



***SMOOTHER SAILING:  
STRENGTHENING INDO-PACIFIC  
PARTNERSHIPS THROUGH JONES ACT  
REFORM***

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### **Bottom Line Up Front**

The Russia-Ukraine conflict highlighted Hawaii’s dependence on foreign oil, an issue exacerbated by the Jones Act. The law’s restrictions on shipping make domestic oil imports to Hawaii considerably more expensive than foreign alternatives. In fact, prior to U.S. sanctions, Hawaii imported one-third of its crude oil from Russia. Following these sanctions, the cost of oil has skyrocketed in Hawaii. More broadly, Jones Act requirements have long impacted the cost of all goods imported to Hawaii from the U.S. mainland due to the state’s isolated geographic location. Responsible Jones Act reform is necessary to manage these costs, while also creating an opportunity to limit security vulnerabilities and strengthen relationships with Indo-Pacific partners.

### **What is the Jones Act?**

The Jones Act, or Section 27 of The Merchant Marine Act of 1920, requires that shipping between American ports is only conducted by U.S. flagged, owned, operated, and built vessels. This law aims to bolster the U.S. merchant marine in support of both commercial interests, a dependable flow of goods between U.S. ports, and national security interests, in the form of a merchant marine capable of serving as military auxiliary in times of conflict.

The Jones Act requirement that vessels are operated by domestic crews provides direct and indirect employment to a significant portion of America’s maritime workforce.

Major proponents of the Jones Act include domestic commercial shipping companies, ship-builders, mariner unions, and other maritime industry interest groups; these groups cite job retention as an important benefit of the act. PWC places direct Jones Act employment at over 95,000 jobs, however, this number may be inflated because it includes ship repair work that is not subject to the act. For Oahu’s shipping industry workforce alone, the Jones Act supports the creation of nearly 13,000 jobs for residents of Hawaii – delivering \$787 million in annual workforce income and \$3.3 billion in economic impact to our local economy (The Jones Act and Hawaii, 2020).

Additionally, supporters of the Jones Act see the policy as an important safeguard against an over-dependence on foreign shipping. In times of conflict, international shippers could stop servicing essential routes, leaving Hawaii without access to vital goods and supplies; international crews could return home, leaving the U.S. without sufficient marine manpower.

### **The Jones Act in Practice**

The cost of building a ship in the U.S. is four to five times higher than overseas due to the absence of foreign competition in shipbuilding and the lack of economies of scale at U.S. shipyards (Frittelli, 2017). Thus, in practice, the Jones Act has contributed to a diminishing, aging domestic fleet.

Rather than replacing aging ships, companies have opted to push the vessels well past their typical lifespans or utilize ground and air transport methods. In fact, the volume of American cargo shipped along the Pacific coast, the Atlantic coast and the Great Lakes has fallen by about half since 1960. Over the same period shipping by rail and road has risen by 50% and more than 200%, respectively (What is the Jones Act, the century-old law pushing up prices in America?, 2022). Because of the Jones Act, America's fleet of domestic cargo ships has fallen in number from 434 in 1950 to just 93 in 2018.

A smaller fleet has a number of implications; we will focus on four.

#### 1. Higher domestic shipping costs.

In addition to a higher initial cost of domestic-built ships, which is passed on to consumers, a smaller fleet limits shipping supply, driving up costs. Furthermore, the relative cost of operating a U.S.-flag vessel compared to a foreign-flag vessel has increased to \$6.5 million in 2018, making it harder for such vessels to remain financially viable (Maritime Security: DOT Needs to Expediently Finalize the Required National Maritime Strategy for Sustaining U.S.-Flag Fleet, 2018).

As a concrete example, in an economic analysis of the petroleum tanker market, Hernandez et al. (2019) calculated a \$759.1 million dollar benefit by removing the Jones Act. It is important to note that this is a net figure because domestic petroleum suppliers would lose, while consumers would gain.

#### 2. A smaller market for domestic ship-repair.

The Congressional Research Service reports U.S. shipyards typically build only two or three oceangoing ships per year. Because of the low demand, there is just one U.S. shipyard that exclusively builds commercial ships. While a larger number of shipyards build smaller vessels, such as tour boats, ferries, and barges, they are unable to repair larger vessels. According to the Maritime Administrator, there is an insufficient number of large dry docks to service the

sealift fleet, delaying their readiness to sail (Frittelli, 2019).

#### 3. Less jobs available for domestic crews.

The Cato Institute states that with the higher cost to build domestically, U.S. carriers buy fewer ships, U.S. shipyards build fewer ships, and merchant mariners have fewer employment opportunities to serve as crew on those nonexistent ships (Grabow et al., 2018).

#### 4. Less shipping capacity to redirect during times of conflict.

According to the Grassroot Institute, a Hawaii-based nonprofit policy research organization, from 1980 to 2022 the number of Jones Act ships has declined from 257 to just 93. Additionally the number of militarily useful ships is just 74 (United States-Flag Privately-Owned Merchant Fleet Report, 2022).

In an interview with the Grassroot Institute, they stated that free-trade agreements related to the Jones Act come up often, but the U.S. has been historically unwilling to make changes, damaging relations with trading partners.

### **Policy Recommendation**

Congress should establish a process for countries to apply for exemption from the domestic shipbuilding requirement of the Jones Act. Such an exemption would allow domestic shippers to purchase ships built in exempt countries and use these ships to service routes between Hawaii and the United States.

Allowing domestic shippers to purchase vessels built in exempt countries will enable rapid, cost-effective expansion and modernization of U.S. fleets, resolving many of the negative Jones Act implications highlighted above. Access to significantly less expensive foreign-built vessels would enable American shipping companies to employ a greater number of vessels; this equates to increased shipping capacity and lower domestic shipping costs as well as an increase in militarily-useful auxiliaries during conflict.

Furthermore, removing the domestic build requirement opens domestic builders to international competition, promoting innovation within the U.S. shipbuilding industry (Mickeviciene, 2011).

In recognition of the positive impacts of the Jones Act, we propose keeping the requirements that shipping between American ports be conducted by U.S. flagged, owned, and operated vessels. Sailor employment would not be cannibalized by international crews, helping to close the current deficit of 1,800 U.S. mariners and maintain safeguards against an over-dependence on foreign shipping (U.S. Department of Transportation, Maritime Administration, 2017). A larger fleet will grow industry revenues, leading to higher demand for crews, higher wages, and benefits that will trickle down to other players, such as dockyards.

Expansion of the domestic fleet would also result in having more ships and freeing up sealift capacity. Having mariners that are available and willing to crew sealift vessels as well as the U.S.-flagged commercial fleet, in times of war or national emergency, isn't the only U.S. shipbuilding area in need of growth. Having an advanced U.S. ship-repair capacity is also an essential wartime need. Currently, the U.S. military accounts for nearly 80 percent of the industry's construction and repair revenue (U.S. Department of Transportation, Maritime Administration, 2021).

Additionally, establishing a process for such an exemption creates an opportunity for friendshoring, thus strengthening partnerships with friendly countries in the region.

### **Strengthening Indo-Pacific Partnerships**

The Indo-Pacific Economic Framework for Prosperity (IPEF) is an initiative under the Biden Administration, acknowledging economic engagements among partners as crucial for continued growth and peace. The model seeks to address critical vulnerabilities of regional economies to fortify against global threats: a shared goal of our policy recommendation (Fact Sheet, 2022). Instead of simply working in parallel to each other, there is an opportunity for the IPEF strategy and

an established process for a Jones Act ship building exemption to complement one another.

The IPEF has four major policy pillars: connected economy, resilient economy, clean economy, and fair economy. A Jones Act exemption certainly fits well within a "resilient economy" at the very least, which aims to "guard against price spikes that increase costs for American families" through supply chain diversification (Fact Sheet, 2022).

Twelve nations participated in the launch of IPEF, but the future of the framework rests in the United States' ability to incentivize cooperation. While the U.S. outlines a vision for a more connected future, it could do more to outline concrete details about the benefits of participation for partner nations. A Jones Act exemption, and corresponding economic benefits, could serve as one such incentive (Arasasingham et al., 2022). Nations that display commitment to, and pursue the spirit of IPEF could receive exemption priority. Ultimately, our proposed Jones Act reform will go beyond the focus of the IPEF, but the framework serves as a solid springboard for preliminary exemption consideration.

### **Case Study: Republic of Korea**

The Republic of Korea (ROK) is the ideal candidate for an initial Jones Act exemption.

To start, the ROK already has a robust, cutting-edge shipbuilding industry. For the first half of 2022, the ROK has maintained the number one spot globally for new orders. In July, over half of the world's shipbuilding bids were won by South Korean companies (Korea, 2022). As leaders in innovation, with the "2030 Greenship K Promotion Strategy," the ROK is contributing to carbon neutrality in the shipping industry by investing in and mandating the use of new emission-free technology (2030 Greenship, 2021). The long-term plan is to reduce 40% of greenhouse gas emissions from ROK vessels within the next 10 years and 70% in 30 years (Ahn, 2021).

Dr. Sungmin Cho, an expert on Korea, China, and the Geopolitics of Northeast Asia, stated in an interview that there is near consensus within the ROK that its

domestic economy has been overly dependent on trade with China in recent years. Any opportunity to diversify through increased trade with other nations, especially the U.S., would be welcomed by the ROK.

Furthermore, the ROK is a strong U.S. political ally. In addition to signing onto the IPEF, Presidents Yoon and Biden issued the United States-Republic of Korea Leaders' Joint Statement in May 2022, affirming a strong commitment between the two countries to deepening political, economic, security, and people-to-people ties. An initial Jones Act exemption would open the door to a closer economic and political partnership between the two nations.

### Conclusion

Although it was created in the spirit of protecting U.S. security interests, in practice, the Jones Act has resulted in a diminishing, aging domestic fleet. This has resulted in a number of unintended security consequences impacting Hawaii.

Our Jones Act reform recommendation opens the door to growing the domestic fleet through international cooperation, while keeping in place the protectionist aspects of the act that benefit U.S. shipping companies, crews, and military. Hawaiian families will benefit from the lower cost of goods.

Establishing an exemption process creates an opportunity to strengthen economic partnerships with friendly countries in the region in line with the priorities of the Biden Administration as indicated in the IPEF. South Korea is an ideal candidate for an initial exemption, and we see this as a first step towards additional exemptions for allies and a more collaborative economic future for the region.

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