### The Jones Act

The term "Jones Act" refers to Section 27 of the Merchant Marine Act of 1920, which states:

> No merchandise shall be transported by water, or by land and water,....between points in the U.S......either directly or via a foreign port or for any part of the transportation, in any other vessel than a vessel built in and documented under the laws of the U.S. and owned by persons who are citizens of the U.S.....

Because Section 27 restricts U.S. domestic waterborne trade to vessels of U.S. construction, U.S. registration, and U.S. ownership, the Jones Act has come to be referred to as the U.S. cabotage law. Cabotage refers to the reservation of a nation's domestic cargo to ships of that nation's fleet. It could be described as a form of protectionism applied to transportation services. In fact, the purpose of the Merchant Marine Act of 1920 is stated clearly in the preamble of the Act:

> That it is necessary for the national defense and for the proper growth of its foreign and domestic commerce that the United States shall have a merchant marine of the best equipped and most suitable types of vessels sufficient to carry the greater portion of its commerce and serve as a naval or military auxiliary in time of war or national emergency, ultimately to be owned and operated privately by citizens of the United States....

## Factors Leading Up to Passage of the Act

To understand why the Merchant Marine Act of 1920 was enacted, it is first necessary to review the U.S. experience in World War I.

At the beginning of World War I in 1914, the British maintained the world's largest merchant fleet with over 8,500 vessels. The remaining protagonists, together with Britain, accounted for over 14,000 vessels or nearly 60 percent of the world fleet and over 65 percent of the world's tonnage.

As the warring nations recalled their merchant fleets to military service or lost them in action on the high seas, the U.S. began to experience a crippling scarcity of vessels for its on-going commerce. Commodities and goods were left literally rotting on the piers. A major shipbuilding program to provide the country with the ships necessary to carry men and materials to Europe for an extended war was undertaken. However, only a few vessels were delivered before the armistice ending World War I was declared in November of 1918.

The experience of World War I indicated to U.S. lawmakers the dangers of relying on foreign-flag fleets. In the summer of 1919, the Senate Commerce Committee chaired by Wesley L. Jones, Republican from the State of Washington (1909 to 1932), began working on a revision of the national maritime laws. Under Jones' direction the Merchant Marine Act of 1920 was passed into law.

## EXCEPTIONS TO THE ACT

A variety of circumstances and conditions have resulted in differing exceptions to the Jones Act for some territories and states. The third and fourth proviso exceptions to Section 27 of the Merchant Marine Act of 1920 are examples of exceptions that apply to Alaska. For practical purposes, the third proviso allows the use of foreign owned, registered, and built ships for carrying cargoes between Alaska and the lower 48 states via Canadian ports so long as rail movement is involved, while the fourth proviso applies to movements on the Yukon River.

There are other exceptions. For instance, trade with the U.S. island possessions of Guam, Tutuila (American Samoa), Wake, Midway and Kingman Reef may be carried on foreign built U.S.-flag vessels.

Of direct interest to Alaska are the conditions that govern trade to the Virgin Islands. For historical reasons, the Virgin Islands are exempt from the Jones Act. As a result, Alaskan crude oil can be shipped out of Alaska on foreign-flag vessels to a refinery in the Virgin Islands. The product can then be shipped foreign-flag to the U.S. mainland. Data compiled by the Maritime Administration indicate that this route accounts for about 5 percent to 15 percent of Alaskan oil shipments.

## THE JONES ACT FLEET

The Jones Act fleet consists of those vessels eligible to engage in the coastwise trade. Generally, that includes any vessels built in the U.S., under

U.S. ownership, registered under the laws of the U.S., and not restricted because of subsidy status. Vessels that have received Construction Differential Subsidy (CDS) or are receiving Operating Differential Subsidy (ODS) from the Maritime Administration cannot serve the cabotage or coastwise trade without special waivers.

Currently, the Jones Act fleet accounts for 60.7 percent of U.S.-flag tonnage. Most of these vessels are tankers; in that category, 86.8 percent of all vessels are eligible for coastwise trading. Data appear in Table 1.

The Alaska trade fleet of six[1/] dry cargo freighters and 88 tankers constitutes 28.8 percent of the Jones Act fleet and 16 percent of the active U.S.-flag privately owned fleet.

Alaska trade freighters constitute only 8.6 percent of the total Jones Act eligible freighters. The containerships are smaller than those generally found in the Jones Act fleet and the Ro/Ro ships are larger. Among tankers, the Alaska trade fleet is made up of 34.4 percent of the total Jones Act fleet, but has 54 percent of the carrying capacity. This is because tankers in Alaska service are larger than the fleet average. Data appear in Table 2.

## ALASKA WATERBORNE TRADE

Alaska's waterborne commerce is dominated by crude oil shipments from Valdez which accounted for 89.5 percent of Alaska's total port activity in 1979. When crude oil shipments are subtracted from the total, remaining waterborne commerce is 34.5 percent foreign imports and exports, 47.5 percent coastwise receipts and shipments, and 18 percent internal receipts and shipments. Data illustrating the relationship of total foreign, coastwise, and internal movement of the top ten Alaska ports is shown in Figure 1. Excluding crude oil shipments, the activity of the top ten Alaska ports includes approximately 60 percent of the state's total waterborne commerce.

Coastwise dry cargo shipments out of Alaska move primarily to the Pacific Northwest (Seattle and Tacoma). Of the total, 51.2 percent move to the Pacific Northwest, California receives 15.9 percent, and internal shipments within Alaska account for the remaining 32.9 percent.

Tanker movements from Alaska are destined primarily for refineries in California. Panama, the Pacific Northwest, and Hawaii also receive varying amounts of Alaska crude, based on the 1979 data.

Coastwise dry cargo shipments to Alaska originate to a large degree in the Pacific Northwest (77.3 percent). A very high proportion of the cargo moving to and from Alaska's smaller ports is transshipped via the major ports.

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1/ Includes Sea-Land and TOTE; excludes barge services.

## TABLE 1

## PROPORTION OF JONES ACT VESSELS TO TOTAL U.S.-FLAG VESSELS

| | | Number of Vessels | | | DWT (000) | | |
|---|---|---|---|---|---|---|---|
| | | Jones Act | Total | % | Jones Act | Total | % |
| A. | DRY CARGO | 70 | 280 | 25.0 | 1,119.0 | 5,123.7 | 21.8 |
| B. | TANKERS | 256 | 295 | 86.8 | 11,950.3 | 16,409.2 | 72.8 |
| C. | TOTAL | 326 | 575 | 56.7 | 13,069.3 | 21,532.9 | 60.7 |

## TABLE 2

## U.S.-FLAG PRIVATELY-OWNED, SELF-PROPELLED VESSELS OF 1,000 GROSS TONS OR MORE January 1, 1982

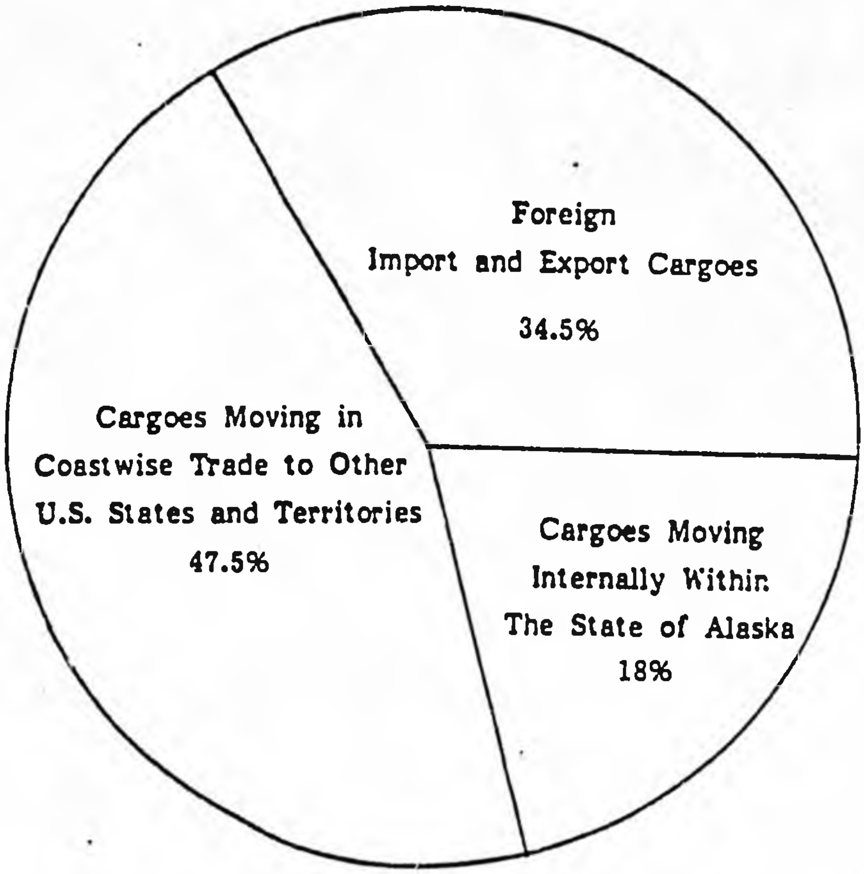
| | | Serving Alaska | Total Jones Act | % Serving Alaska | Serving Alaska | Total Jones Act | % Serving Alaska |
|---|---|---|---|---|---|---|---|
| A. | FREIGHTERS | 6 | 70 | 8.6 | 64.7 | 1,119.0 | 5.8 |
| B. | TANKERS | 88 | 256 | 34.4 | 6,513.8 | 11,950.3 | 54.5 |
| C. | TOTAL JONES ACT FLEET | 94 | 326 | 28.8 | 6,578.5 | 13,069.3 | 50.3 |

1/ Privately-owned, self-propelled vessels of 1,000 gross tons or more - January 1, 1982

Source: U.S. Maritime Administration

FIGURE 1

CARGO ACTIVITY OF CORPS OF ENGINEERS TOP 10 ALASKA PORTS
(EXCLUDING CRUDE OIL AT VALDEZ)
BASED ON TONS OF CARGO SHIPPED AND RECEIVED
1979



Tanker cargo being received in Alaska, consisting of petroleum products for consumption in the state, flows almost exclusively from California; a high percentage is redistributed from larger to smaller Alaska ports.

Anchorage is the primary receiving port for consumer products, building materials, and food. Whittier also serves the Anchorage market with the same categories of cargo. Most of the high volume cargoes (commodities registering annual volumes of 10,000 tons or more) moving into Alaskan ports other than Anchorage and Whittier, consist of petroleum products.

## ALASKAN SHIPPING COSTS

### The Impact of Costs on Rates

The cost of shipping in the Alaska trade, and the cost premium caused by the Jones Act, were estimated by comparing the cost of present vessel services with the probable cost of those services were they operated with foreign-flag ships. Although it is true that the observed impact on customers is conveyed through shipping rates, not underlying shipping costs, and that competition and value of service, or "what the traffic will bear," establish freight rates for each commodity in the short run, costs set the limits for freight rates in the long term. In other words, although cost and rate may not be the same or even similar for any given commodity at any given time, in the long run (and/or over a mixture of commodities carried in the same service), rates are, in fact, cost determined. Hence, the cost-based method is a valid approach for determining the relative impact of differing governmental policies which affect the long term character of a shipping market.

### Shipping Costs

Ocean shipping costs can generally be divided into the following categories:

Capital
Manning and Subsistence
Fuel
Maintenance and Repair (M&R)
Supplies and Equipment
Insurance
Cargo Handling
Other Port Costs
Agency, brokerage, and Commission
Waterway Tolls and Pilot Fees
Corporate Overhead

There are exceptions, however. For example, tanker movements seldom involve meaningful cargo handling costs, because this function is provided by shipboard pumps, the cost of which is already part of other cost categories. Other types of shipping have other costs—e.g., container ownership in the case of container systems.

## U.S.-flag Cost Disadvantages

Among the categories listed, not all are areas in which there are cost differences between U.S.- and foreign-flag vessels. The major areas in which U.S.-flag vessels are at a disadvantage are:

- Crew wages — Generally, U.S. manning costs are higher, due in part to higher rates of compensation and in many cases, higher manning levels.

- Insurance — Insurance is usually higher because of higher U.S. vessel repair costs and typically higher levels of medical care, workmen's compensation, etc.

- Vessel acquisition — Vessel acquisition costs are higher because of higher U.S. construction costs. In addition, delivery schedules in the U.S. are said to be much slower, introducing a cost of delay. The requirement for U.S. subsidized operators to purchase U.S.-built vessels has been temporarily waived, allowing U.S.-flag carriers to buy vessels overseas at cheaper prices. This does not apply in the domestic trades, however.

- Vessel Maintenance and Repair — Vessel M&R is higher due to the necessity for making repairs in the U.S.

- Overhead — Overhead is sometimes higher due to higher general levels of salary for U.S. headquarters office staffs, to the extra staff required for government compliance activity, and the fact that foreign lines use agents in the U.S.

- Fuel Costs — In most cases U.S. fuel costs are higher because steam turbine vessels are employed which have higher fuel consumption rates than foreign-flag vessels that traditionally use slow speed diesel engines.

## U.S.- vs. Foreign-flag Shipping Comparisons

The SH&E Required Freight Rate model was used to calculate costs of U.S. and hypothetical foreign-flag vessels in a representative sample of Alaskan service, focusing on cost differences in the categories set out above. Summary results from four runs appear in Tables 3-6, as follows:

| | | |
|---|---|---|
| Table 3 | - | Container vessel: Seattle-Anchorage |
| Table 4 | - | Roll on/Roll off vessel; Tacoma-Anchorage |
| Table 5 | - | Crude Oil Tanker; Valdez-Los Angeles |
| Table 6 | - | Petroleum Products Tanker; California to various Alaskan ports. |

TABLE 3

SUMMARY OF U.S.- AND FOREIGN-FLAG COSTS
FOR CONTAINERSHIP OPERATIONS
ANCHORAGE/SEATTLE

U.S.-FLAG

| EXPENSE CATEGORY | COST PER VOYAGE | COST PER TEU |
|---|---|---|
| MANNING AND SUBSISTENCE | 70,637.14 | 75.95 |
| FUEL | 63,448.54 | 68.22 |
| M+R | 10,285.71 | 11.06 |
| SUPPLIES AND EQUIPMENT | 1,182.86 | 1.27 |
| INSURANCE | 8,485.71 | 9.12 |
| CAPITAL COSTS | 30,857.14 | 33.18 |
| STEVEDORING COSTS | 87,750.00 | 94.35 |
| TERMINAL COSTS | 241,800.00 | 260.00 |
| PORT COSTS | 60,000.00 | 64.52 |
| WATERWAY TOLLS AND PILOT FEES | 0.00 | 0.00 |
| CONTAINER COSTS | 76,371.43 | 82.12 |
| POSITIONING COSTS | 143,000.00 | 153.76 |
| FEEDER TRANSPORTATION COSTS | 0.00 | 0.00 |
| AGENCY, BROKERAGE, AND COMMISSION | 18,600.00 | 20.00 |
| CORPORATE OVERHEAD | 169,356.13 | 182.10 |
| TOTAL | 981,774.66 | 1,055.67 |

FOREIGN-FLAG

| EXPENSE CATEGORY | COST PER VOYAGE | COST PER TEU |
|---|---|---|
| MANNING AND SUBSISTENCE | 41,040.00 | 44.13 |
| FUEL | 45,215.96 | 48.62 |
| M+R | 9,000.00 | 9.68 |
| SUPPLIES AND EQUIPMENT | 1,182.86 | 1.27 |
| INSURANCE | 4,937.14 | 5.31 |
| CAPITAL COSTS | 15,428.57 | 16.59 |
| STEVEDORING COSTS | 87,750.00 | 94.35 |
| TERMINAL COSTS | 241,800.00 | 260.00 |
| PORT COSTS | 60,000.00 | 64.52 |
| WATERWAY TOLLS AND PILOT FEES | 0.00 | 0.00 |
| CONTAINER COSTS | 76,371.43 | 82.12 |
| POSITIONING COSTS | 143,000.00 | 153.76 |
| FEEDER TRANSPORTATION COSTS | 0.00 | 0.00 |
| AGENCY, BROKERAGE, AND COMMISSION | 18,600.00 | 20.00 |
| CORPORATE OVERHEAD | 106,332.78 | 114.34 |
| TOTAL | 850,658.24 | 914.69 |

TABLE 4

SUMMARY OF U.S.- AND FOREIGN-FLAG COSTS
FOR RO/RO SHIP OPERATIONS
ANCHORAGE/SEATTLE

## U.S.-FLAG

| EXPENSE CATEGORY | COST PER VOYAGE | COST PER TEU |
|---|---|---|
| MANNING AND SUBSISTENCE | 54,940.00 | 49.50 |
| FUEL | 80,303.27 | 72.35 |
| M+R | 5,000.00 | 4.50 |
| SUPPLIES AND EQUIPMENT | 900.00 | 0.81 |
| INSURANCE | 11,600.00 | 10.45 |
| CAPITAL COSTS | 72,000.00 | 64.86 |
| STEVEDORING COSTS | 76,500.00 | 68.92 |
| TERMINAL COSTS | 288,600.00 | 260.00 |
| PORT COSTS | 44,000.00 | 39.64 |
| WATERWAY TOLLS AND PILOT FEES | 0.00 | 0.00 |
| CONTAINER COSTS | 36,382.50 | 32.78 |
| POSITIONING COSTS | 176,000.00 | 158.56 |
| FEEDER TRANSPORTATION COSTS | 0.00 | 0.00 |
| AGENCY, BROKERAGE, AND COMMISSION | 24,200.00 | 21.80 |
| CORPORATE OVERHEAD | 153,604.55 | 138.38 |
| TOTAL | 1,024,030.32 | 922.55 |

## FOREIGN-FLAG

| EXPENSE CATEGORY | COST PER VOYAGE | COST PER TEU |
|---|---|---|
| MANNING AND SUBSISTENCE | 31,920.00 | 28.76 |
| FUEL | 57,906.61 | 52.17 |
| M+R | 4,000.00 | 3.60 |
| SUPPLIES AND EQUIPMENT | 900.00 | 0.81 |
| INSURANCE | 6,240.00 | 5.62 |
| CAPITAL COSTS | 36,000.00 | 32.43 |
| STEVEDORING COSTS | 76,500.00 | 68.92 |
| TERMINAL COSTS | 288,600.00 | 260.00 |
| PORT COSTS | 44,000.00 | 39.64 |
| WATERWAY TOLLS AND PILOT FEES | 0.00 | 0.00 |
| CONTAINER COSTS | 36,382.50 | 32.78 |
| POSITIONING COSTS | 176,000.00 | 158.56 |
| FEEDER TRANSPORTATION COSTS | 0.00 | 0.00 |
| AGENCY, BROKERAGE, AND COMMISSION | 24,200.00 | 21.80 |
| CORPORATE OVERHEAD | 106,724.88 | 96.15 |
| TOTAL | 889,373.98 | 801.24 |

## TABLE 5

## SUMMARY OF U.S.- AND FOREIGN-FLAG COSTS FOR VLCC OPERATIONS VALDEZ/LOS ANGELES

### U.S.-FLAG

| EXPENSE CATEGORY | COST PER VOYAGE | COST PER TON |
|---|---|---|
| CAPITAL COSTS | 224,588.74 | 1.87 |
| MANNING AND SUBSISTENCE | 86,590.71 | 0.72 |
| FUEL | 227,090.91 | 1.89 |
| M&R | 11,229.44 | 0.09 |
| SUPPLIES AND EQUIPMENT | 3,743.15 | 0.03 |
| INSURANCE | 23,956.13 | 0.20 |
| CARGO HANDLING | 0.00 | 0.00 |
| OTHER PORT COSTS | 140,000.00 | 1.17 |
| AGENCY, BROKERAGE, AND COMMISSION | 0.00 | 0.00 |
| WATERWAY TOLLS AND PILOT FEES | 0.00 | 0.00 |
| CORPORATE OVERHEAD | 0.00 | 0.00 |
| TOTAL | 717,599.08 | 5.98 |

### FOREIGN-FLAG

| EXPENSE CATEGORY | COST PER VOYAGE | COST PER TON |
|---|---|---|
| CAPITAL COSTS | 112,294.37 | 0.94 |
| MANNING AND SUBSISTENCE | 46,714.46 | 0.39 |
| FUEL | 227,090.91 | 1.89 |
| M&R | 7,486.29 | 0.06 |
| SUPPLIES AND EQUIPMENT | 3,743.15 | 0.03 |
| INSURANCE | 13,924.50 | 0.12 |
| CARGO HANDLING | 0.00 | 0.00 |
| OTHER PORT COSTS | 140,000.00 | 1.17 |
| AGENCY, BROKERAGE, AND COMMISSION | 0.00 | 0.00 |
| WATERWAY TOLLS AND PILOT FEES | 0.00 | 0.00 |
| CORPORATE OVERHEAD | 0.00 | 0.00 |
| TOTAL | 551,253.68 | 4.59 |

TABLE 6

SUMMARY OF U.S.- AND FOREIGN-FLAG COSTS
FOR PRODUCT TANKER OPERATIONS
LOS ANGELES/ANCHORAGE

## U.S.-FLAG

| EXPENSE CATEGORY | COST PER VOYAGE | COST PER TON |
|---|---|---|
| CAPITAL COSTS | 102,285.71 | 2.92 |
| MANNING AND SUBSISTENCE | 131,266.67 | 3.75 |
| FUEL | 154,833.33 | 4.42 |
| M+R | 4,546.03 | 0.13 |
| SUPPLIES AND EQUIPMENT | 11,365.08 | 0.32 |
| INSURANCE | 22,730.16 | 0.65 |
| CARGO HANDLING | 0.00 | 0.00 |
| OTHER PORT COSTS | 21,600.00 | 0.62 |
| AGENCY, BROKERAGE, AND COMMISSION | 0.00 | 0.00 |
| WATERWAY TOLLS AND PILOT FEES | 0.00 | 0.00 |
| CORPORATE OVERHEAD | 0.00 | 0.00 |
| TOTAL | 448,626.98 | 12.82 |

## FOREIGN-FLAG

| EXPENSE CATEGORY | COST PER VOYAGE | COST PER TON |
|---|---|---|
| CAPITAL COSTS | 51,142.86 | 1.46 |
| MANNING AND SUBSISTENCE | 66,826.67 | 1.91 |
| FUEL | 98,250.00 | 2.81 |
| M+R | 3,977.78 | 0.11 |
| SUPPLIES AND EQUIPMENT | 11,365.08 | 0.32 |
| INSURANCE | 13,979.05 | 0.40 |
| CARGO HANDLING | 0.00 | 0.00 |
| OTHER PORT COSTS | 12,000.00 | 0.34 |
| AGENCY, BROKERAGE, AND COMMISSION | 0.00 | 0.00 |
| WATERWAY TOLLS AND PILOT FEES | 0.00 | 0.00 |
| CORPORATE OVERHEAD | 0.00 | 0.00 |
| TOTAL | 257,541.43 | 7.36 |

These summary runs indicate that the relative impact of the Jones Act on Alaskan commerce varies with specific circumstances. For example, in liner trades[1/] (represented by container and Ro/Ro vessels) a significant part of the total cost relates to containers, cargo handling, and other cargo-related functions. These are not affected by the Jones Act. Hence, the relative cost difference between U.S.- and foreign-flag vessel service is less than, say, the tanker trades, where Jones Act-affected cost categories make up a much larger share of the total cost.

## THE IMPACT OF SHIPPING COSTS DUE TO THE JONES ACT

### Open Questions About the Jones Act

There are a number of unanswered questions relating to changing or eliminating the Jones Act. They include:

- Is it preferable to remove all provisions of the Act or a selected subset?
- What is the likely response by foreign shipping interests to a relaxation of the coastwise laws? On what terms would foreign owners and operators be interested in providing service?
- What immigration problems, if any, would result from employing foreign seamen in the Alaska coastwise trade?
- If foreign-flag operations can be introduced at great savings, what has impeded foreign-flag vessels from being used more extensively to carry coastwise cargoes via Canadian ports?
- What will be the U.S. labor reaction to the introduction of foreign ships and foreign crews and what secondary effect might this have on Alaska?

### The Impact of The Act on Liner Services

The total U.S.-flag premium cost for liner services in the Alaskan trade (i.e., services which transport package cargo such as consumer goods, automobiles, machinery, etc.) is about $41 million per year, as follows:

| | Container | Ro/Ro | Tug Barges |
|---|---|---|---|
| Cost per trip - U.S.-flag | $981,774 | $1,024,030 | $195,217 |
| Cost per trip - foreign-flag | 850,658 | 889,373 | 158,023 |
| Net | $131,116 | $134,657 | $37,188 |
| Voyages per year | X 155 | X 100 | X 200 |
| | $20,322,980 | $13,465,700 | $7,437,600 |
| | | GRAND TOTAL | $41,226,280 |

1/ "Liner trades" refers to all ocean freighter services which handle packaged and piece goods, in contrast to "bulk trades" which handle petroleum, grain, ore, and other bulk commodities.

The cost penalty applies to commodities as a group. How it may be distributed to any specific commodity or group of commodities is uncertain; if any one item is judged to pay less premium, then something else must automatically be said to pay more, and the net result to the people of Alaska is essentially the same.

With regard to the relative impact of the Act on inbound versus outbound commodities, the analysis indicates it is northbound liner commodities which are most likely absorbing the cost premium, meaning the direct (or initial) impact of the Jones Act is falling more heavily on Alaskan receivers and consumers rather than on Alaskan businesses shipping their products southbound.

### The Impact of the Act on the Crude Oil Trades

With regard to crude oil, the RFR analyses indicated the differential between U.S.- and foreign-flag tanker operations in the Valdez to Los Angeles service is $1.39 per long ton. For shipments from Valdez, transshipped at the Panama Canal and sent onward to the U.S. Gulf Coast, the differential would be $5.67.

Assuming an average annual U.S.-flag shipment rate of 80 million tons per year, with two-thirds moving to California and one-third to the Gulf Coast via Panama, the annual cost penalty ultimately being borne by Alaska through the netback mechanism is $225 million. Clearly, the Jones Act's major impact on Alaska is in the sphere of crude oil shipments.

## MAJOR CONCLUSIONS

### The Jones Act and Alaska's Liner Service

- Commerce of the State of Alaska moving in liner services, mostly consumer goods and business supplies, is absorbing an aggregate annual cost of approximately $41 million because of the restrictions imposed by the Merchant Marine Act of 1920.

- Due to the inherent directional imbalance of Alaska cargoes, the incidence of higher costs and rates is having the greatest impact on northbound cargoes.

- In the high-volume Anchorage-Pacific Northwest trade, the state may have a potential for reducing rates by stimulating backhaul cargoes. The extra cost of transportation for such cargoes would be low.

- In modern containerized-type operations, the bulk of the costs are not flag related. Consequently, the scope for cost and rate reductions as a result of introduction of foreign-flag services is not as great proportionately as in other sectors of the merchant marine.

The Jones Act and Alaska's Crude Oil Transportation Service

- Alaska's net return from its oil sales is being reduced due to the additional costs imposed by the Jones Act, which, based on current conditions, are approximately $225 million per year.

Current Use of Exemptions from the Act

- The State of Alaska has some relief available from the Merchant Marine Act of 1920. This relief is currently not being exploited. Non-use of this loophole does indicate that the cost savings ultimately available from use of foreign-flag vessels may not be as great as has sometimes been supposed.

Changes in U.S. Maritime Policy

- In view of the Administration's apparent position to uphold the Jones Act, efforts to have it rescinded in toto will be difficult in the immediate future.

- Given the recent lifting of prohibitions on overseas-built vessels for U.S. subsidized trades, the State of Alaska may wish to consider an effort to obtain a waiver of the requirement to use vessels built in the U.S. and place less emphasis on changing the remainder of the Jones Act.

- The State of Alaska should develop a coordinated, thoroughly-considered Jones Act strategy that seeks reasonable and politically attainable concessions in areas where the cost impacts are most meaningful. This approach has the potential for success, and can be instrumental in reducing the impact of the Jones Act on the State's economy.

STATE OF ALASKA
THE LEGISLATURE
POUCH Y · STATE CAPITOL
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LEGISLATIVE AFFAIRS AGENCY
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May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

H. TRANS. 5-2-88 1:30 p.m.

# HOUSE COMMITTEE REPORT

(7)

Date referred: 2/3/88 FURTHER REFERRALS: Finance

DATE: 5-2-88

The Transportation Committee has considered CSSJR 11(Fin)

Urging the repeal of certain portions of the Merchant Marine Act of 192

**RECOMMENDS:**

[ ] replace with ______________ [ ] the same title
[ ] attached amendment(s) [ ] a new title

- [X] do pass
- [ ] do not pass
- [ ] no recommendation
- [ ] individual recommendations
- [ ] additional referral to the ______________ Committe

**ADOPTS:** [ ] __________ letter of intent

**ATTACHES NEW FISCAL NOTE(s):**

[ ] fiscal impact
[ ] zero fiscal note
[ ] zero with analysis

[ ] same as previous fiscal not published ____________
[X] same as previous zero fisca note published ____________

**SIGNING DO PASS:**

[illegible]
Bill Hicks
Heinrich Springer
Bette Cato

**SIGNING OTHER RECOMMENDATIONS:**

[illegible]

Bette Cato
Chairman's signature

THE SEAL OF THE STATE OF ALASKA

Official Business

**COMMITTEE:**

House Transportation Committee

**DATE:** May 2, 1988

# SIGN-IN

## Subject of meeting:

SCR 40: Relating to the revision of Title 2 of the Alaska Statutes.

SJR 11: Urging the repeal of certain portions of the Marine Merchant Act of 1920.

| NAME Please include title | ADDRESS Please use full address. Please include zip. | PHONE | REPRESENTING | DO YOU WANT TO TESTIFY? Which resolution |
|---|---|---|---|---|
| J. OTTESEN | PO BOX Z JUNO. | 465-2951 | DOT & PF | IF ASKED SJR 11 |
| Theresa Maser | Sen. Halford Rm 516 | x4958 | Sen. Halford | SCR 40 |
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