

Framing question: What priorities need to be incorporated into the National Export Strategy to strengthen supply chain competitiveness?

United States manufacturing competitiveness is impacted by the costs, reliability, predictability and speed by which raw materials, machinery and components can be delivered to factories that make products for export. Enhancing supply chain competitiveness will be facilitated by making the interstate transportation of raw materials and other necessary items for manufacturing more competitive and efficient. Without a cost-effective, reliable and predictable supply chain, US manufacturing cannot maintain the necessary efficiencies to realize the goals and objectives of the National Export Strategy.

Subsidiary Question: How can the economic efficiency and competitiveness of interstate transportation be maximized to strengthen supply chain competitiveness for exports?

Summary of the issue:

Interstate transportation of raw materials, processing agents, ingredients and parts is essential to the manufacture of goods; and, the manufacture of goods is essential to the National Export Strategy. Without goods to export, the National Export Strategy will never be realized. Because different elements of the manufacturing supply chain are often located in different geographical areas, maximizing the efficiency and competitiveness of interstate transportation is critical to strengthening the supply chain. Currently, there are both statutory and regulatory impediments to maximizing the economic efficiencies and competitive environment of interstate transportation.

A key mode for interstate transport that is woefully underutilized is by water, the regulation of which falls under the Merchant Marine Act of 1920, also known as the Jones Act. The Jones Act requires that all goods transported by water between U.S. ports be carried in U.S.-flagged ships, constructed in the United States, owned by U.S. citizens, and crewed by U.S. citizens and U.S. permanent residents. The intent of Congress was to support the U.S. maritime industry and prevent its potential demise, preserving the nation's ability to build and staff naval vessels in wartime and merchant ships, which can also provide critical service in wartime.

Federal protection of the maritime industry has resulted in some of the highest shipbuilding costs in the world, which has led to a dearth of qualified ships to move goods from port to port in the U.S. Due to the dramatic increase in domestic natural gas and oil production, it is expected that more barges will be built for inland waterway transportation; however, there is a backlog of barge orders and ships for domestic coastal transportation will still be difficult to find.

The shortage of qualified inland and coastal carriers affects the gasoline supply chain, to cite one example. Oil refineries are custom-designed and engineered to handle specific types of crude oil. With the advent of shale development crude oil is now produced in places that make movement to where it is needed difficult. Refineries along the Gulf Coast are mostly configured to process heavy, sour crudes. The older refineries along the Atlantic Coast, on the other hand, are configured for light, sweet crude. To complicate matters, a significant amount of oil coming out of the Bakken region in North Dakota and the Permian Basin in Texas is light, sweet crude.

Because of the dearth of Jones Act-qualified ships, coastal refining operations must resort to transportation by rail until sufficient pipeline infrastructure is built. Since many of the new oil and gas producing regions are captive to one carrier, for domestic gasoline production the arbitrage between Brent crude and the light, sweet crude produced in places like North Dakota is greatly diminished, which contributes to higher gasoline prices for coastal regions.

What is more troubling about protectionist waterborne shipping policy is the higher cost of shipping in the U.S. when compared to the rest of the world. For example, in many cases it costs more to ship something from Vancouver, WA, to Los Angeles, CA, than it does to ship that same item from China to Los Angeles. The high inland and coastal transport costs and limited number of alternative shipping modes have effectively eliminated the advantages that could be gained by domestic oil and gas production.

[The U.S. Maritime Administration should allow foreign carriers to provide shuttle service for domestic port-to-port movements that result in the shipment ultimately being exported.](#)

Cargos that are intended for export should be afforded efficient and cost-effective means of transportation. There are few options for shippers to achieve economies of scale when shipping goods between US ports. USMA already has the ability to grant waivers and could provide an expedited waiver process for export cargos.

The USMA should provide self-executing waivers for shipments that affect U.S. energy security.

Energy security directly affects national security. Fuels from gasoline to home heating oil and diesel are vital to our energy security and should be granted self-executing waivers from the Jones Act. US refineries are limited in the types of different crude oil each can process. Because of Jones Act requirements, it is more economically efficient to import into the East Coast light, sweet crude from overseas than to transport domestic crude from port to port within the US.

Shale and Canadian oil sands development are presenting a unique opportunity to increase our energy security by providing a variety of different crudes, from light and sweet to heavy and sour. The interstate movement of crude oil is necessary to gain the full advantages offered by these recent developments. Raw materials for fuels are commodities and are most efficiently shipped in bulk. Limiting options for transport negates any advantage gained in production efficiency.