

KEEPING UP WITH THE JONES ACT



■ By Gary Ferrulli

WE'RE ALL ACCUSTOMED to reading articles, opinions and editorials on the plight of the global markets and the carriers involved. These are the big trades with millions of containers, gargantuan vessels in service with many more being built, with overcapacity and low rates prevalent. And significant losses are being reported.

But there are other trade lanes, such as the U.S. domestic offshore operations between the continental United States and Puerto Rico, Hawaii and Alaska. These are known as “the Jones Act trades.”

These markets have their own set of problems: shrinking market volume because of general economic conditions, and in the case of Puerto Rico, a

financial return to justify building new ships.

Beyond that, of course, are the requirements for vessels in these trades to be Jones Act-compliant — built in the United States and manned by U.S. citizens, a costly combination. Again, there is relatively little revenue on the “homebound” leg. Over the years, the Puerto Rico trade and carriers have gotten a revenue boost by stopping at the Dominican Republic, where they picked up coffee, cocoa, fruits, vegetables and garments on the way back to Jacksonville, Fla., Lake Charles, La., or New York. There are no such stops between Hawaii and the U.S. West Coast, or from the shorter distance of Alaska.

Although these markets are protected from foreign vessel competition, rising costs and shrinking volume make this a less-than-healthy environment for carriers. This has led to years of marginal profitability or losses while, over time, carriers face the need to build ships. It's been a long time since anyone built Jones Act-compliant container vessels; Matson did nearly 10 years ago, and, sporadically, others have had a few vessels upgraded. Car carrier Pasha is building a new ship that will be capable of carrying containers on deck as well as rolling stock in the hold for the Hawaii market. That may be a great combination to work with as a niche carrier, but it's one ship, and there apparently are no further plans to convert existing vessels to carry containers on deck or to build more new ones.

With low profitability or losses for several years, and a need to build new 3,000-TEU ships costing more than \$150 million each, what can be done?

Matson seems to be in a reasonable position, but parent Alexander & Baldwin has split Matson off from its agriculture and real estate investments. Crowley seems to be just fine

with its tugs and barges. Horizon is struggling and has the most need for vessel replacement in Puerto Rico. The Saltchuk Resources people, with Sea Star Line and Totem Ocean Trailer Express, seem to be holding their own, but vessels for Puerto Rico will be needed. Trailer Bridge apparently also is struggling.

Like ocean carriers in the larger global markets, the Jones Act carriers have numerous problems; not exactly the same problems, but problems involving building ships and profitability. And dealing with a stagnant domestic offshore market doesn't present them with many good alternatives.

Now and then you hear the rumblings of those who would do away with the Jones Act and allow foreign-flag vessels to ply what are now protected Jones Act trades. Although this might solve the problem from a vessel standpoint, there are those in a position to know who would tell you, “It'll never happen.”

It's a complex situation, but it boils down to protecting unions and union work with the few remaining carriers and, more importantly, the shipyards that build military vessels and the perhaps hundreds of thousands of jobs affected by those shipyards.

It may wind up that those who can survive economically will; those who can't won't. And maybe with fewer players, there will be a reasonable rate of return, and new ships could be built and everyone will live happily ever after. In fact, that's exactly what is going on in the bigger U.S. foreign commerce trades. **joc**

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significant downturn in products manufactured there because of dwindling tax incentives, causing their “exports” to the U.S. to follow suit.

Return freight from Puerto Rico, Hawaii and Alaska has always been sparse, and now factories that once existed in Puerto Rico purely because of the tax breaks are gone. Fish and seafood from Alaska still are inbound commodities, but that doesn't change that these trades are imbalanced. That means revenue in the head-haul needs to be healthy enough to pay for the round trip, and there must be enough