

Why GAO Did This Study

Puerto Rico is subject to Section 27 of the Merchant Marine Act of 1920, known as the “Jones Act” (Act), which requires that maritime transport of cargo between points in the United States be carried by vessels that are (1) owned by U.S. citizens and registered in the United States, (2) built in the United States, and (3) operated with predominantly U.S.-citizen crews. The general purposes of the Jones Act include providing the nation with a strong merchant marine that can provide transportation for the nation’s maritime commerce, serve in time of war or national emergency, and support an adequate shipyard industrial base. Companies (shippers) that use Jones Act carriers for shipping in the Puerto Rico trade have expressed concerns that, as a result of the Jones Act, freight rates between the United States and Puerto Rico are higher than they otherwise would be, and given the reliance on waterborne transportation have an adverse economic impact on Puerto Rico.

This report examines (1) maritime transportation to and from Puerto Rico and how the Jones Act affects that trade and (2) possible effects of modifying the application of the Jones Act in Puerto Rico. GAO collected and analyzed information and literature relevant to the market and gathered the views of numerous public and private sector stakeholders through interviews and written responses. GAO is not making recommendations in this report. The Department of Transportation (DOT) generally agreed with the report, but emphasized that many of the issues related to the Jones Act are complex and multifaceted. DOT and others also provided technical clarifications, which GAO incorporated, as appropriate.

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PUERTO RICO

Characteristics of the Island’s Maritime Trade and Possible Effects of Modifying the Jones Act

What GAO Found

Jones Act requirements have resulted in a discrete shipping market between Puerto Rico and the United States. Most of the cargo shipped between the United States and Puerto Rico is carried by four Jones Act carriers that provide dedicated, scheduled weekly service using containerships and container barges. Although some vessels are operating beyond their expected useful service life, many have been reconstructed or refurbished. Jones Act dry and liquid bulk-cargo vessels also operate in the market, although some shippers report that qualified bulk-cargo vessels may not always be available to meet their needs. Cargo moving between Puerto Rico and foreign destinations is carried by numerous foreign-flag vessels, often with greater capacity, and typically as part of longer global trade routes. Freight rates are determined by a number of factors, including the supply of vessels and consumer demand in the market, as well as costs that carriers face to operate, some of which (e.g., crew costs) are affected by Jones Act requirements. The average freight rates of the four major Jones Act carriers in this market were lower in 2010 than they were in 2006, which was the onset of the recent recession in Puerto Rico that has contributed to decreases in demand. Foreign-flag carriers serving Puerto Rico from foreign ports operate under different rules, regulations, and supply and demand conditions and generally have lower costs to operate than Jones Act carriers have. Shippers doing business in Puerto Rico that GAO contacted reported that the freight rates are often—although not always—lower for foreign carriers going to and from Puerto Rico and foreign locations than the rates shippers pay to ship similar cargo to and from the United States, despite longer distances. However, data were not available to allow us to validate the examples given or verify the extent to which this difference occurred. According to these shippers, lower rates, as well as the limited availability of qualified vessels in some cases, can lead companies to source products from foreign countries rather than the United States.

The effects of modifying the application of the Jones Act for Puerto Rico are highly uncertain, and various trade-offs could materialize depending on how the Act is modified. Under a full exemption from the Act, the rules and requirements that would apply to all carriers would need to be determined. While proponents of this change expect increased competition and greater availability of vessels to suit shippers’ needs, it is also possible that the reliability and other beneficial aspects of the current service could be affected. Furthermore, because of cost advantages, unrestricted competition from foreign-flag vessels could result in the disappearance of most U.S.-flag vessels in this trade, having a negative impact on the U.S. merchant marine and the shipyard industrial base that the Act was meant to protect. Instead of a full exemption, some stakeholders advocate an exemption from the U.S.-built requirement for vessels. According to proponents of this change, the availability of lower-cost, foreign-built vessels could encourage existing carriers to recapitalize their aging fleets (although one existing carrier has recently ordered two new U.S.-built vessels for this trade), and could encourage new carriers to enter the market. However, as with a full exemption, this partial exemption could also reduce or eliminate existing and future shipbuilding orders for vessels to be used in the Puerto Rico trade, having a negative impact on the shipyard industrial base the Act was meant to support.