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How a controversial shipping law is swaying the price of gas

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There are two types of people in this world. The first is those who have never heard of the Jones Act, the law that requires American-built and staffed ships for maritime commerce within the U.S. I imagine these folks sleep peacefully each night and live in balanced harmony.

The other type is not so lucky. They have an impassioned, unshakeable opinion of the Jones Act. They believe it is either the root of all evil in the U.S. or believe it is something to be protected unselfishly. Doing away with the Jones Act, according to them, would either spark the collapse of Western civilization or would solve all earthly ills.

If you're outside the shipping world, you probably struggle to believe that Jones Act lovers or haters comprise a meaningful segment of the U.S. And yet they do. Politicians have tried for decades to repeal the protectionist law, only to be met with a lobbying group that late Sen. John McCain called the most powerful he ever encountered.
Every few years, the Jones Act breaks out of its pigeonhole and enters the broader media conversation. It's having another moment right now as gasoline and diesel prices climb.

One part of the cost of oil involves its transportation. Fuel moves around the U.S. via rail, pipelines and ships such as tankers and barges. Ships that operate from American port to American port must follow the Jones Act, meaning they're built in the U.S. and owned, operated and crewed by Americans.

These ships are costly. The average U.S.-flagged ship costs around $20,000 a day to operate, compared to $7,400 for a foreign-flagged ship, according to a 2011 Department of Transportation study. These ships are also more expensive to build — six to eight times pricier than a foreign vessel, according to a 2017 Congressional Research Service report.

Despite these costs, it doesn't appear waiving the Jones Act would really do much to address the cost of gas in the short term. However, waiving it in combination with limiting exports could help drive down the cost. Here's why.

A tidy summary of the Jones Act and its controversy

The Jones Act is one section of the Merchant Marine Act of 1920. During the early 20th century, Americans found the British and German ships they depended on for international commerce had ditched them to wage war. Congress decided to help fund a merchant marine for the United States with hefty subsidies. These payments dried up by the 1980s when former President Ronald Reagan halted the flow of taxpayer money to the shipping industry.

Through the early and mid-1900s, the U.S. enjoyed a vigorous domestic shipping industry, with 16% of the world's cargo fleet sporting a U.S. flag as of 1960. Today just 0.2% of all ships are U.S.-flagged. Many ships now fly under the flags of Panama, Liberia and the Marshall Islands — countries that allow ocean carriers to bypass a slew of safety regulations, labor laws and taxes.

The Jones Act is one of the few laws that still supports the U.S. Merchant Marine, said Campbell University associate professor Sal Mercogliano. (Fair warning: He recently wrote an article titled, "100 Years of the Jones Act — Here is to Another 100 Years!")
Mercogliano and other Jones Act supporters say it's crucial for America to maintain its own fleet of ships in the worst-case scenario of international war.

"It becomes a bargain between the government and shipping companies: We will subsidize you and in exchange we can use your ships during times of war," said Joshua Hendrickson, an associate professor of economics at the University of Mississippi.

Ocean carriers often struggle to turn a profit (save for these past two years), and lawmakers generally want to be sure of national security by maintaining a fleet of ships that can service them in times of war. Such subsidies are commonplace in much of the world. About 80% of international coastlines have domestic shipping restrictions like the Jones Act, which are also called cabotage laws.

But there are plenty of downsides to the Jones Act, too. The biggest is its stringent requirements, paired with a lack of federal funding, have ultimately sabotaged its own mission of maintaining a strong U.S. shipping industry that could service the country in times of war. Fewer than 100 Jones Act vessels are in operation today. Equivalent laws in Europe, for instance, allow ocean carriers to build overseas, even if the vessels are owned by European companies.

Another major critique is the price of intra-U.S. shipping is inflated because of the Jones Act. This is especially challenging for residents in Alaska, Hawaii and Puerto Rico, places where imported goods are more expensive because of Jones Act expenses. For example, it costs twice as much to ship to Puerto Rico as it does to the neighboring Dominican Republic. One 2010 study from the University of Puerto Rico found the island lost $537 million per year from Jones Act restrictions.

Jones Act naysayers are thus an eclectic bunch, including activists, free-market economists, oil companies and some politicians on the right and left. Its supporters pretty much consist of the deep-pocketed American maritime industry and unions. (And, presumably, the tens of thousands of U.S. merchant mariners.)
Every now and then, these opposing factions get the Jones Act in the headlines, and we're currently lucky enough to be living through another one of those times.

Waiving the Jones Act wouldn't do *that* much for the cost of fuel …

Estimates vary on how much nixing the Jones Act would really reduce the cost of fuel. A June 22 JP Morgan report said it would shave 10 cents off the price at the pump, while the American Maritime Partnership, a lobbying group, said waiving the law would account for less than 1 cent off the price.
"Because U.S. vessels are more expensive to charter, it's cheaper for a refiner in Baton Rouge, Louisiana, to send a cargo of gasoline to Brazil [rather] than to send that cargo to Philadelphia," said the June 22 report from JP Morgan's global commodities research team.

Even if we accepted JP Morgan's bullish 10-cent estimate, the monthly savings for Americans isn't considerable. Using the average cost of gas on the East Coast, the region most exposed to Jones Act vessels, a 10-cent reduction in the price of gas would save the typical U.S. driver a

whopping $4 a month. (That's according to a calculation that factors in a car averaging 28 miles per gallon and a person driving 1,200 miles per month — all averages in the U.S.)

… but there's another intriguing solution

Another lever could be more meaningful in increasing the supply of gasoline and diesel. If we were to waive the Jones Act *and* limit the export of fuel, that would ensure Americans have access to U.S. oil. Even as U.S. oil reserves reach historic lows, particularly in the Northeast, the Gulf Coast is exporting more fuel than ever to regions such as Europe and Latin America. The Northeast, which has limited refining capacity, imports fuel internationally — but the Gulf Coast provides the lion's share of domestic energy.
The Biden administration has previously considered limiting U.S. oil exports. But this action on its own probably would increase the global cost of fuel, according to Rory Johnston, a managing director at Toronto-based research firm Price Street.

That's because we don't actually have enough Jones Act tankers to move that gasoline to places like the Northeast. (The Colonial Pipeline moves the majority of the Northeast's fuel from the Gulf Coast, but it usually "operates at or near capacity," per the U.S. Energy Information Administration.)

However, waiving the Jones Act and limiting exports would lure tankers from all over the world to move fuel within the U.S. That would increase supply and make fuel cheaper.

There are a few other, longer-term implications of the Jones Act on the price of gasoline, according to Cato Institute research fellow and consummate Jones Act disrespecter Colin Grabow. Here are two he mentioned:

- Our fuel price crisis has revealed America's famously diminishing refinery capacity. Refining is typically considered a low-margin, unattractive business. One reason is that it costs so much to import oil. East Coast refineries in particular often bring in oil from Africa or the Middle East. If instead they could process U.S. oil, that may make the economics of refineries more appealing and encourage investors to consider the space.
- More affordable maritime shipping could divert freight from rail and trucks to ships. Less demand for diesel could positively affect overall gas prices. (On that note, I wonder if truckers and rail folks would become the Jones Act's newest allies.)