Tarrification of the Coastwise Trade Laws

Keith E. Diggs
University of Michigan Law School

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COMMENT

TARIFFICATION OF THE COASTWISE TRADE LAWS

Keith E. Diggs*

The coastwise trade laws prohibit foreign vessels and mariners from transporting goods or passengers between American ports. These anticompetitive laws punish American producers and consumers yet barely sustain a dwindling merchant marine. Every attempt to repeal the laws encounters insurmountable political resistance. Reformers of the coastwise trade laws, then, should instead try to convert the prohibition on foreign involvement into a tariff.

Table of Contents

INTRODUCTION .......................................................... 1507
I. COASTWISE TRADE AND THE MERCHANT MARINE ............ 1509
   A. The Coastwise Trade Laws and Their Cost .................. 1509
   B. The Harm to the Merchant Marine and National Defense ........................................ 1511
II. A PATH TO REFORM ................................................ 1513
   A. Resistance to Repeal ............................................. 1513
   B. Tariffication: A First Step ................................. 1515
CONCLUSION .............................................................. 1517

Introduction

"Americans put a sort of heroism into their manner of doing commerce."

America’s maritime shipping industry amazed Alexis de Tocqueville when he visited the young country in the 1830s. American ships dominated the market, both at home and abroad. The Frenchman attributed America’s “maritime genius” to the fact that its merchant marine could “cross the seas most cheaply,” not because of any inherent material advantage but rather because of its mariners’ competitive spirit.

Tocqueville would scarcely recognize the industry today. The registries of Panama and Liberia easily eclipse that of America in number of ships and tonnage capacity, while South Korea and China lead in shipbuilding, as Asia

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2. See id. at 385–87.
has become the industry’s epicenter.4 America’s international maritime trade is now “largely the domain of foreign ships”5 flying what labor unions pejoratively call “flags of convenience”;6 the country’s coastwise trade7 is at the mercy of a monopoly that Congress grants American ships, shipyards, ship owners, and sailors against foreign competition. Outcompeted in international maritime shipping, the American industry survives in the coastwise trade not because of its maritime genius but instead because Congress keeps the foreign geniuses out.

This Comment focuses on the coastwise trade monopoly. Two laws—the Jones Act and the Passenger Services Act8—reserve the coastwise transportation of goods and passengers, respectively, for American-built ships owned by Americans employing American crews and documented under American laws. The idea is to protect the merchant marine9 and its capacity to serve as a “naval and military auxiliary in time of war or national emergency.”10 Supporters buttress this argument with concerns about the preservation of American jobs,11 but the merchant marine has sharply declined despite its monopoly on coastwise trade. Moreover, the monopoly forces American producers and consumers requiring maritime transportation between U.S. ports to bear the near-triple costs of operating American-flagged vessels.12

10. Id. § 50101(a)(2).
Quite simply, the coastwise trade laws impede U.S. growth and impose substantial costs on the American economy for the benefit of a politically favored interest group. Powerful domestic industries with clever lawyers can work around the laws, while foreign mariners making an honest living in the U.S.—foreign trade can serve only one American port per voyage. Yet the political will for wholesale repeal of American coastwise trade laws does not exist, and international trade law is riddled with exceptions and grandfather clauses that shield the coastwise trade laws from trade liberalization.

This Comment argues that Congress, rather than pursuing an elusive repeal, should reform the coastwise trade laws by enacting a tariff that foreign-owned, -operated, or -built vessels would have to pay before being allowed to engage in the coastwise trade. Such reform would introduce foreign competition at a pace that would accommodate the special interests who oppose repeal. Part I explains how congressional efforts to promote and maintain the U.S. merchant marine through a monopoly on coastwise trade have both failed in their original purpose and damaged American economic interests. Part II evaluates the plausibility of repeal and proposes tariffication as a viable reform.

I. Coastwise Trade and the Merchant Marine

The United States ostensibly restricts its coastwise trade in order to preserve a captive market for its merchant marine. This Part explains the effects of this policy. Section I.A explores the coastwise trade laws’ economic, legal, and environmental costs. Section I.B focuses on the supposed beneficiary of the coastwise trade laws—the merchant marine—and argues that its decline, in spite of its monopoly on coastwise trade, justifies reforming the laws.

A. The Coastwise Trade Laws and Their Cost

In the United States, the coastwise trade is closed to foreigners. Federal law allows only vessels owned by U.S. citizens to be issued a “certificate of documentation”—that is, to fly the U.S. flag. Engaging in coastwise trade requires a coastwise endorsement—a qualification on the certificate of documentation, akin to a motorcycle designation on a driver’s license—which is

13. See id.
14. See infra note 30 and accompanying text.
15. See infra Section II.A.
16. This rationale was first codified in the Merchant Marine Act of 1920, ch. 250, 41 Stat. 988.
17. 46 U.S.C. § 12103(a)–(b) (2006). Although a foreigner may participate in a partnership or corporation that owns an American-flagged vessel, the citizen-ownership requirement is designed so that a foreigner could not exert actual control over the vessel through such an entity. See id. § 12103(b)(3)–(4); see also id. § 50501 (containing heightened requirements for collective ownership of vessels in coastwise trade).
available only to vessels that are eligible for the certificate and built in the United States. As currently codified, twin provisions in the coastwise trade laws prohibit the transportation of merchandise and passengers except aboard vessels holding these endorsements.

These “unabashedly protectionist” provisions are quite costly. The U.S. International Trade Commission estimated in 1999 that the Jones Act alone, which pertains only to the shipment of goods, reduced real national income by $1.32 billion. This is an old problem whose effects have been felt by many domestic industries over the years. For example, the Pacific Northwest timber industry of the early 1960s found itself priced out of the East Coast market by its Western Canadian counterpart, which could employ foreign-flagged vessels for shipping. Midwestern grain farmers were priced out of the same market in the 1990s. Today, our coastwise trade laws benefit Canada by incentivizing cruise lines to bus passengers from Seattle to Vancouver before embarking on cruises to Alaska.

Shippers have long contrived such work-arounds. In 1893, Congress inserted into the coastwise trade statutes the language restricting foreign vessels from transporting goods “via any foreign port.” This was an attempt to close a loophole created by a pending Ninth Circuit decision, which ultimately held that a shipment of goods from New York to California by way of Belgium was outside the scope of the coastwise trade laws then in force. This reactionary prohibition, however, has failed to prevent the exploitation of loopholes in the coastwise trade laws. Professor McGeorge, supporting his
conclusion that the prevailing interpretation of the Jones Act bears no rea-
sonable relation to its original purpose,29 highlights how some—but only
some—industries are able to evade the coastwise trade laws by processing
shipped merchandise in a foreign port. Oil companies, for example, can ship
Alaskan crude to the East Coast via less expensive foreign vessels so long as
the oil passes through an offshore refinery.30 A purveyor of Alaskan snow
crab, however, will have no such luck: even if he sends the crab to Korea for
extensive processing before shipping it back to the United States, the coast-
wise trade laws will apply to him because of how U.S. Customs interprets the
word “different.”31 When the legal consequences of such arbitrary and seem-
ingly inconsistent interpretations are so severe,32 it’s worth considering re-
forms that reduce the cost of being on the wrong side of these unpredictable
interpretations.

Environmentalists have cause for concern as well. The coastwise trade
laws discourage the use of maritime transport for cargo and passengers,
thereby pushing them onto overcrowded roads and railways.33 This harms
the environment, since maritime shipping is the most energy-efficient mode
of transportation.34 To the extent the coastwise trade laws curtail its use and
shippers turn instead to rail and especially trucking, each ton of cargo results
in more pollution per mile moved.

B. The Harm to the Merchant Marine and National Defense

The coastwise trade laws constitute only one chapter in a subtitle of the
U.S. Code dedicated to the merchant marine,35 which characterizes the

29. Robert L. McGeorge, United States Coastwise Trading Restrictions: A Comparison of
Recent Customs Service Rulings with the Legislative Purpose of the Jones Act and the Demands of

30. See Am. Mar. Ass’n v. Blumenthal, 590 F.2d 1156, 1162, 1165 (D.C. Cir. 1978) (hold-
ing that the act of refining crude oil offshore physically alters the product being shipped and
thus breaks the “continuity of the voyage” for the purposes of the Jones Act), cited in Mc-
George, supra note 29, at 67–71.

tion of Crab Parts from Alaska to South Korea Where They Are Processed and then Transported to
California, U.S. CUSTOMS & BORDER PROTECTION 8–10 (Aug. 12, 1988), http://rul-

32. See 46 U.S.C. § 55102(c) (providing for the forfeiture of goods shipped in violation
of the Jones Act).

33. See Sean D. Kennedy, Comment, Short Sea Shipping in the United States—The New
lack of capacity on American roads and rails).

34. E.g., Jean-Paul Rodrigue et al., The Geography of Transport Systems 263 (2d ed. 2009). But see Brad Walker, Nicollet Island Coalition, Big Price—Little Benefit
(questioning claims that the use of barges on inland waterways is more efficient than the use of
railways).

35. 46 U.S.C. subtit. V.
coastwise trade monopoly as a “promotional program.” How has this program fared in promoting the merchant marine? The American merchant marine traces its origins to colonial times and has been an important player throughout U.S. naval history. Much to Congress’s dismay, the number of privately owned vessels flagged under U.S. laws has fallen dramatically since its peak in the years after World War II. The market for imports to and exports from the United States has resoundingly rejected the U.S. merchant fleet, which carried less than 2 percent of the waterborne portion of that trade as of 2009.

In the captive market of the coastwise trade, there also appears to be a downward trend, although it is less severe. The Maritime Administration published a series of studies in the mid-2000s that documented a steady decline in U.S. domestic ocean trade, measured in metric ton-miles. In 2005, the secretary of Homeland Security twice waived the operation of the Jones Act, during the respective aftermaths of Hurricanes Katrina and Rita. This move, which was “probably unprecedented,” reflected the secretary’s view that the waivers would “facilitate the transportation of oil and refined petroleum products in and from portions of the United States [devastated]

36. Id. pt. D.
by the hurricanes” and were “necessary in the interest of national defense.”43
So too, ostensibly, is the merchant marine itself.44 Yet the laws that the secre-
tary waived in the name of national defense were enacted “[t]o provide for
the promotion and maintenance of the American merchant marine,”45 the
very thing meant to provide for the national defense. Congress has demon-
strably legislated itself into a conundrum.

The way out is to recognize that the coastwise trade laws simply do not
work very well. If the merchant marine, with America at the mercy of its
shipping rates, cannot be expected to defend the nation against a hurricane,
then the specter of “foreign entities . . . subjecting the United States to eco-
nomic blackmail”46 in the absence of competition from the U.S. fleet seems
like the least of our worries. It is time to reform the coastwise trade laws.

II. A Path to Reform

Recognizing that a repeal of the coastwise trade laws is unlikely despite
the laws’ negative consequences, this Comment proposes reform instead.
Section II.A contends that past attempts to repeal the coastwise trade laws
have failed because they have not sufficiently accommodated the interests of
those who benefit from the current regime. Section II.B argues that tariffica-
tion—the conversion of the legal prohibition into an economically prohibi-
tive tariff—would protect the beneficiaries of the coastwise trade laws and
set the stage for future reform.

A. Resistance to Repeal

The coastwise trade laws harm American consumers.47 Legislators who
recognize this have introduced bills to overturn the Jones Act,48 but unfortu-
nately their efforts have not succeeded.

The Coastal Shipping Competition Act of 1996,49 sponsored in part by
Senator Helms of North Carolina—a coastal state whose constituents might
be thought to benefit from the coastwise trade laws—was introduced to
“eliminate a harmful anachronism that enables a few waterborne carriers to
cling to a monopoly on shipping.”50 The anachronism—the Jones Act—had

44. 46 U.S.C. § 50101(a) (“It is necessary for the national defense . . . that the United
States have a merchant marine.”).
46. Hanson & Berry, supra note 37, at 485.
47. See supra Section I.A.
48. Although the coastwise trade laws encompass both the Jones Act and the Passenger
Services Act, the Jones Act receives much more attention. This may be due to the difference in
penalty. See infra text accompanying notes 76–78.
50. 142 Cong. Rec. 12,431 (1996). The bill would have repealed the U.S.-flagging and
-build requirements for ships engaged in noninland coastwise trade on the condition that the
secretary of transportation determine that the foreign ship’s country of origin grant “recipro-
cal privileges” to American ships engaged in that country’s coastwise trade. Constantine G.
driven the price of domestic grain shipments so high that North Carolina poultry and pork farmers found themselves turning to foreign sources for feed grain instead of buying it from the Midwest.\textsuperscript{51} The bill gained very little support, however, and did not make it to the floor of either chamber of Congress.\textsuperscript{52} Subsequent attempts to repeal or amend certain parts of the Jones Act likewise failed to gain traction, while a resolution supporting the Jones Act attracted a House majority as sponsors.\textsuperscript{53} Resistance to a Jones Act repeal seemed insurmountable.

The issuance of Jones Act waivers during the 2005 hurricane season\textsuperscript{54} might have signaled a new appetite for repeal. Another Gulf of Mexico disaster five years later, the Deepwater Horizon oil spill, again prompted calls for a waiver and claims that the Jones Act prevented a rapid maritime response.\textsuperscript{55} Addressing these charges, Senator McCain introduced the Open America’s Waters Act,\textsuperscript{56} which would have “fully repeal[ed] the Jones Act.”\textsuperscript{57} It too died in committee,\textsuperscript{58} suggesting the continued impossibility of a full repeal.

The coastwise trade laws are classic examples of legislation that serves a concentrated group of politically motivated beneficiaries while thwarting an economically competitive but politically weak group of business interests.\textsuperscript{59} The costs are widely dispersed among consumers, who likely vote their consciences on more visible issues. This is why each of the past five presidents has spoken in support of the Jones Act\textsuperscript{60}; it’s politically safe to do so. As desirable as repeal may be, any effort to mitigate the coastwise trade laws’


52. Papavizas & Gardner, supra note 50, at 111 & n.121.
54. Supra notes 41–43 and accompanying text.
55. E.g., Editorial, The President Does a Jones Act, WALL ST. J., June 19, 2010, at A12, available at http://online.wsj.com/article/SB10001424052748704324304575306881766723718.html#articleTabs%3Darticle. For example, skimming equipment flown in from the Netherlands had to be attached to American ships assisting in the cleanup effort because there was no waiver of the Jones Act’s restrictions on the involvement of foreign-built ships.
consequences must win approval from at least part of the maritime lobby. To attract this support, reform should retain some degree of protectionism.

B. Tarification: A First Step

A template for reform can be drawn from the example of international trade law, which has facilitated a boom in world exports over the past several decades. The coastwise trade laws are a non-tariff barrier to trade, resembling the agricultural protectionism that prevailed across the globe when the Agreement on Agriculture was negotiated in 1994. The General Agreement on Tariffs and Trade, in effect since 1947, had eliminated most quantitative restrictions but exempted non-tariff barriers on agricultural products. As a result, "agricultural protectionism . . . played hooky from global trade reforms for decades." The Agreement on Agriculture finally addressed the problem of non-tariff barriers by forbidding members (such as the United States) to "maintain, resort to, or revert to any measures of the kind which have been required to be converted into ordinary customs duties."


62. Broadly speaking, any policy other than a tariff that restricts the quantity of a good that is imported or exported into a country. A classic example is the import quota.


64. General Agreement on Tariffs and Trade, art. XI, para. 2(c), Oct. 30, 1947, 61 Stat. A11, A33, 55 U.N.T.S. 194 [hereinafter GATT 1947]. The coastwise trade laws have an interesting relationship with international trade law—the U.S.-build requirement has its very own grandfather clause. General Agreement on Tariffs and Trade 1944 para. 3(a), Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1A, 1867 U.N.T.S. 190, 191 [hereinafter GATT 1944] ("The provisions of . . . GATT 1944 shall not apply to measures taken by a Member . . . before it became a contracting party to GATT 1947, that prohibit[] the use, sale or lease of foreign-built or foreign-reconstructed vessels in commercial applications between points in national waters."). This Comment proposes tariffication as a unilateral trade reform but is not unaware of the leverage that a tarified Jones Act might lend to hitherto unsuccessful negotiations about liberalizing maritime transportation (including coastwise) through international trade law. For more on past efforts in this field, see Benjamin Parameswaran, The Liberalization of Maritime Transport Services 249, 254–56, 277–82 (2004).


66. Agreement on Agriculture, supra note 63, art. 4.2, at 413. In a footnote, the Agreement specified that the measures “required to be converted into ordinary customs duties” include “quantitative import restrictions” and other non-tariff barriers. Id. at 413 & n.1. The present perfect tense in Article 4.2, although peculiar, does operate as a mandate. The WTO Appellate Body interpreted this provision simply to signify that tariffication “began during the Uruguay Round . . . to be recorded in Members’ draft WTO Schedules by the conclusion of those negotiations.” Appellate Body Report, Chile—Price Band System and Safeguard Measures Relating to Certain Agricultural Products, para. 206, WT/DS207/AB/R (Sept. 23, 2002), available at http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds207_e.htm.
This—the conversion of nontariff barriers into “ordinary customs duties,” or tariffs—is tariffication, “perhaps the most significant aspect of the entire Agreement.”67 For every nontariff barrier, a “tariff equivalent” was to be calculated “using the actual difference between internal and external prices,”68 generally meaning “a representative wholesale price . . . in the domestic market” (the internal price)69 and the actual or estimated value of the equivalent imported good.70 The purpose of tariffication was “to enhance transparency and predictability in agricultural trade, establish or strengthen the link between domestic and world markets, and allow for a progressive negotiated reduction of protection in agricultural trade.”71

Tariffication could work for coastwise trade as well. In its initial stages, reform could be designed effectively to prohibit foreign vessels from engaging in the coastwise trade, thereby preventing a shock to the mariners whose jobs the law currently attempts to protect. The tariff would be gradually reduced over time. While this Comment proposes unilateral reform because of the benefits to the domestic economy,72 the promise of such a reduction could be used as a bargaining chip in negotiations with other countries that currently protect their own coastwise trade.

Such a reform could constrain America’s flexibility to some degree. For example, reforming the U.S.-build requirement may jeopardize the requirement’s grandfathered status under GATT 1994.73 The grandfather clause, however, allows amendments to nonconforming provisions, such as the Jones Act, to the extent that they “do[ ] not decrease [their] conformity” with the national-treatment and other provisions of the original GATT.74 Bringing foreign competition into the coastwise trade would increase our conformity—international trade law only prohibits differential treatment for foreign-built vessels on internal taxes and regulations,75 not on charging a tariff for admission to the domestic market.


69. Id. para. 6.

70. Id. para. 4.


72. See supra Part I.

73. See supra note 64.

74. See GATT 1994, supra note 64, para. 3(a), at 191 (citing GATT 1947, supra note 64, pt. II, at A18–65).

75. See GATT 1947, supra note 64, art. III, at A18–19 (codifying the principle of national treatment).
A posttariffication Jones Act would, in fact, look much like the current Passenger Services Act. The penalty for transporting merchandise in the coastwise trade without a coastwise endorsement—in other words, for violating the Jones Act—is “seizure by and forfeiture to the Government.”76 The Passenger Services Act, wisely avoiding the constitutional limitations on the forfeiture of persons,77 sets the penalty for violating its provisions at “$300 for each passenger transported and landed.” This is, in effect, a tariff—and, in the spirit of reform, it should be re-characterized as such.

The United States already has a Harmonized Tariff Schedule in place for imported merchandise.79 Instead of being barred from transporting merchandise in the coastwise trade, foreign vessels could simply be allowed to pay tariffs on the transported merchandise at the most-favored-nation rate, perhaps multiplied by some constant, in order to engage in the coastwise trade. The forfeiture penalty for violating the Jones Act could be replaced with a fine equal to the value of the goods being transported. This would introduce flexibility and transparency into the coastwise trade laws so that legislators could adjust them and foreign shippers could quantify them as a cost of doing business in the new market.

Conclusion

Repealing the coastwise trade laws is virtually impossible, but we should still pursue other solutions. Tariffication gives Congress a way to admit competition to the coastwise trade—benefiting the Americans who use it—while affording the domestic industry time to adapt. America should welcome maritime genius, no matter its origin. Reforming our coastwise trade laws would be a promising start.

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76. 46 U.S.C. § 55102(c) (2006). The alternative statutory penalty—the greater of “the value of the merchandise . . . or the actual cost of the transportation”—might be called tariffication by waiver. Id. Total forfeiture remains the default penalty, however, and any true tariffication would necessitate removing this penalty.
77. See, e.g., U.S. Const. amend. XIII, § 1.
78. 46 U.S.C. § 55103(b).