

How Shipping Protectionism Is Undermining US Efforts to Address the Global Food Crisis

Burdening food aid budgets with cargo preference to support the U.S. commercial fleet is ineffective, inefficient, and morally dubious.

Colin Grabow

Monday, June 13, 2022

Amidst mounting warnings of a food crisis resulting from Russia's invasion of Ukraine, the U.S. government has announced the provision of an additional \$215 million in humanitarian assistance. Undermining its relief efforts, however, is an oft-overlooked form of shipping protectionism. Known as "cargo preference," it mandates that at least 50 percent of government food aid be transported on costly U.S. ships instead of more affordable foreign vessels.

How much more costly? A 2015 Government Accountability Office (GAO) report calculated that this requirement increased food aid shipping costs by an average of 23 percent while a 2020 American Enterprise Institute (AEI) working paper found that food aid shipping costs over a six-year period would have been 34–38 percent cheaper in cargo preference's absence.

That's not surprising. A 2011 U.S. Maritime Administration study found that U.S.-flagged ships were 2.7 times costlier to operate than their foreign counterparts—a differential that has further increased according to a 2018 GAO report.

The price of cargo preference shipping is driven still higher by a lack of competition. The U.S. commercial fleet offers just four dry bulk ships to choose from, with three of the vessels owned by a single company. Over two-thirds (28 of 39) of containerships operating in foreign trade—the main pool of vessels that participate in cargo preference—are operated by just two companies.

As a 2015 GAO report states, there is only a "very small pool" of U.S.-flag vessel owners eligible to transport food aid commodities. That fact, the GAO adds, "limits agencies' selection and flexibility, and leads to inefficient choices of trade..."

These added costs and inefficiencies mean more money going to pay for shipping and fewer resources to combat global hunger. AEI's working paper estimates that cargo preference requirements increase shipping costs by \$47.5 million per year, an amount that it says means "annually nearly two million desperately poor children and adults do not receive emergency food aid." That's awful under any circumstances, but particularly so with a looming food crisis.

Fortunately, members of the House and Senate are trying to put these cargo preference requirements on pause. Legislation introduced in both chambers of Congress would waive these mandates for the "transport of equipment, materials, or commodities related to humanitarian operations resulting from the 2022 Russian invasion of Ukraine" through February 1, 2025.

Predictably, this has elicited a backlash from groups whose hands are in the cargo preference till. Organizations representing ship operators and unions that crew U.S. ships sent a letter to lawmakers earlier this week urging opposition to the legislation. Reducing the amount of government-impelled cargo, they warn, would endanger the jobs of civilian merchant mariners used to meet military sealift requirements for future conflicts.

But such talk merits a high degree of skepticism.

Using cargo preference to preserve merchant mariner jobs has proven an ineffective approach given the U.S. fleet's decline. It's also inefficient, with AEI pegging the cost of each mariner job sustained at \$100,000. Indeed, 1994 GAO testimony reveals that the Department of Defense believes it is "not an efficient use of resources to provide for [U.S. mariners to crew government-owned sealift ships] through supporting U.S.-flag ships with food aid preference cargos." Given the rising cost of U.S. commercial ships relative to their foreign counterparts in recent years, the inefficiency of cargo preference may be even greater today.

The GAO added that Congress could consider more efficient alternatives for meeting sealift needs such as direct subsidies to cover the higher cost of U.S. ships. U.S. shipping interests, however, may regard the transparency of such an approach—unlike the opaque costs of cargo preference—as a bug rather than a feature.

Burdening food aid budgets with cargo preference to support the U.S. commercial fleet is ineffective, inefficient, and morally dubious. It's a law richly deserving of repeal. At a minimum, cargo preference for food aid should be suspended. And soon.

Colin Grabow is a policy analyst at the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies.