



It's Time to Lift the Jones Act Embargo

Colin Grabow

February 20, 2019

Americans would probably be surprised to learn that, at least in the energy sector, the island of Puerto Rico is currently under a de facto embargo imposed by Congress. Incredibly, Puerto Rico finds it impossible to import U.S. liquefied natural gas — not despite being part of the United States, but because of it.

Earlier this month, senior Democrats and Republicans sent a letter to the Trump administration demanding that this proverbial embargo be kept in place. If that sounds unbelievable, you're probably not familiar with an obscure shipping law called the Jones Act.

Passed in 1920, the Jones Act mandates that ships transporting goods between two points in the United States must be U.S.-built, U.S.-owned, U.S.-crewed and U.S.-flagged. Of the 478 ships in the world capable of transporting liquefied natural gas, however, none meet these requirements.

That's a problem for Puerto Rico, which relies on LNG for 34 percent of its electricity generation and would like to use more to replace some of the oil and coal that produce 64 percent of its electricity. But with no ships to transport it, cheap U.S.-produced LNG has effectively been placed off limits.

And so, even while neighboring countries such as Barbados and the Dominican Republic import U.S.-produced LNG, the economically struggling U.S. territory must make do with more-expensive natural gas imported from abroad. Much of the LNG that Puerto Rico uses comes from Trinidad and Tobago, and according to a senior Puerto Rican government official, some of it even comes from Russia.

Absent government action, this will not change anytime soon, with almost zero prospect of a Jones Act-qualified LNG carrier coming into existence. According to a 2015 U.S. Government Accountability Office report, if a Jones Act-compliant LNG carrier were to be built, it would likely cost up to \$475 million more than one built in South Korea.

Of course, no one knows exactly what the price differential would be, since an LNG carrier hasn't been built in this country since 1980. As the GAO points out, it's possible American shipyards no longer possess the know-how to build such a ship, and South Korean workers may need to be brought over to ensure the work was done correctly.

Faced with such eye-popping prices and the lack of skilled U.S. labor to build such vessels, U.S. energy exporters instead content themselves with exporting LNG all over the world aboard foreign-flagged ships. Everywhere, of course, except other parts of the United States such as Puerto Rico.

To help address this absurd situation, the government of Puerto Rico applied in December for a waiver from the Jones Act so that the territory can import LNG from the U.S. mainland aboard foreign-flagged ships. This eminently sensible step, however, has been met with a swift bipartisan backlash.

Rep. Peter DeFazio (D-Ore.) and Rep. Sam Graves (R-Mo.), the chairman and ranking member of the House Transportation and Infrastructure Committee, dispatched the aforementioned letter urging the Trump administration to reject the waiver application.

Never mind the fact that expanded access to natural gas would help replace dirtier fuels like oil and coal. Never mind that the Jones Act effectively condemns cash-strapped Puerto Rico to paying more for natural gas imported from abroad. Never mind that the waiver would not displace a single U.S. ship, as none are capable of transporting LNG in large quantities.

So what's going on here? It helps to first understand that the Jones Act is among Washington's most sacred cows. Virtually untouched for almost all of its nearly 99 years of existence, the special interests that support the law — including shipyards dependent on the U.S.-build requirement and carriers shielded from foreign competition — exert a truly stunning level of sway.

While the waiver would not generate any immediate harm to these interests, it would provide a tantalizing glimpse of a post-Jones Act world with greater competition and lower costs. Once that genie is out of the bottle, Puerto Ricans — and others — may no longer want it put back in.

And so it is that Democrats and Republicans, who struggle to muster the comity and common ground necessary to keep the federal government open, are aligned on a law that denies Puerto Rico's access to U.S. energy supplies and condemns them to purchasing more expensive LNG from elsewhere. This is where true bipartisanship is found.

This shameful state of affairs must not be allowed to continue. It's time for the Trump administration to grant the waiver and Congress to repeal the Jones Act.

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