

National Maritime Policy

*Reforms Should
Boost Trade,
Relieve Landside
Congestion*

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The United States is a maritime nation. Our national security depends on our ability to transport military forces worldwide to support our interests. Our economic security depends on trade that crosses the oceans. Therefore the United States must act now to adopt maritime policy that ensures a U.S.-flag merchant fleet capable of

- ◆ Meeting the military's need for surge and sustainment sealift,
- ◆ Providing the crews for the government's portion of a sealift force,
- ◆ Transporting domestic waterborne commerce, and
- ◆ Maintaining a U.S.-flag presence in international maritime trade.

Reforms for Growth

The U.S. commercial fleet consists of a domestic fleet and a U.S.-flag fleet for foreign trade. The domestic fleet has continued to grow under the Jones Act and related maritime cabotage laws, but under current maritime policies, the U.S.-flag fleet operates at a competitive disadvantage to foreign fleets. The domestic fleet now sustains the U.S. maritime infrastructure; the future of the U.S.-flag fleet in foreign trade is at risk.

Growth and gains in productivity since 1965 have more than tripled the domestic fleet's ability to serve American shippers. Maritime policy reforms must attract capital investments to continue that growth, particularly in ocean trade but also in developing opportunities for coastal commerce.

Approximately one quarter of the world's waterborne trade flows through U.S. ports, yet U.S.-flag ships carry only a small portion—2.7 percent, according to the latest Maritime Administration data. In international trade, U.S.-flag ships face stiff and unequal competition from foreign-flag ships

supported by tax systems that favor investment in new ships and also lower capital and operating costs. In addition, many foreign ships operate under the flags of countries that protect their national merchant fleets—as instruments of broader economic policies—from the economic pressures of the international shipping market.

Patchwork Policy

Water transportation is vital to the United States in international trade, national defense, and domestic economic expansion, yet U.S. maritime policy has been an inconsistent patchwork. Historically, U.S. maritime policy has reflected the changing needs and priorities of the nation in a feast-or-famine pattern—strong action and support followed by periods of nonsupport.

It is a paradox that a maritime nation—the greatest trading nation in the world, an economic giant, with a highly successful maritime history—should have an on-again, off-again policy pattern. Despite warnings and recommendations for corrective action, the United States enacts major maritime policy initiatives only in extreme conditions.

Since the end of World War II, U.S. international trade has grown dramatically, but foreign-flag ships have carried that growth. Other countries' maritime policies have encouraged investment in new shipping tonnage to capture the U.S. trade. Our patchwork policies barely can sustain a fleet to carry the same amount of cargo it did 40 years ago.

Laying a Foundation

Both the international and domestic fleets—along with revitalized ports and waterways—can be vital components of our transportation system and indispensable to our national security. The challenges and opportunities are many, meriting aggressive pursuit—however, there is no specific,

enduring national maritime policy to guide the way.

The federal government is committed to maintaining a commercial maritime industry to meet the nation's needs. To maintain the U.S.-flag commercial fleet and lay the foundation for future growth requires a range of actions. The United States must ensure that the maritime policies and programs operate as intended and that the industry and policy makers also act on broader reforms, which include the following:

- ◆ Increasing the industry's attractiveness to private investment. The maritime industry worldwide presents many disincentives to private investors, including chronic overcapacity, limited rates of return, and volatile markets. Current U.S. maritime policies impose even greater obstacles to investment in U.S. shipping companies. With investment capital free to flow in worldwide markets, why should the United States discourage investments in U.S. shipping?

- ◆ Changing maritime tax policy. Since the mid-1990s, many traditional maritime countries have followed Greece's example of a tonnage-based, flat-rate corporate tax structure for the maritime industry. Many of these countries faced the same cost disadvantages in the international shipping markets that the United States does now. Changing the basis for taxing maritime companies has fostered substantial growth in national-flag registries. The United States should adopt a similar approach.

- ◆ Removing institutional impediments to new policies. No policy change will work if the United States impedes adoption of new tax regimes or other changes in maritime policy during the budget and revenue estimating process. Federal economic policy can encourage private investment in U.S.-flag commercial shipping by eliminating current antigrowth strictures.

- ◆ Meeting the competitive threat of not-for-profit merchant fleets. Maritime policy does not operate in a vacuum. U.S.-flag ships must compete with foreign ships deployed to stimulate growth in other economic sectors of their nations. When national policy—for example, the Jones Act—has enabled U.S. carriers to operate on the same economic basis as others, U.S. companies have proved highly competitive.

Changes in trading patterns, development of new technology, and marketplace demands at home and abroad will create opportunities for the waterborne transportation industry. U.S. trade is projected to double by the year 2010, if not sooner, with economic globalization. The United States must match that projection against its current

capabilities and set a national goal to meet the difference.

Opening Coastal Markets

Coastal trade offers substantial opportunities for the U.S.-flag domestic fleet. The demand for intermodal (e.g., container and trailer) service along and between the East, Gulf, and West Coasts is expected to increase dramatically in the next 5 to 10 years. Historically, trains and trucks displaced much of the waterborne transportation along U.S. coasts and waterways; it is time to bring waterborne services back.

Waterborne transport of trucks, freight, automobiles, and passengers can complement trucking and railroads, working in partnership. The U.S. maritime industry must act on this opportunity now. Coastal waterborne intermodal services for freight and passengers are common in Europe and Asia, because the landside infrastructure cannot serve the transportation demands.

Coastal trade—including Alaska, Hawaii, and Puerto Rico—offers opportunities because it is not subject to many of the constraints on landside transportation growth. Coastal shipping is the silent partner in America's domestic transportation system, because the coastline is uncongested, the modes are people- and environment-friendly, there are fewer "not in my backyard" issues, and the potential for growth is unlimited. Coastal trade routes are the way of the future—25,000 miles of navigable channels and 10,000 miles of ocean highway, with no lane restrictions, no locks and channels to maintain, and no limits on rights-of-way.

There are substantial markets for moving cargo and passengers along the U.S. coastline. Passenger market segments include ferry services for commuters and passenger cars, as well as for sightseeing, overnight cruises, and other recreational trips. Cargo market segments include bulk (e.g., coal and grain), tanker (e.g., crude oil, petroleum products, and chemicals), and intermodal (e.g., container and trailer) services. Each segment presents its own supply and demand and prospects for growth.

Congestion and Other Trends

The coastal intermodal cargo market—particularly in the I-95 and I-5 corridors—has a strong potential for growth because of

- ◆ Increased highway use and increased use of large containerships at hub ports serving international trade, and



◆ The constrained capacity of interstate highways and railroads and the likely capacity crunch in the next 5 to 10 years, based on current trends.

FHWA data indicate average annual increases of 3 to 4 percent in highway miles nationwide in the past ten years. Applying this rate to the I-95 and I-5 corridors shows that these roads will need an additional lane by the end of the decade to maintain current levels of congestion.

Containerships engaged in international trade increasingly are calling at one or two North American hub ports instead of four, five, or more. For example, two or more 2,000- or 3,000-TEU (20-ft equivalent unit) vessels on a North Atlantic itinerary today might call at Norfolk, Baltimore, New York, and Halifax; soon, however, a single 6,000-TEU ship might call only at New York and Halifax. Thousands of containers that previously moved by vessel between New York and Baltimore or Norfolk would move either by truck or rail, adding to the pressure on the highway and rail systems.

The trend to larger containerships is dramatic. Five years ago, no containership of more than 6,000 TEUs was in service. Today, more than half of the containerships on order are 5,000- to 7,000-TEU vessels. This places pressure on ports to deepen channels and berths and increase terminal areas and infrastructure. Not all ports will be able to meet these requirements; a few hub ports will gain a greater concentration of cargo and will require alternative methods of shipment, such as feeder vessel systems.

Surging Demand

If the volume of international trade doubles by 2010, an additional 16 million TEUs for distribution via land or water will arrive at U.S. ports annually—an increase equivalent to 22,000 TEUs

on each coast daily, requiring 10,000 more trucks on the road. Because intermodal cargo traffic along the coasts is increasing and landside highway and rail capacity is constrained, waterborne intermodal transportation should become a viable alternative.

Waterborne coastal services can complement rail and truck services, so that each mode can serve the segments of the logistics stream for which it is most effective. For example, in the Northeast, roll-on-roll-off ships might load tractors or tractor-trailer combinations and deliver them to the Southeast in 1–2 days; drivers traveling on the vessel or meeting it at the dock could drive the tractor-trailers to their destinations.

Foreign coastal waterborne systems serve pedestrians, drivers and their autos, as well as truck drivers and trucks. Large fast ferries offer another option for avoiding congestion on I-95—a mini-cruise can be an attractive alternative for a trip from the Northeast to the Southeast.

There is compelling reason to support the development of coastal maritime markets. Increasing demand for both freight and passenger intermodal transportation—coupled with finite landside truck and rail capacity—virtually requires cost-effective waterborne alternatives. Developing efficient and competitive waterborne services can alleviate highway congestion, increase passenger rail now constrained by competition for freight, improve safety, and reduce environmental costs.

U.S. national maritime policy makers should keep what works, strengthen current policies and programs, and aggressively undertake reforms. Only by increasing the attractiveness of the U.S.-flag industry to private investment in new ships can the fleet achieve the necessary growth. In coastal trade, U.S. maritime policy should ensure that as transportation needs increase, the U.S. waterborne industry is ready to provide new services.