



AMERICAN
MARITIME
PARTNERSHIP
American Jobs. American Security.

August 24, 2015

Chairman John Thune and Ranking Member Bill Nelson
Senate Commerce, Science and Transportation Committee
Chairman Deb Fischer and Ranking Member Cory Booker
Surface Transportation and Merchant Marine Subcommittee
512 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senators:

As you may know, the Commonwealth of Puerto Rico is experiencing a severe debt crisis. In June, the Governor of Puerto Rico released a commissioned report that outlined the dire situation and proposed a lengthy series of steps to address the problem there.¹ With virtually no analysis, the report—known as the “Krueger Report” for its author—called for Puerto Rico to be exempted from the Jones Act.

The Krueger Report itself and subsequent news articles and analysis have included significant factual misinformation and outright errors about the Jones Act in Puerto Rico. We want to ensure that you, as the leaders of the committees and subcommittees of Congress that oversee the Jones Act, are guided by facts in making decisions about Puerto Rico’s situation. One important fact is that changing the Jones Act for Puerto Rico is not in the best interests of the United States or Puerto Rico.

Puerto Rico receives cargo transported by United States vessels and foreign vessels in an intensely competitive global shipping marketplace.

One misinformed commentator in the *New York Times* recently made the erroneous claim that “every product that enters or leaves Puerto Rico — cars from Japan, engines from Germany, food from South America, medicine from Canada — must be carried on a United States ship.” Another writer said, “The [Jones] act stipulates that every item that arrives or departs Puerto Rico by water, must be transported upon a U.S. ship, with a U.S. crew.” Numerous other critics have repeated this same inaccurate claim, suggesting that all merchandise must enter and leave Puerto Rico on Jones Act vessels.

As you know, only goods transported between Puerto Rico and the U.S. mainland are subject to the Jones Act. Merchandise can be and is imported into Puerto Rico on foreign ships from around the world. Recent U.S. government data show that both foreign and American vessels serve Puerto Rico. In fact, two-thirds of the service is provided by foreign ships. Foreign shipping companies

¹ “Puerto Rico - A Path Forward,” by Anne O. Krueger et al., June 29, 2015 (“the Krueger Report”).

compete with the American Jones Act shipping companies in an intensely competitive global transportation marketplace.

Charges that the Jones Act dramatically increases the cost of goods in Puerto Rico are unsubstantiated and contrary to the findings of the U.S. Government Accountability Office (GAO).

The Krueger Report said, “Import costs [are] at least twice as high [in Puerto Rico] as in neighboring islands on account of the Jones Act.” This statement is flatly false. The Krueger Report authors cited to no study or other factual basis for this statement, and there is none. Another recent commentator offered the outlandish estimate that the Jones Act has cost Puerto Rico billions of dollars over the last 40 years, citing a study by the GAO. However, the GAO said no such thing.

The GAO’s study of the Jones Act in Puerto Rico, completed in 2013, was the most comprehensive ever in the Commonwealth (and perhaps the most significant study of the Jones Act ever undertaken). The agency spent more than 16 months interviewing witnesses (including many in Puerto Rico), analyzing data, and preparing its final report. The report was remarkable for its unbiased thoroughness. The GAO found that there were far too many factors impacting the cost of transportation in Puerto Rico to identify a specific cost attributable to the Jones Act, if any.² The agency said it is even more complicated — “difficult, if not impossible” — to quantify any purported cost of the Jones Act on the price of consumer goods on the island. The GAO went on to say that if the Jones Act were ever repealed for Puerto Rico, the shipping rates for foreign shipping companies operating between the U.S. mainland and the Commonwealth could well increase because those foreign shipping companies would suddenly be subject to American tax, employment, immigration, and other U.S. laws. Of course, because they do not operate in U.S. domestic commerce today, foreign shipping companies are currently exempt from those U.S. laws and associated compliance costs.

Similarly, an older but still relevant federal government study by U.S. federal agencies coordinated by the U.S. Department of Commerce said the cost of a consumer good on a store shelf for sale in Puerto Rico is affected by many non-transportation costs, including the wholesale price of the good itself, retail pricing based on sales competition, the cost of retail real estate, ongoing sales or other promotions at any time, Puerto Rico-based distribution costs, store overhead, retail staffing, marketing expenditures, and many other expenses.³ These are costs unaffected by the Jones Act. Ultimately, the costs, if any, imposed by the Jones Act represent a “small fraction” of the price of a consumer good in Puerto Rico.

² “Puerto Rico - Characteristics of the Island’s Maritime Trade and Potential Effect’s of Modifying the Jones Act,” Report to Congress, March 14, 2013. GAO-13-260.

³ “Economic Study of Puerto Rico - Report to the President of the United States,” prepared by the Interagency Task Force coordinated by the U.S. Department of Transportation, December, 1979.

Repeal of the Jones Act could cause substantial harm in Puerto Rico.

Experts have warned of the potential for significant negative consequences for Puerto Rico if the Jones Act were repealed or changed, a fact ignored in the Krueger Report and by most commentators. For example, the GAO found that the Jones Act “has helped to ensure reliable, regular service ... that is important to the Puerto Rican economy.” Jones Act carriers provide particularly regular and inexpensive northbound export shipping service from Puerto Rico to the U.S. mainland, something critical to the island’s economy. That service could be sporadic with higher rates if the Jones Act were repealed, the GAO said. The vast majority of what is produced in Puerto Rico for export, primarily manufactured items, moves on Jones Act ships to the U.S. mainland. Imagine the consequence to Puerto Rico if its reliable, low-cost northbound shipping service was disrupted.

The GAO noted that Jones Act carriers use special, dedicated shipping containers that “enables more efficient loading and unloading ... and delivery to their final destination on the island,” which foreign shipping companies do not. The GAO also said Jones Act carriers’ regular service provides “just in time” delivery, a significant benefit in a region where warehousing costs are extremely high. Stakeholders expressed concerns to GAO about the potential for less reliable shipping service if the Jones Act were repealed.

Jones Act shipping also provides economic benefit in the form of thousands of local American jobs in Puerto Rico, no small matter for a region suffering from severe unemployment. The American domestic carriers that serve Puerto Rico in regular liner service all have substantial presences in Puerto Rico, performing operational, seafaring, sales, maintenance, administrative and other functions. American carriers have made substantial financial investments in Puerto Rico — for example, buildings, roads, equipment, and new modern vessels worth hundreds of millions of dollars. Outsourcing those jobs to foreign shipping companies would only exacerbate the current employment situation in Puerto Rico.

The Jones Act provides an important national security benefit.

The Krueger Report and other analysis make no mention of the national security benefits that the Jones Act brings to Puerto Rico and our nation. Some government leaders on the island have gone so far as to suggest that a “national defense” waiver of the Jones Act is appropriate to assist the local economy.

The GAO wrote extensively about the national security benefit of the Jones Act in Puerto Rico, a major U.S. noncontiguous trade lane. The GAO pointed out that “the military strategy of the United States relies on the use of commercial U.S.-flag ships and crews and the availability of a shipyard industrial base to support national defense needs” and warned of the potential degradation if major domestic shipping trades are exempted from the Jones Act. The GAO also stated, “According to DOD officials, to the extent that Jones Act markets [like Puerto Rico] are unable to sustain a viable reserve fleet, DOD would have to incur substantial additional costs to maintain and recapitalize a reserve fleet of its own.”

August 24, 2015

Page 4

These statements are similar to recent statements by General Paul Selva, now vice chairman of the Joint Chief of Staff, and formerly the commander of the U.S. Transportation Command, the Defense Department organization most responsible for military logistics, who said:

I can stand before any group as a military leader and say that without the contribution that the Jones Act brings to the support of our industry there is a direct threat to national defense and I will not be bashful about saying it.

The findings of the GAO and the statement of General Selva are also entirely consistent with section 3503 of the National Defense Authorization Act of 2015, which described the “unquestioned” national security benefits of the domestic maritime industry and offered strong support for the Jones Act.

Those benefits are particularly obvious and relevant in Puerto Rico now as two major American shipping companies are investing hundreds of millions of dollars in modern, state-of-the-art container ships for the Puerto Rican trades that will further elevate the American domestic fleet. The construction of these ships in American shipyards is supporting thousands of American jobs and economic activity and helping to bolster our national defense shipbuilding, maintenance and repair industrial base. Changes to the Jones Act for Puerto Rico would undermine those investments, erode confidence in domestic shipbuilding markets, and reduce opportunities for American companies to build more American ships, which would have a deleterious impact on the industrial base and U.S. national security.

Thank you for the opportunity to correct the record. We urge you to oppose the efforts to undermine the Jones Act in Puerto Rico. Congress understands the important benefits of the Jones Act and historically has been opposed to legislation that would outsource American jobs and undermine national, economic, and homeland security. Exempting Puerto Rico from the Jones Act in a legislative package to assist Puerto Rico would only cause certain Members of Congress to oppose it and reduce the chances of enactment.

Sincerely,

A handwritten signature in cursive script that reads "Tom Allegretti".

Tom Allegretti, chairman
American Maritime Partnership

cc: All Members of the House Transportation and Infrastructure Committee
All Members of the House Armed Services Committee