

# The Philadelphia Inquirer

## Jones Act debate aimed at shipping crude oil on domestic vessels

By Linda Loyd

March 1, 2015

Philadelphia Energy Solutions and Aker Philadelphia Shipyard are practically neighbors in South Philadelphia, but they are worlds apart when it comes to a 1920 merchant-marine law known as the Jones Act.

For the refinery, formerly owned by Sunoco, the federal law requiring that ships transporting cargo between two U.S. ports be built in the United States, staffed by U.S. crews, and primarily owned by U.S. citizens drives up the costs of shipping crude oil from the Gulf Coast. The refinery gets oil from multiple sources: by rail, by barge from other U.S. terminals, and from ships delivering from overseas.

A few miles away, at the Navy Yard, Aker Philadelphia builds tankers and container ships to meet the American-made requirement. Clients include Exxon Mobil. With a workforce of 1,100, Aker has a backlog of new ship orders through 2018. Without the Jones Act, Aker would go out of business.

After World War I, Congress barred foreign carriers and crews from cruising domestic water routes, to help guarantee the United States had a maritime fleet, shipyard manufacturing, and merchant mariners to bolster national security and the economy.

But critics of the protectionist law say it has outlived its usefulness and forces businesses, including refineries, to use U.S.-made tankers that cost three to four times more to build than foreign ships, said Charles Drevna, president of the American Fuel & Petroleum Manufacturers, which represents U.S. refiners.

U.S.-flagged ships also cost more to operate, partly because crews receive higher pay than their foreign-flagged counterparts. There are a limited number of Jones Act vessels, and the demand is great, driving up freight rates.

Efforts to reform or repeal the Jones Act have been debated for years, with powerful lobbying groups on both sides.

Recently, Sen. John McCain (R., Ariz.) renewed his effort to repeal the Jones Act with an amendment to the Keystone XL Pipeline bill.

"The archaic 1920s-era law hinders free trade, stifles the economy, and hurts consumers - largely for the benefit of labor unions," McCain said in a speech on the Senate floor.

The proposal was swiftly attacked by maritime interests and never came up for a vote. But McCain has vowed not to give up. Backing McCain on the issue are the American Farm Bureau, the conservative Heritage Foundation, and the Cato Institute, a Washington research group that promotes free-market economics.

On the other side are industry groups, such as the American Maritime Partnership and Shipbuilders Council of America. Labor unions including the Maritime Trades Department of the AFL-CIO and Seafarers International also have pressed their case.

"If you did away with the Jones Act, you'd see shipyards open in different countries, operating at a fraction of the labor costs," said Peter Stephaich, chairman and CEO of Campbell Construction Co., which repairs barges and tugboats and owns four shipyards in the Pittsburgh area and West Virginia. "That would undermine the value of all the investments we've made over the years."

The debate is far from over because U.S. oil producers, who are in the midst of a crude-oil production boom, would like to export U.S. crude to other countries, which is currently banned.

"The refining position is, it's silly to talk about a free market and oil exports when you have this antiquated [Jones] maritime act," said Tom Kloza, chief oil analyst at the Oil Price Information Service.

"Our organization states if you are going to lift the ban, you have to readjust the Jones Act to allow foreign-flag vessels within U.S. waters," said Drevna, of the trade group representing refineries.

To move crude from the Gulf Coast to a Northeastern U.S. refinery costs \$5 to \$6 a barrel on a Jones Act ship, but \$2 to \$3 per barrel to take it to Europe on a foreign-flag ship, Drevna said.

"That European refinery can take our crude oil, refine it, and ship gasoline back at a 7- to 9-cent differential than what we can do here in the States because of the cost of delivering the crude on Jones Act ships," he said. "That's unsustainable to Northeast refiners."

Sen. Bob Casey (D., Pa.) said repealing the Jones Act would "seriously impact jobs and growth" from Erie to Philadelphia. "There are a lot of jobs at stake."

A federal Maritime Administration study said that Pennsylvania has 9,720 shipbuilding and ship-repair jobs, with \$541.4 million in annual labor income and \$857.9 million in annual gross domestic product. New Jersey has 5,910 shipyard-related jobs, with \$397.5 million in labor income, and \$609.5 million in gross domestic product.

Officials at Aker Shipyard and Philadelphia-area refineries declined to be quoted for the record about the Jones Act.

Philadelphia Energy Solutions CEO Philip Rinaldi told Reuters in February 2014 that his company tries to avoid water transport where possible, even for short distances, and called other refiners' Jones Act contracts "expensive arrangements."

Delta Air Lines' Monroe Energy subsidiary in Trainer, Delaware County, receives 65,000 barrels a day of North Dakota Bakken crude by rail into Eddystone, where it is off-loaded and travels by barge to the refinery.

Monroe is exploring building a 4 1/2- to 5-mile pipeline that would connect the Eddystone rail facility to the Trainer refinery, which would allow the refinery to scale back use of Jones Act barges.

In August, the Delta refinery began chartering a 330,000-barrel Jones Act coastal tanker to move oil from Corpus Christi, Texas, to Trainer. General Dynamics Nassco shipyard in San Diego is building a Jones Act vessel the Monroe refinery will charter.