

Terminal Conditions

David Wignall* on the latest port developments



Cabotage: The needs of the few outweigh the needs of the many

As an avid reader of *The Economist* it should surprise no-one that I am an ardent defender of the free market – a position or prejudice occasionally stoked by those defending that most favoured of protectionist policies, cabotage.

In the last two years alone we have seen the impact of this most pernicious of policies at close hand on four occasions. We've seen how small cabals of ship-owners, unions and other stakeholders encourage and defend cabotage till it becomes a significant factor in deciding the price of shipping services, and hence the structure of a country's logistics network. We've watched as cabotage raises shipping costs for everyone in the country, with consequences for that country's economy. Then, as an epilogue, we've catalogued the impact as cabotage – a policy intended to defend or promote a country's domestic shipping sector – strangle that self-same industry, reducing it from world beating to irrelevancy.

It may not be the granddaddy of them all, but The Jones Act, the attempt by the US Congress to protect and defend the US shipping sector through a tight form of cabotage, is perhaps the most spectacular policy failure with which to start. The Act requires your ship to be built in the US and crewed by US citizens, as well as being US-flagged; protection for most elements of the industry. As so often seems the case in the US, the Jones Act (or more correctly The Merchant Marine Act 1920) was indeed passed on the grounds of national security. The drive of the underlying policy is set out in the preamble to the Act:

"It is necessary for the national defense and for the proper growth of its foreign and domestic commerce that the United States shall have a merchant marine of the best equipped and most suitable types of vessels sufficient to carry the greater portion of its commerce and serve as a naval or military auxiliary in time of war or national emergency."

In 1920 the US fleet represented 27 percent of the world fleet by tonnage; the country's share of world trade by tonnage was about 15 percent. US-flagged ships could carry "the greater portion of" of its imports and exports. In 2008 the US-flagged fleet represents two percent of the world's fleet by tonnage and a fraction of one percent of the container fleet by TEU capacity. The trades to and around the US represented 24 percent of TEU carryings worldwide. Looking at tankers in 2007, the CIA, a body tasked with assisting the defence of the US, identified 59 US-flagged tankers over 1,000DWT in a world fleet of 4,295 – less than two percent of the ships and, given the size of the US tankers, a fraction of one percent of the cargo-carrying capacity.

Nearly ninety years is a fair timeframe to judge a policy, so take your own decision on whether the Jones Act has been a success. It is easy to conclude that the US fleet today is capable of carrying only a fraction of its "commerce". The Act has effectively destroyed the US fleet and its international presence.

When the US military requires commercial vessels to support military expeditions, non-US entities and investors get much of the benefit.

To be fair I know of one shipping company executive operating ships complying with the Jones Act run by someone who would like to see it repealed. However his background is not shipping at all – he can just see a way to grow his business quickly if it were repealed!

Keeping up with the Jones Act

Railing against the Jones Act has left me short of words again; hardly enough to talk about Malaysia, where the Ministry of Transport seems so sensitive to any suggestion that cabotage has not worked and is one of the causes of high consumer goods prices in Sabah and Sarawak. Or even Australia, a "Green" country at war with itself over how to save the planet through taxes, but incapable of moving trucks off the road and on to sea because of cabotage. But no, let us go to one of my favourite places, Indonesia, where shipping policy seems to have developed a split personality!

In Indonesia, after years of progress to liberalisation, the introduction of cabotage restrictions has been pushed to full steam ahead. At the same time they are committed to ASEAN-led free trade in services, which requires liberalisation of the shipping sector. The policy intent is to encourage the growth of an efficient and effective coastal shipping sector; something sorely needed. The impact of the new restrictions will be quite the opposite.

It is unfortunate that the new restrictions have coincided with a sea change in the international market forces that inhibited growth from being stimulated by liberalisation, the restricted supply of ships, and the associated high cost of ships. The last eighteen months have seen this change very quickly. With ships available at good prices, liberalisation would now bring far cheaper shipping to the more underdeveloped parts of Indonesia.

Does cabotage as an idea not represent a perversion of Spock's dying words in the *Star Trek* films, that the needs of local shipping owners and operators triumph over the needs of the rest of their own countrymen? Competition in shipping reduces transport costs, and in doing so improves the competitive positions of a country's exports and the cost of imports to consumers. Perhaps Indonesia's split personality is evidence of their very own Dr McCoy, an unknowing attempt to save a friend.

For those who don't understand this, go and watch "Star Trek: The Search for Spock". Australia, Malaysia and even the land of the free and the home of the brave could do with taking note!

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