



Commentary: Report author stands by Jones Act analysis

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John Dunham & Associates recently completed an analysis for the Chamber of Marketing, Industry, and Distribution of Food in Puerto Rico on how the high cost of shipping, due to the Jones Act, impacts the economy of Puerto Rico. The study examined a range of differential costs from other sources and applied them to a standardized shipping model.

A recent [commentary in *American Shipper*](#) by John McCown, former chairman and CEO of Jones Act carrier Trailer Bridge Inc., took issue with the analysis. As the author of this report, I would like to respond to some of Mr. McCown's points.

First, it seems that Mr. McCown took offense with the overall premise of the analysis — that the Jones Act imposes costs on businesses and consumers. Further, he attributes the study to the CATO Institute, an organization that does great research but was not involved with my study.

Second, he suggests that my study concludes that container shipping rates would decline by 88.9% if there were no Jones Act, which is false. My analysis examined seven different assumptions as to the price differential for shipping costs, ranging from a low of 28.9% to a high of 88.9%, depending on the source. He suggests that the differential should be somewhere between 47.3% and 9.1%. To put this in context, the U.S.-flag carriers commissioned a [study](#) that showed a differential of 28.9%, a figure that would lead to about \$570 million in higher costs for consumers and businesses in the commonwealth and 6,260 lost jobs.

Mr. McCown suggests that the analysis is based on a model comparing different per-mile shipping costs. While many other studies attempt to do this, mine does not. Rather it calculates the cost of shipping international freight to Puerto Rico (across about 200 product types) and then compares that to costs under seven scenarios. Nowhere do we compare costs by route. This is why his comment that port-pair distances are off in the analysis would not impact the conclusions since these are just used to develop one of the scenarios that my study uses.

Finally, Mr. McCown suggests that my study underestimated non-ship costs. This could be true; however, these costs are used to determine international market pricing and would not impact the overall conclusions.

He goes on to present a number of nonsequiturs that really have nothing to do with the effects of the Jones Act on transportation pricing. While I agree with Mr. McCown that the cost structure of operating different types of ships on different trades can differ, this has nothing to do with the question at hand. The whole point of protecting Jones Act carriers is to allow them to charge

above-market prices and to limit capacity. Were the Jones Act to be eliminated, the nature of ships serving the Puerto Rican market would change, and so would the prices.

Mr. McCown also presents a long discussion of shipbuilding costs and crewing costs. This is not relevant to the issue since costs do not equal prices, and in a protected market, sellers are generally going to price above-market rates since they face little or no competition.

In sum, while criticism and review are an important part of economics, and constructive criticism is a way to improve research, Mr. McCown presents little usable information in his commentary. We would be happy to rerun our models based on his assumptions and sources were he to make them available to us.

But first, he should thoroughly read the report and get his facts correct.