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Stupid Federal Shipping Regulations Will Prevent Alaskans From Buying Alaskan Natural Gas

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A newly announced plan to tap into natural gas reserves in northern Alaska promises to produce 4 million tons of liquid natural gas (LNG) annually over the next 20 years. Yet not a single drop of that will go to Americans, thanks to a nonsensical federal shipping regulation.

ExxonMobile and Qilak LNG, an Alaska-based subsidiary of a Dubai-based energy firm, announced plans last month to extract natural gas from the state's far northern reaches, along the coast of the Arctic Ocean. Because there are no pipelines serving that remote region, the two companies say they will export the gas via icebreaking ships equipped to carry LNG. Shipping LNG from northern Alaska across the Bering Strait to markets in Asia will be 40 percent less expensive than building a pipeline across the state.

But thanks to the Jones Act, a 1920s federal law regulating American shipping, Alaskans (and Americans in general) won't get to use a single drop of the 80 million tons of LNG expected to be extracted. No icebreaking LNG-carrying vessels currently meet the Jones Act's stringent requirements to serve American ports.

Under the terms of the law, ships carrying goods from one American port to another must be American-built and American-flagged, and must have a crew that's at least 75 percent American. It will be perfectly legal for non-American vessels to pick-up LNG from the new production facilities in northern Alaska, but not if they stop at any other American ports to offload even a portion of their cargo.

There's nothing wrong with exporting that energy, of course, but it seems ridiculous to cut off Alaskans from the benefits of resources found in their own backyards. That's doubly true considering that Alaskans pay higher than average energy prices—a fact that itself is partly attributable to the Jones Act.

It's not just Alaska. *All* remote parts of the United States that do not have access to natural gas pipelines suffer because of the Jones Act. Puerto Rico imports natural gas from Russia because it is illegal to ship natural gas from Texas or Louisiana to the island in a non-Jones-Act-compliant vessel. The same thing happened recently in New England, when Russian natural gas had to be imported by ship when pipeline capacity was insufficient to meet demand.

The Jones Act "evidently creates large cost inefficiencies by protecting the shipbuilding industry—a tiny economic sector in the U.S.—at the expense of other U.S. industries with enormous economic potential," researchers for the Organization for Economic Cooperation and Development concluded in a report released earlier this year. Abolishing the Jones Act would lower the cost of shipping between U.S. ports by as much as 50 percent, the report concluded. That would boost the American economy by $135 billion, three times the size of the U.S. shipbuilding industry.

In the meantime, the artificially higher shipping costs created by the Jones Act have direct consequences for the people who live in places like Puerto Rico or Alaska. The median income in Puerto Rico is less than half of what it is in the poorest U.S. state, but the cost of living there is higher than the U.S. average. The numbers for Alaska are less dramatic, but similar.

For all those costs, the Jones Act doesn't seem to deliver much in the way of benefits.

The number of ships that meet the Jones Act's requirements for operating between American ports has shrunk from 193 in 2000 to just 99 in 2018. It costs more than three times as much to build a cargo ship in America as it does in some other countries, according to a 2017 report from the Cato Institute, and American shipping companies respond to that incentive by buying foreign-built ships. That means there are fewer ships capable of serving American ports. Fewer ships mean higher prices.

Indeed, the large shipyard in Philadelphia—which has twice been bailed out by taxpayers—currently has no orders for new ships. The most recent vessel built there, a $209 million cargo ship that will shuttle goods between the West Coast and Hawaii, is six times smaller and yet $50 million more expensive than the world's largest cargo ship.

"Denied the benefits of foreign competition, this sector has failed to innovate and reduce costs, in turn depressing demand for its offerings," wrote Cato Institute trade scholars Colin Grabow and Inu Manak earlier this year.

No wonder there aren't any LNG carriers that meet the Jones Act's requirements. If you create legal barriers that artificially raise the cost of doing business in one place, investments and jobs are naturally going to flow somewhere else.

Sen. Mike Lee (R–Utah) has introduced a bill to repeal the Jones Act, and President Donald Trump once even offered tepid support for the idea—but that was before lawmakers from shipbuilding states convinced him it was a bad idea.

The end result of this ludicrous pile of protectionism is that Alaskan natural gas will be sent to Asia while Alaskans pay to import their fuel from Russia and elsewhere. Global trade is a wonderful thing, but prohibiting Americans from buying American-produced natural gas just because it wasn't delivered in an American-built ship makes little sense.