

Washington, D.C.: Public Relations: General: Jones Act/ Shipping

Senator Daniel K. Inouye Papers

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Bill regulating shipping faces annual debate in Congress

Orson Swindle blames the Jones Act for contributing to Hawaii's high prices

BY PETE PICHASKE
Phillips News Service

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WASHINGTON — No session of Congress would be complete without a contentious debate over the Jones Act, the 1920 law that requires all ships moving between U.S. ports to be built and flagged in the United States and crewed by U.S. sailors.

This year's session, despite the distractions provided by Monica Lewinsky and Kenneth Starr, is no exception.

The Senate Commerce, Science and Transportation Committee today is holding a hearing on the latest proposal to modify the controversial Jones Act.

The proposal would exempt bulk commodities (such as oil and grain), forest products and livestock from the "build requirement" of the Jones Act.

The bill was crafted by Republican Sen. Sam Brownback to help farmers in his home state of Kansas move their grain to U.S. markets. But its impact would be felt thousands of miles away in Hawaii, where more goods have to be imported than in any other state and where, critics argue, the higher costs required to pay for U.S. ships are felt the most by consumers.

The Jones Act is "an enormous burden on each and every family in Hawaii," said Orson Swindle, the former GOP candidate for Congress in Hawaii, who showed up at a pep rally for

Brownback's bill on Capitol Hill this morning.

"There's a staggering difference in the price of goods" between Hawaii and the mainland, said Swindle, and the Jones Act is partially to blame.

Attempts to repeal or reform the Jones Act are supported by a long list of farm and taxpayers's groups, including the Hawaii Cattlemen's Council, the Hawaii Shippers' Council and the Hawaii Small Business Legislative Council.

Today's hearing is the first congressional hearing on the Jones Act in 42 years, according to Rob Quartel, president of the Jones Act Reform Coalition. Jones Act critics are hailing the hearing as a significant advance in their long and, so far, largely unsuccessful campaign.

"We're clearly gaining support," said Quartel.

But the Jones Act still has powerful supporters in Congress, and even Brownback conceded that any changes will not come soon.

"It's not going anywhere this year," said Phil Grill of Matson Navigation Co., one of the two U.S. shipping lines that serve Hawaii and a leading defender of the Jones Act.

"There are a lot of false expectations here today," added Grill. "Modifying the Jones Act does not put water into Kansas to help those farmers."

He also said estimates of the cost of the Jones Act to Hawaii consumers are grossly inflated and "pulled from the air. . . . The shipping company is the whipping boy for consumer costs."

Among the Jones Act strongest supporters in Congress are Sen. Daniel Inouye, D-Hawaii, a member of the Commerce Committee, and Rep. Neil Abercrombie, D-Honolulu, a member of the House National Security's merchant marine panel.

They and other backers have called the Jones Act essential for maintaining a dependable maritime link between Hawaii and the mainland and for helping to maintain a strong merchant marine fleet.

Chevron takes on Jones Act

Shipping companies serving Hawaii want to keep the 1920 law 'as is'

BY JACOB KAMHIS
PBN Staff Reporter



Chevron Shipping Co. LLC is proposing modifications to the Jones Act, a controversial federal maritime law.

The San Francisco-based company is seeking to change the law's "U.S.-build" provision, which man-

dates that vessels operating under the Jones Act be constructed by American shipyards.

The Jones Act refers to a section of the Merchant Marine Act of 1920 that applies to ships entering, loading and unloading in two succeeding U.S. ports. The act has been in great dispute in recent years.

While Chevron Shipping is tar-

geting the U.S.-build provision, company representatives said they don't want to change other provisions of the law, such as requiring that cargo ships sailing between two consecutive domestic ports be U.S.-owned, U.S.-registered and U.S.-crewed.

Locally, executives of carriers
Please see Chevron, Page 63

The Washington, D.C.-based group of pro-Jones Act companies is flatly opposed to reform.

Philip Grill, chairman of the task force and vice president of government affairs for Matson Navigation Co., said Chevron Shipping's views by no means represents the maritime industry, which wants to keep the Jones Act intact.

And the new stance by Chevron Shipping will not alter what has been overwhelming Jones Act support from the administration and Congress, Grill said.

Some people are still trying to bring foreign-flagged ships into the domestic trade, and "our position is unchanged and the maritime industry's position is unchanged," he said.

This also is the position of executives at Sea-Land Service, the second major carrier providing ocean transportation services to the Islands.

Also pro-status quo for the Jones Act is the American Shipbuilding Association.

"On behalf of the Ameri-

can shipbuilding industry, it's disheartening that Chevron Shipping would take this position," said Cynthia Brown, president of the Washington, D.C.-based group.

She said ships for Chevron Shipping could be built by the associations' six members: Avondale Industries Inc. in Louisiana; Bath Iron Works Corp. in Maine; Electric Boat Corp. in Connecticut; Ingalls Shipbuilding in Mississippi; National Steel and Shipbuilding Co. in California; and Newport News Shipbuilding in Virginia.

Brown said the price of some ships manufactured overseas is artificial.

South Korean currency has been devalued and ships are selling for less than production costs.

The Asian country, once a busy shipbuilder, has been dumping ships on the market for some time, Brown said. The result has been catastrophic economically, she added.

The shipbuilding association opposed a \$57 billion International Monetary Fund loan to bail out South Korean shipyards and other entities.

This position was related to the South Korea-based Halla Group, which controls shipbuilder Halla Engineering & Heavy Industries Ltd.

The Halla Group, which went bankrupt last year, was to receive a \$1 billion loan at 12 percent interest from the United States, according to the Journal of Commerce, even though it had a backlog of more than three dozen ships amounting to \$1.6 billion in orders.

Brown said that distortion of world shipbuilding prices denies American shipyards the opportunity to compete for construction of large ocean-going ships. This forces layoffs of thousands of highly skilled American workers, she said.

Local reform

Nevertheless, Jones Act reform has its staunch advocates. At least one Hawaii political leader wants to reform federal maritime law for U.S. destinations not connected to the contiguous 48 states.

State Sen. Whitney Anderson has said that Hawaii, Alaska, Guam and Puerto Rico should be exempted from the Jones Act.

Such remote areas suffer a greater negative impact from the law's restrictions than do Mainland locations.

These remote ports are highly dependent on ocean transportation for the goods and products shipped in and used by residents, said Sen. Anderson.

Matson Navigation Co. and Sea-Land Service Inc. continue to support leaving the Jones Act intact.

Reform of the law has been attempted in Congress but failed.

The question now is whether Chevron Shipping can reinvigorate a major push for Jones Act changes, including prompting other companies to join the fray.

New strategy

Publicly held Chevron Shipping is a subsidiary of Chevron Corp. Its mission is to transport crude oil to Chevron refineries and deliver products to distributors.

Company tankers carry about 420 million barrels of oil annually. This generated nearly \$42 billion in revenues and \$3.2 billion in net income in 1997.

Chevron Shipping President Tom Moore called the Jones Act a subsidy for American shipyards.

"We've felt for years that the U.S.-build requirement of the Jones Act was unnecessary and inappropriate," he said. "We'd like to see the build-American [provision] change."

Chevron Shipping hopes to add its weight to the battle by publicizing its position. It does not plan to fund the Jones Act Reform Coalition, according to Moore, though its support is clear in a July 23 letter to coalition president Rob Quartel, who is the coalition's president.

Chevron Shipping manager Steven Hillyard stated in the letter that American shipyards are "grossly uncompetitive" in the global shipbuilding market, particularly in terms of construction costs.

Although the Jones Act keeps foreign ships out of succeeding U.S. ports, the substantial price of U.S.-built ships has stifled construction of vessels.

The high cost of market entry precludes healthy entrepreneurial activity in the "blue water" (oceangoing) market, the Chevron Shipping letter stated.

Still, Moore said Chevron Shipping's support for Jones Act reform goes only so far. If the coalition sails beyond changing the U.S.-build provision, the company will not be involved, he said.

Regardless, coalition president Rob Quartel called Chevron Shipping's announcement "a very significant turn in our long journey toward [Jones Act] reform."

One effect of the Jones Act is that vessel replacement is expensive, meaning some ships just don't get replaced.

This is one of the most damaging consequences of the maritime law, according to Quartel. He said many oil-carrying ships will be taken out of service in the next five years under the Oil Pollution Control Act of 1990, and they may not be replaced because of the Jones Act.

American shippers need ships and so does the maritime industry in general, according to Quartel.

Reform of the law's shipbuilding provision will benefit industries involved in agricultural, energy, timber, livestock, mining and other crucial commodities.

Steady as she goes

The fact that Chevron Shipping has taken a new heading has not swayed the Maritime Cabotage Task Force.

Queen Elizabeth 2 fined \$105,000 for skipping

By Tom Kaser
Advertiser Staff Writer

20/21

One of the world's best-known cruise liners ran afoul of a controversial U.S. cabotage law and was fined \$105,000 after arriving here from San Diego two months ago.

The Queen Elizabeth 2, a foreign-flagged ship owned and operated by the Cunard Line, was on a round-the-world cruise that began in New York City and stopped at other East Coast ports before going through the Panama Canal and

heading for San Diego, Hawaii and points west.

The U.S. Passenger Services Act was enacted 112 years ago when the U.S. passenger-ship industry was viable and the only way to cross oceans was by ship. Today, except for ferries, passenger ships are used more for leisure than for transportation. The only remaining U.S.-flagged cruise line offering overnight, deep-water cruises is American Hawaii Cruises, whose SS Independence sails among the Hawaiian Islands on

stop

seven-night excursions.

To protect U.S.-flagged passenger ships the same way the Jones Act protects U.S.-flagged cargo ships, the Passenger Services Act says no foreign-flag ship can pick up passengers at one U.S. port and disembark them at another U.S. port.

But the QE2 did, and the Customs Service, which enforces the act, has assessed a \$105,000 "civil administrative penalty." The Cunard Line is appealing.

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According to Incheape Shipping Services, Cunard's Honolulu agent, the QE2's crew had planned to abide by the act as it came up the West Coast of Central and North America from the Panama Canal.

As other foreign-flagged cruise ships do to satisfy the act, the ship was supposed to stop at the Baja California port of Ensenada, Mexico, and pick up Hawaii-bound passengers that had been bused there from San Diego.

But because Ensenada's port is too small for the QE2, passengers have to be shuttled on tenders to and from the ship at an offshore anchorage. On the January day the QE2 arrived, seas were too rough to permit that, according to Customs and Port of San Diego officials.

So the QE2 went on to San Diego, and its Hawaii-bound passengers in Ensenada were put aboard buses and taken back to San Diego, where they boarded the ship and sailed to Hawaii.

According to Incheape representative, the vessel was carrying 1,184 passengers when it called at Kailua-Kona Jan. 24 and Honolulu Harbor Jan. 25. Of the 611 passengers who disembarked in Honolulu, 525 had boarded in San Diego; the rest had boarded in foreign ports before that.

For the first 12 years of its existence, the Passenger Services Act provided for a violations fine of \$2 per passenger. Since 1898, it has provided for a fine of \$200 per violating passenger, which is why Cunard is being assessed a \$145,000 penalty.

Representatives of New York City-based Cunard did not return calls seeking comment, but Billy Lee, operations manager for Incheape here, said, "From what we understand the ship had no choice but to go on to San Diego.

The Passenger

Services Act "gives

cruise-line business

to foreign ports . . .

but takes it away

from U.S. ports that

want and need more

cruise business."

— BILL THAYER

PRESIDENT, WALDRON STEAMSHIP CO.

Because of severe weather, it was not safe to take on and discharge passengers from the offshore anchorage at Ensenada."

Added Creighton Goldsmith, chief inspector for the Customs Service here: "Going on to San Diego was apparently a business decision Cunard felt it had to make. In light of the sea conditions and the threat to passenger safety in Ensenada, it was the correct decision. We issued the penalty because it is required by law."

Honolulu ship agent Bill Thayer, president of Waldron Steamship Co. Ltd. and a strong advocate of repealing both the Passenger Services Act and the Jones Act, called the Cunard fine "the death of common sense — a typical government reaction and yet another example of overregulation.

"The PSA has outlived its purpose. It gives cruise-line business to foreign ports like Ensenada and Vancouver but takes it away from U.S. ports that want and need more cruise business."

Jones Act effects

Ship cargo law faces revision in House

By John Yaukey

Advertiser Washington bureau

WASHINGTON — A government watchdog agency that was asked to evaluate the economic effects of the Jones Act says it is unable to answer because accurate and complete information does not exist.

The Jones Act, which re-

quires domestic cargo be carried on domestic ships, has long been debated as a regulatory economic burden and a savior of American maritime jobs. A bill in the House Transportation Committee would repeal some of the law's central restrictions.

But the report by the Government Accounting Office concluded that "any decision to repeal the Jones Act would have to be made with the recognition that precise, verifiable esti-

mates of the impact of the act are not available."

The GAO report concluded that cloudy national defense, legal and regulatory issues make the Jones Act difficult to assess.

"Our report is not going to change much," said David Bryant, assistant director of GAO's transportation group. "It's a fairly complex issue, and there's a lot of missing information."

The GAO report was intend-

elude agency

ed to address frequently raised criticisms leveled against reports on the act prepared by the International Trade Commission. The reports have emerged as an important part of the Jones Act debate.

The reports, collectively titled "The Economic Effects of Significant U.S. Import Restrictions," were prepared in 1991, 1993 and 1995 at the request of Congress and the U.S. Trade Representative. Another in the series is due out in 1999.

The reports concluded that the Jones Act has increased the cost of domestic shipping and estimated the economic gains of repealing the act at between \$9.8 billion in 1991 and \$2.8 billion in 1995.

While some groups have used the ITC's estimates to bolster their arguments favoring repeal of the act, proponents say the trade commission estimates are flawed for several reasons.

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The GAO report said it examined those reasons:

■ **The amount the Jones Act raises shipping costs.**

Proponents of the Jones Act say estimates on how much it increases shipping costs are inflated.

The trade commission estimated it raised shipping costs by as much as 89 percent, adding 89 cents to every shipping dollar.

GAO officials said that is probably closer to about 70 percent. But again, there are too many unknowns to make such a statement with confidence, they said. The GAO said it lowered the estimate, in part, because oil is no longer shipped from Alaska to the Gulf Coast through the Panama Canal. This had been extremely expensive, which raised the overall shipping cost estimate.

■ **Jobs lost if the Jones Act were to be repealed.**

The trade commission had estimated 2,450 American overseas shipping jobs would perish from a pool of about 11,000. That's about 23 percent. The commission report addresses only seafaring workers and does not account for workers on inland waterways.

Jones Act proponents argue that 124,000 jobs would be lost over time from international and inland shipping.

GAO officials said there isn't enough data to calculate that figure, noting that inland shipping operations tend to be high-

ly competitive.

■ **The cost to foreign shippers of complying with American shipping regulations.**

Jones Act proponents say these costs would erase any price-advantage foreign carriers could offer American customers in the absence of the Jones Act.

The trade commission was never asked to calculate this fully.

The GAO's report said the costs would be incurred primarily in taxes, labor and employee protection, but said it could not determine the final effects on shipping prices.

The GAO report's findings are unlikely to change any lawmaker's views.

Rep. Nick Smith, R-Mich., has proposed a bill that would loosen some of the restrictions requiring vessels be U.S.-built and fly the U.S. flag.

"We need a more vibrant waterborne sector to take some of the pressure off rail and trucking," said Alec Rogers, Smith's legislative aid. "It worked with the airlines and trucking. It should work with shipping."

Meanwhile, Rep. Neil Abercrombie, D-Hawaii, remains an enthusiastic supporter of the Jones Act. Abercrombie argues it's necessary to retain the environmental, financial and legal integrity of domestic shipping.

Without the Jones Act, he said, "You open shipping up for every pirate outfit in the world."

End Jones Act now

Hawaii can no longer afford the Jones Act requirement that goods shipped between U.S. ports must be in U.S. ships.

Hawaii's ocean freight costs from the Mainland are the world's most expensive and contribute significantly to our high cost of living. For example, from Los Angeles, it costs less to ship merchandise 7,250 miles to Hong Kong than it does to ship it one-third that distance to Honolulu.

Hawaii's legislators must urge Congress to exempt us from the Jones Act. American Samoa gained such an exemption and it now costs less to ship goods there from Los Angeles than it does to ship goods half that distance to Hawaii.

An exemption for the "U.S.-built" requirement alone would significantly reduce prices in Hawaii.

However, supporters say the Jones Act is needed to protect American seafarers' jobs. But is it rational to trade off the thousands of Hawaii jobs now being lost because of our high cost of living for these few Mainland seamen on Matson ships?

Supporters then wrap themselves in the flag and say our military needs these ships. Never mind that during Desert Storm, the military did not use a single Matson ship.

Meanwhile, half-empty foreign container ships are pass-

Second Opinion ^{34/35}

CLIFF SLATER

ing by Hawaii on their way back to Asia because they are not allowed to stop here and unload. What a wasted opportunity to save money.

Then supporters say that we must protect U.S. shipbuilders and our merchant fleet. Never mind that the United States once had more than half the world's shipping tonnage and now has less than 2 percent. Our shipyards have degenerated to being now primarily defense contractors, the same folks who bring us \$1,000 toilets and \$500 hammers. Unsurprisingly, the few U.S. ships they build cost two to three times what the same quality ships cost elsewhere.

Hawaii shipping companies should be allowed to use modern European- or Asian-built vessels. We have already reformed transportation regulations to allow overseas-built airplanes, trains and buses. It is time to include ships.

Legislators and other supporters then try to sell us on the idea that the restrictive Jones Act requirements, and the resulting duopoly of Matson and SeaLand, actually save us money. To do so, they cite spurious special-interest studies but refuse to support an objective study by, say, the state auditor or the University

of Hawaii economics department.

What is the reason for all this resistance? Quite simply, it is special-interest money paid to our elected officials, both locally and nationally. For example, Rep. Neil Abercrombie gets more than 30 percent of all his campaign funds from members of the special-interest group opposing any reform of the Jones Act. With well over \$100,000 so far, he is the biggest recipient of such funds in Congress.

We must press for reform of the Act; it is unreasonable that Hawaii's economy be weighed down by this outdated national policy. The biggest single opportunity we in Hawaii have for lowering our high cost of living is an exemption from the Jones Act. If it only reduced our shipping costs 30 percent, it would mean savings of over \$1,000 per Hawaii family. In these tough times, that is too much to pass up.

Hawaii House and Senate resolutions requesting that Congress grant us the same exemption enjoyed by the citizens of American Samoa should be the first step. Passage of the resolutions introduced by Sen. Whitney Anderson and Rep. Gene Ward will do that.

Cliff Slater is a Honolulu businessman who represents the Reason Foundation in Hawaii.

ated with the arid west side of the island, such as thrips, mely bugs and scales.

"Our water bill is sky high," said Braun, who employs 17 people. His biggest concern is whether the stress of the drought will change the growth cycle of his plants.

Tony Pu of Hana Tropicals on Maui said the dry spell has "wiped out the orchids" because of the lack of humidity. "They just stopped producing flowers," he said.

Bills triple

33/35

Pat McGrath of Hawaiian Foliage Exports Inc., who ships container loads of dracaena plants for Mainland office and home use, said business should be booming this year for foliage growers.

But water bills have tripled and some of his mother plants have gone dormant for lack of water in rocky Puna. It will be impossible later this year to meet his contracts with wholesalers.

McGrath has 50 acres of dracaena near Kea'au on old Puna sugar land and a second site in Panaewa. To earn certified nursery status, he grows plants for export using benches that are 18 inches off the ground.

That means the potted plants are free of soil pests and can be legally exported. Above-ground plants, however, require more moisture to develop.

"The real gap (between supply and demand) is coming in about two months," McGrath predicted.

He ships 95 percent of his plants to the Mainland and so far has maintained his staff by reassigning work.

"I am trying just not to panic," said McGrath, who knows his water bill is tripling.

Least affected is bonsai shipper David Fukumoto of Fuku-Bonsai Inc. in Kurtistown, who said the plants he grows are chosen for their ability to handle low humidity in Mainland environments. His biggest problem is the labor to accommodate hand-watering in an effort to conserve water.

Maui protea grower John Hirashima said his flowers are hardy "but they do need water."

"There is going to be a long-term effect if we don't get a deep, penetrating rain like we normally do in the wintertime," he said.

Advertiser Maui County Bureau reporter Edwin Tanji contributed to this report.

Politics prevents Hawaii

The Jan. 18 and 19 letters to the editor on the Jones Act miss the point. A ship from Japan, for example, cannot under U.S. cabotage laws stop in Honolulu, drop off part of its cargo, load cargo from Hawaii bound for the Mainland, then proceed on to the Mainland to unload a full ship. If it stops in Honolulu, it must go on partially loaded.

It has to do with both the Jones Act and with dollars. Cabotage laws artificially reduce the potential for foreign vessels to economically make a stop in Honolulu.

The actual problem, of

course, is shipment in the other direction. Hawaii receives several times more cargo from the Mainland than it ships to the Mainland. Foreign vessels are not allowed to compete even if they wanted to.

With respect to training and testing crews and inspecting vessels, it would be easy enough to extend application of those laws to all ships wishing to compete for shipping between American harbors.

The intent of the Jones Act and related cabotage laws is to limit competition and "protect" American shipowners, shipbuilders and merchant marines.

exemption to Jones Act

No other means of transportation is so restricted. The inevitable result of restraint of trade is higher prices.

A special problem for Hawaii relates to the shipment of cattle. There are foreign-built livestock carriers designed to be loaded and unloaded efficiently; none is built in America.

Therefore, Hawaii cattlemen must buy used containers and at unreasonable cost have them adapted to the shipment of cattle. Our cabotage laws do not even allow an exception to buy a vessel of a type not built in America.

Whatever one makes of arguments about shipping from port to port along America's continental coasts, the noncontiguous states and territories suffer significantly greater negative impact from the restrictions of cabotage laws. Congress has already exempted the Northern Marianas and American Samoa. Exemption from Jones Act restrictions are also needed for Hawaii, Alaska, Puerto Rico and Guam.

Politics, not economics, has prevented that from happening.

Whitney Anderson
Senate Minority Leader

State buying

Cayetano makes \$8.5 million deal

By Robbie Dingeman ^{13/16}
Advertiser Capitol Bureau

Gov. Ben Cayetano is moving to have the state buy the Waiahole Ditch irrigation system from Amfac/JMB at a total cost of \$10.2 million for the purchase, operating costs and some improvements.

The state would pay Amfac/JMB \$8.5 million for the system.

Cayetano yesterday announced he is asking the Legislature for an emergency appropriation of \$10.2 million. The state would raise the money by selling general obligation bonds.

Cayetano was reported in August to be considering state purchase of the ditch.

Cayetano yesterday said the agreement will enable the state to manage and preserve groundwater resources in the Pearl Harbor area and help boost diversified agriculture in Leeward and Central Oahu. "I think it's a good investment for

Waiahole Ditch

the state," he said.

Attorney Paul Achitoff disagrees. He represents Windward interests in the longstanding dispute over how much Waiahole Ditch water should be allowed to be diverted to Leeward interests and how much should remain in Windward Oahu.

"It's a waste of taxpayers' money," Achitoff said. He said taxpayers are being asked to "subsidize the business interests of the landowners under the guise of helping farmers."

But Cayetano said state ownership would not change the

decisions made by the state Commission on Water Resource Management.

"I think the Waiahole farmers should take some assurance that the water commission will continue to be the one that decides how much water will be . . . kept on the Windward side and how much will be coming over to the Leeward side."

Cayetano also said, "The Waiahole Ditch affair brought to my attention the need to assure that this ditch will always be available for the

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To fix economy, junk



10/14

VIEW POINT

By Gene Ward



Restrictive law raises prices
of all goods shipped
to Hawaii and that's nearly
everything on store shelves

HAWAII'S infamous cost of living has been so high for so long that many feel there's nothing that can be done. The governor convened a task force to deal with our economic problems, but little has been mentioned about the reform of a law — the Jones Act — that hurts all of us living in Hawaii.

The Jones Act is the common name for Section 27 of the Merchant Marine Act of 1920, a federal law. It requires that cargo shipped between any two U.S. ports must be carried on U.S. ships built, flagged, owned and operated by U.S. citizens. Other ships can't compete for this business.

These restrictions significantly raise the cost of doing business and increase costs for consumers. In Hawaii, we are especially hurt since most of our merchandise comes from mainland destinations and depends on shipping.

According to a 1991 study by the U.S. International Trade Commission, the Jones Act costs consumers as much as \$10.4 billion per year in higher prices.

Independent consultants in Hawaii estimate that Hawaii residents pay an additional \$1 billion per year in higher prices because of the Jones Act. This amounts to approximately \$3,000 for every household in Hawaii.

Rob Quartel, a former member of the Federal Maritime Commission and president of the Washington-based Jones Act Reform Coalition, stated recently that "a typical four-person Hawaii family requires a budget 40 percent higher than its counterpart in a typical mainland city."

Quartel explained that while transpacific shipping costs are some of the lowest in the world — especially from the U.S. to Asia — freight rates between the mainland and Hawaii are some of the highest.

In Hawaii, for example, shipping prices are so expensive because of the Jones Act, that Hawaii cattle ranchers find it less expensive to send their cattle to the mainland via Boeing 747s.

As Congressman Nick Smith wrote in May, "It doesn't have to be this way. There are 164 cattle carriers floating around the world's oceans that would love to be of service to the Hawaiian cattlemen but are barred from serving them because of the Jones Act."

That same month, the president of the 110-member Hawaiian Cattlemen's Council Inc. noted that "as much as 60 percent in costs could be saved utilizing competitive livestock carriers transporting whole herds at one time. The Jones Act costs consumers and small businesses in Hawaii approximately a billion dollars per year."

On the mainland, problems resulting from the Jones Act include U.S.-flag rates

the Jones Act

that are up to 400 percent higher than foreign-flag rates. It's now cheaper to haul clay from Brazil to Maine than from Georgia to Maine, and steel from South America to Puerto Rico than from Baltimore, to name just two examples.

Only three countries — Brazil, Indonesia and Peru — have maritime laws that are as extensive and restrictive as those of the Jones Act. Brazil, which wishes to play a

The Jones Act is not protecting U.S. interests. Our ship-building industry is dying.

major maritime role in South America, is easing its laws. Great Britain, one of the greatest maritime trading nations in the world, has no restrictions whatsoever.

The Jones Act does not protect U.S. interests. Our ship-building industry is dying. More than 50 U.S. ship-building yards closed between 1980-87 while protected by the Jones Act. Of the 50,000 jobs remaining in the U.S. ship-building industry, nearly all are in military and defense construction, not Jones Act-related building.

Similarly, the U.S. merchant fleet has dropped from a high of more than 2,500 self-propelled, deep-draft ships in 1945 to an active fleet of 291 commercial ocean-going ships today, of which only 130 are Jones Act-qualified (the remainder are restricted to the foreign trade).

Once one of the largest and most prestigious merchant marine fleets in the world, the U.S. fleet now ranks among the oldest — failing even to make the top 10 list of world merchant marine powers based on absolute numbers.

From a national defense standpoint, the current Jones Act fleet has very few of the roll-on, roll-off vessels used by the mili-

tary. During the Gulf War — the largest movement of goods and materials since the Vietnam War — President Bush suspended the Jones Act because it was deemed to be an impediment to the movement of critical military resources.

So what needs to be done?

In each of the last three years, bills to reform the Jones Act have been introduced in Congress. This year, the Coastal Shipping Competition Act (CSCA) has been introduced in hopes of reducing shipping costs for businesses and product costs for consumers.

AMONG the provisions of this bill, CSCA would:

- Remove the Jones Act's anti-competitive restrictions, while harmonizing existing U.S. law with international maritime standards to which the U.S. is a signatory.

- Eliminate the U.S.-built requirement but retain (with a limited exception) the requirement for an American crew.

- Require that a foreign ship that would be allowed in the domestic trade must be from a country that has a reciprocal agreement with the U.S. This would allow U.S. carriers to operate in the coastal trade of that nation.

- Amend Coast Guard rules for all vessels, U.S. and foreign, in the coastal trades to meet recognized international safety, manning, and marine construction standards. Other currently applicable environmental standards and tax provisions under U.S. law will continue to apply to all vessels operating on a regular basis in U.S. domestic trades.

If Hawaii is serious about tackling the economic and cost-of-living problems currently facing Hawaii's families and businesses, the reform of the Jones Act must be near the top of its list.

Gene Ward is a Republican state representative. The opinions in View Point columns are the authors' and are not necessarily shared by the Star-Bulletin.

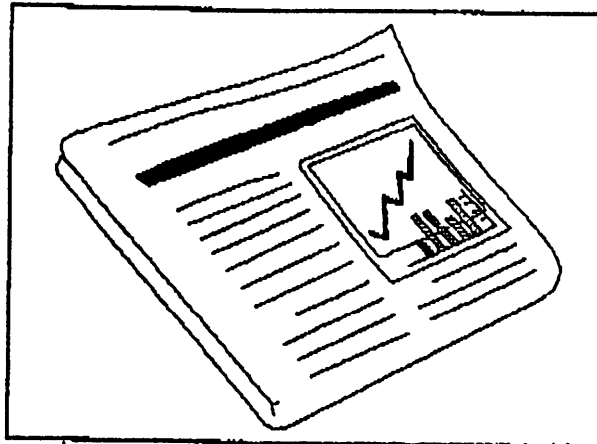
**AFTERNOON NEWS REPORT
HONOLULU OFFICE
prepared by Jinny Okubo**

HONOLULU CIRCULATION:

___ Barbara	___ Lum
___ Bob	___ Sara
___ George	___ Sheila
___ Mary Lou	___ Waude

BULLETIN

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The Jones Act helps protect jobs, economy

There has been much misleading information published recently concerning the Jones Act and its effect on Hawaii. The Jones Act is a vital law, which protects our economy as well as our national security.

First, the Jones Act protects jobs for Hawaii. Without it, foreign shipping corporations would quickly take over and displace our workers with lower-paid crews, who are forced to work and live in grossly inadequate conditions.

Second, and very importantly, the Jones Act helps to maintain what is left of the U.S. Merchant Marine. These assets are strategically important to the defense of our nation, providing the critical logistics link necessary for the

forward deployment of our forces in case of military action.

The lies about the Jones Act blocking sources of great economic prosperity for Hawaii are much like the lies that General Motors published in support of NAFTA. GM told Americans what a great opportunity NAFTA would provide by opening markets for American products. Then with the way clear, GM and other corporations like them laid off tens of thousands of American workers and moved their plants to Mexico and other countries, where they could pay a fraction of American wages.

Senator Inouye and Congressman Abercrombie understand the truth about the Jones Act. They know it would be easier for them to give up defending the act, but they are also aware of the damage that would do to Hawaii and the nation. That's why they defend it.

Inmates may be freed

2/11

“
The problem
is money.
”

Keith Kaneshiro
State Public
Safety director



Kaneshiro says he may have

BY GREGG K. KAKESAKO
Star-Bulletin

State Public Safety Director Keith Kaneshiro says that unless he gets more money to alleviate the state's prison crowding, he may have no other choice than

to release inmates.

That troubles state Rep. Nestor Garcia, chairman of the House Public Safety and Military Affairs Committee. "I don't want to see people let out into the community before their time," said the Waipahu Democrat.

But Kaneshiro said yesterday

to ease crowding

no choice without more funding

that his message isn't new.

"I have been saying that for years now, but no one seems to be listening.

"Our prison overcrowding situation has reached a crisis. There are now 3,900 inmates in our prisons and we only have an operational capacity of 2,700.

"By the end of the year, we will reach 4,000. How much more urgent can we get?"

Kaneshiro said he has asked his wardens to provide him with lists of inmates who could be eligible for early release if the need arises.

PLEASE SEE INMATES, A-12

Bill seeks to loosen rules of Jones Act

Foreign-flag ships would be allowed, but only if they used U.S. crews

BY PETE PICHASKE *3/4*

Star-Bulletin

WASHINGTON — The latest battle in the war over controversial maritime laws protecting domestic carriers was launched here today, as a Michigan congressman proposed loosening restrictions imposed by the so-called Jones Act.

"Changes in the Jones Act are desperately needed," said Rep. Nick Smith, R-Mich., in a statement condemning the 1920 federal law that requires cargo and passengers transported between U.S. ports to be carried on ships owned and registered in the United States and crewed by American sailors.

"The onerous requirements of the Jones Act . . . hamper domestic trading by raising prices prohibitively high."

Smith argued that the Jones Act restrictions are driving up prices for consumers — particularly in Hawaii, where 80 percent of the goods are imported — and costing the nation jobs as businesses turn to cheaper foreign carriers.

"It has actually gotten so expensive for the Hawaiian cattle ranchers to ship cattle to the mainland aboard ships that many of them board their cattle onto 747s and fly them," said Smith.

Smith's bill, introduced in Congress today, would allow U.S. ships used for coastal trade to be internationally built and registered. They would still have to be U.S. owned and crewed by American sailors.

Although it stops short of the outright repeal endorsed by many Jones Act

The new measure faces an uphill battle in Congress

critics, Smith's proposal has no support from the law's many defenders and clearly faces an uphill battle in Congress.

"Smith's bill would hand over the \$15 billion domestic waterborne transportation system to foreign, tax-exempt, floating sweatshops," argued Phil Grill, and executive with Matson Navigation Co., one of the two U.S. shipping lines that serve Hawaii, and chairman of the Maritime Cabotage Task Force, a coalition of shipping line and maritime labor groups that opposes changes in the Jones Act.

The bill faces "overwhelming

odds," said Grill, who noted that 17 of the 19 members of the two House subcommittees that will take up the bill have signed letters supporting the Jones Act.

One of those lawmakers is Rep. Neil Abercrombie, D-Honolulu, a member of the House National Security Committee's Merchant Marine panel. Abercrombie today reiterated his opposition to attempts to soften the law.

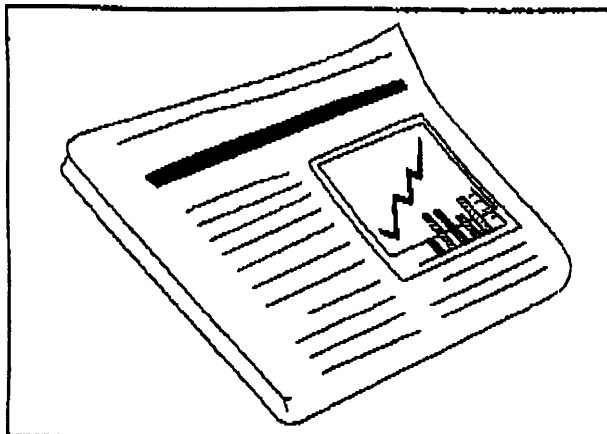
"Criticism of the Jones Act is based on old myths and ignores the law's important benefits for Hawaii and our country," said Abercrombie. He said the law has resulted in dependable maritime links between Hawaii and the mainland and helped maintain a strong merchant marine fleet.

Sen. Daniel Inouye, D, the powerful senior member of the Hawaii delegation, is also a strong supporter of the Jones Act.

Jones Act critics, who have failed in years past to change the law but have vowed to keep up their fight, remain undeterred in the face of such opposition.

"We look forward with great anticipation to this legislation, which is badly needed," said Mike Hansen, president of the Hawaii Shippers' Council, a group of about three dozen Hawaii shippers, including the Hawaii Cattlemen's Council, formed to reform the Jones Act. "I think we will make much more progress this year than in the last session."

Sen. Jesse Helms, R-N.C., has promised to introduce similar legislation in the Senate.



AFTERNOON NEWS REPORT
HONOLULU OFFICE
prepared by Jinny Okubo

1/8

HONOLULU CIRCULATION:

___ Barbara	___ Lum
___ Bob	___ Sara
___ George	___ Sheila
___ Mary Lou	___ Waude

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Kamehameha family should receive report

WHEN Bernice Paushi Bishop stated in her will that the sole beneficiary of her estate was to be the Kamehameha Schools, she obviously meant the students who would attend the schools. The state Attorney General's Office and a newly incorporated group, Na Pua a Ke Ali'i Pauahi, agree.

Now the group's concern over the Bishop Estate trustees who oversee the schools has ended up in the courtroom. Na Pua — comprised of Kamehameha students, parents and alumni — is interested in the five trustees' authority and effectiveness. It has made two very reasonable requests of Circuit Judge Virginia Crandall.

While the group has no objection to the trustees' appointment of retired Circuit Judge Patrick Yim as a third-party fact-finder, it wants a reputable educational entity to assist in the process. Furthermore, Na Pua is asking that the report be shared with its members, because of the "pervasiveness and seriousness" of the turmoil at Kamehameha.

Yim, who has no experience in running a school and has been hand-picked by the trustees, could benefit from the guidance of an educator from the Western Association of Schools and Colleges or the National Association of Independent Schools during this investigation.

As for Na Pua's request that the final report be shared with the trust's beneficiaries, why should such valuable information be only for the eyes of Chairman Richard Wong and trustees Gerard Jervis, Lokelani Lindsey, Henry Peters and Oswald Stender, when the entire Hawaiian community is affected?

Protection or Protectionism?

Recent maritime bills before Congress could significantly affect Hawaii's \$2.3 billion maritime industry. The impact of those bills on major carriers traversing the U.S. West Coast and Hawaii trade route are of great importance to local businesses that ship or receive goods. It would also affect businesses that ship by land and air, because the rates for one mode of transportation affect other competing forms.

The most controversial bill calls for repeal of a law that governs much of the U.S. maritime transportation industry. The Jones Act—which bears the name of its sponsor, Sen. Wesley L. Jones — refers to Section 27 of the Merchant Marine Act of 1920, which governs the domestic transportation of merchandise and passengers by water. The act requires that all goods shipped by water from one U.S. port to another must be: carried on vessels built and documented (flagged) in the United States; operated by Americans; and owned by American citizens.

In passing the act, Congress stated that its purpose was to promote the growth of a well-equipped, modern merchant marine for the nation's defense and for the proper growth of its foreign and domestic commerce.

Supporters of the act in Hawaii and throughout the rest of the United States believe that it protects our national interests, claiming:

- The act serves our national security interest by ensuring that we maintain the capability of supplying American troops abroad in times of crisis without having to rely on foreign vessels and carriers.

- It counterbalances the practices of many of our trading partners, who heavily subsidize their shipyards and ship-building industries. Since foreign vessels often operate without the labor, safety and tax requirements imposed on American firms, they can operate at a cost advantage relative to U.S. carriers.

Opponents question the law's usefulness and benefits with such claims as:

- The law is out-dated and beneficial only to a small number of U.S. flag carrier companies, which now enjoy a virtual monopoly over remaining domestic deepwater transportation routes. The 1991 U.S. International Trade Commission study found that these companies enjoyed \$635 million in "benefits" that cost U.S. consumers \$10.4

Debate

continues

on the

Jones Act

By Shirley
J. Daniel

billion per year.

- Fewer than 3,000 jobs actually fall under the law's exclusive citizenship restrictions. The jobs that would be created by removing the law's restrictions would more than offset any adverse impact of its repeal.

- From a national security standpoint, the vessel requirements of the military long ago diverged from those of the commercial market, and the Jones Act fleet is now made up almost entirely of inland barges. President Bush suspended the act during the Gulf War at the recommendation of Secretary of Defense Dick Cheney because it was deemed to be an impediment to the movement of critical military resources.

- The law has a negative effect on the environment by penalizing clean and cost-effective coastal shipping in favor of truck and rail transportation.

The ultimate effects of the act are felt by the consumer, and it is cheaper to haul cargo from Brazil to Maine than from Georgia to Maine.

There are also further direct implications for Hawaii. We must be concerned about balancing the need for high-quality, regularly scheduled service and protecting our local industry, with the higher costs of shipping—which First Hawaiian Bank economist Leroy Laney has estimated to add less than 5 percent to the retail price of food here. Hawaii must also consider how the act may impact our ability to serve as a crossroads between Asia and the United States and how it may compromise our role as a player in the Asia-Pacific region.

There are many other questions that the United States as a whole needs to raise. Why should we allow foreign carriers to enter our markets, unless they allow similar access for U.S. carriers to their markets? Can we maintain a credible position as the world's foremost proponent of free trade while we still impose major restrictions on shipping? Clearly any savvy trade negotiator would insist on a reciprocal lowering of barriers before making changes to our laws. We must keep in mind that opening our markets to countries that allow us free access to their markets is consistent with our free trade position.

Shirley J. Daniel is president of the Hawaii Society of Certified Public Accountants. A professor of accountancy at the University of Hawaii, she also directs the university's Pacific Asian Management Institute and its Center for International Business Education and Research.

14/18

Jones Act:

□ Opponents say shipping rule costs residents millions

By Hunter Bishop
Tribune-Herald

A high-stakes battle is brewing in Congress over a little known law that its opponents say costs Hawaii residents hundreds of millions of dollars a year in shipping costs.

At issue is the 76-year-old Jones Act, which requires cargo carriers that sail from port to port in the United States to be wholly owned and operated by U.S.-based companies.

Supporters of the act say it's necessary to keep the nation's oceangoing cargo carriers afloat to protect U.S. shipping interests and bolster the national defense.

Opponents, who have organized a lobbying effort to reform the act, say it chokes off competition among the shipping firms that serve Hawaii, resulting in up to a billion dollars a year in excess shipping costs for Hawaii consumers.

The importance of the debate in Hawaii is demonstrated by the numbers.

Eighty percent of all goods and products used in the state are imported, and 98 percent of what's imported arrives via one of the two major ocean carriers — Matson Navigation Co., a division of Alexander & Baldwin, and Sea-Land Service Inc. Matson, in business 114 years, has an estimated 70 percent of Hawaii's mainland carrier market. Sea-Land has the remainder.

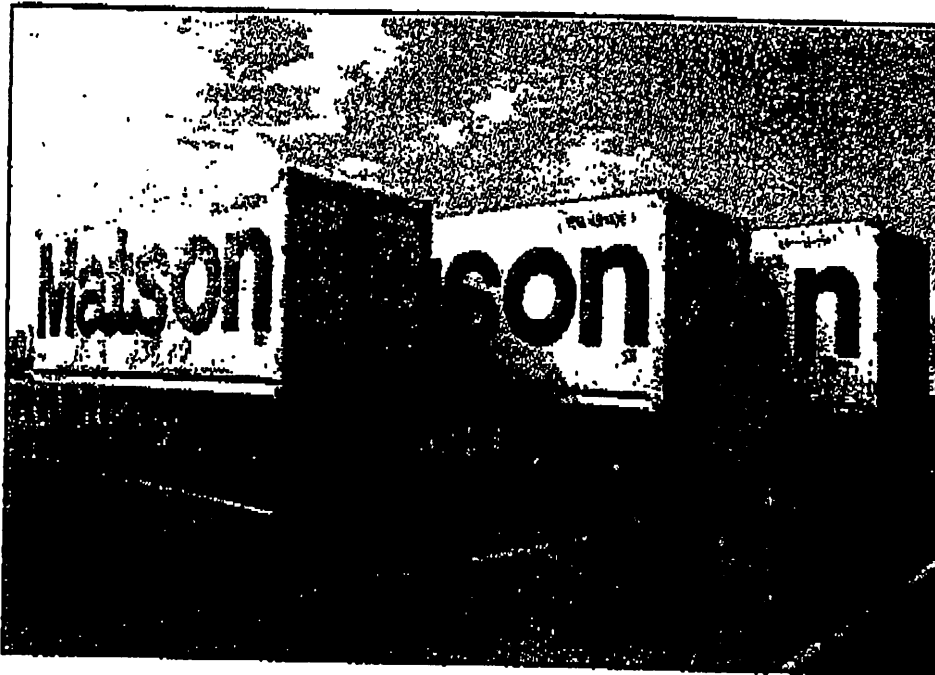
But when Congress got rid of the Federal Maritime Commission in a fit of regulatory reform last year, it threw out practically all public regulatory review of the carriers' rates.

Critics contend that the combination of keeping the Jones Act intact and canceling the FMC put the two Hawaii carriers in the best of two economic worlds — protection from competition and no rate regulation — that drives up the costs of goods to everyone in Hawaii.

How much it drives up costs is part of the dispute.

12/18

Friend or



T-H photo by William Ing

Matson shipping containers sit idle near Hilo Harbor. Matson, which handles a majority of shipping to and from Hawaii, benefits greatly from the Jones Act, which tends off foreign competition.

Mike Hansen, executive director of the Hawaii Shippers Council, a Honolulu-based Jones Act reform group, estimates the "direct freight penalty" to consumers from the Jones Act is \$400 million a year. An economic multiplier

devised by the state Department of Business and Economic Development increases the effect by 2 1/2 times, putting it closer to a billion dollars, Hansen said, which still

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JONES: Maritime act

From Page 1

doesn't take into account "downstream effects" from business lost because of shipping limitations.

"The average cost per family (in Hawaii) is \$2,000 to \$3,000 per year," Hansen said.

Maritime industry officials scoff at those numbers, but are reluctant to provide their own numbers or even to endorse an independent study.

Neil Dietz, port agent for the Seafarers International Union, is co-chairman of the Marine Cabotage Task Force, Hawaii chapter, which supports lobbying efforts in Washington, D.C., to keep the Jones Act.

Dietz says the so-called penalty isn't nearly as high as Jones Act opponents say, and that if the Jones Act disappeared, foreign carriers that are heavily subsidized and less regulated by their governments could undercut the more reliable and stable U.S. carriers.

"What they are trying to convey is that foreign shippers are cheaper," Dietz said. "I would bet that if I were allowed to come into Hilo and build a hotel with foreign workers, without being subject to all the regulations and laws that apply in the U.S., I could operate it cheaper. This is not about dollars."

Dietz doesn't know how much the Jones Act costs consumers, but says it doesn't matter and that a

new study isn't needed. He doubts anyone could do an independent study, anyway.

Whatever its cost to consumers, the Jones Act is still worth it, Dietz says.

"If the rules were changed, there would be no more oceangoing jobs for Hawaii residents," Dietz said, adding that Matson, a smaller firm than Sea-Land, would be "at a competitive disadvantage."

The Jones Act "levels the playing field for U.S. carriers," said Dietz, and helps protect a Hawaii maritime industry that employs more than 6,000 workers, pumps \$410 million in labor costs into the community, and has total annual revenue of \$2.3 billion, according to industry sources.

A strong U.S. maritime fleet supported by the Jones Act also is important to national defense, said Dietz, who witnessed first-hand the role of the Jones Act when he was a ship dispatcher during Operation Desert Storm in the Persian Gulf.

"I don't know what we would have done without people who had the training, experience and job security provided by the Jones Act, especially when foreign flagged ships refused to go into the Gulf," Dietz said.

While strongly in favor of the

14/18

state's friend or foe?

Jones Act, the question of rates is different, Dietz said. The state's Consumer Advocate wants stricter rate regulation put back in effect, and the maritime industry is not necessarily opposed, Dietz said.

Since the Federal Maritime Commission was abolished, Matson and Sea-Land may now raise their rates up to 7.5 percent a year without public review at any level, said Charles Totto, whose job for the state is to advance the public's position on telephone, electric and other utilities' rates and regulations.

Totto said Matson and Sea-Land's rate structures have little relationship to their costs of service, and as a result, they may be earning excessive profits at the expense of Hawaii's consumers, business and economy. They also are not competitive, Totto said. Sea Land has raised its rates "in lock step" with Matson since 1989 and their shipping prices are similar, he said.

Totto would keep Jones Act despite its costs, however, because he says the competition that opponents expect as a result of eliminating the act might never materialize.

"But rate regulation is the least that the nation can afford Hawaii in light of our heavy burden in shouldering the costs of the Jones Act," Totto said.

Totto also believes there is merit in the national defense argument, but that Hawaii shouldn't be paying an unfair share of the cost.

"Hawaii's consumers are paying a premium for the nation's military security resulting from the Jones Act," Totto said in testimony for the federal Department of Transportation. "While the national security benefits of the Jones Act accrue to the nation as a whole, the increased costs for shipping on a Jones Act carrier are borne primarily by the consumers and the economies dependent on the domestic offshore trades."

Hansen, however, says the national defense argument is laughable. He says there are too few U.S. ships governed by the law to make a difference, citing only five that were used to help haul supplies to the Gulf War.

The Washington-based Jones Act Reform Coalition is currently calling for passage of the Coastal Shipping Competition Act, which would deregulate offshore coastal shipping. The bill was introduced in the House and Senate during the last session in Congress and Hansen is hoping it will move forward in the coming session.

"They've got an industry very much in decline," Hansen said. "I think there's good reason for hope."

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foe?

□ Cattle ranchers
charge the act will
kill their industry

By Hunter Bishop
Tribune-Herald

Hawaii livestock shippers say the lack of Jones Act vessels for cattle — and the high cost of using what's available — is putting them out of business.

George Wood, President of the Hawaii Cattlemen's Association, said foreign vessels are readily available to the cattle industry, but that ranchers can't use them because of Jones Act restrictions on foreign-flagged vessels in the domestic U.S. market.

Wood, who represents 75 Big Island ranchers and 150 throughout the state, covering about 80 percent of the cattle in Hawaii, said the recent changes in the isle cattle industry have put ranchers at the mercy of a Jones Act-regulated shipping industry that is expensive

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CATTLE: Ranchers say

From Page 1

and inadequate for the cattle business.

Even though Hawaii sits astride highly competitive international shipping lanes in the Pacific, cattle ranchers can't get access to them because of the Jones Act.

Hawaii Cattlemen sought a limited exemption just for cattle but, in the face of strong opposition from the local maritime industry, couldn't even get a resolution supporting them out of the Hawaii state Legislature last session.

Wood said last week that the state Department of Transportation has been meeting with Matson and Sea-Land representatives and the cattle industry in an attempt to get a resolution, but that nothing substantial has developed.

"We support reform, and we need an independent study," Wood said.

Michael C. Bryan is marketing manager for the Big Island's Parker Ranch, owner of the fourth largest cow herd in America.

Bryan said the Hawaii industry now exports 70 percent of its cattle to North America ever since the state's largest feeder and processor, Hawaii Meat Co., was closed down by condemnation by the state, and City and County of Honolulu, in the late 1980s.

The state's bulk fee and feed milling operation also closed due to the high costs of transporting feed as a result of the Jones Act, Bryan said.

The relatively small size of the Hawaii market does not support the replacement of these support facilities for the cattle industry to flourish in Hawaii, Bryan said. So ranchers are shipping young cattle

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Jones Act hurting

to the mainland.

"Only by developing cost-effective, efficient shipping for the calf crop can the cattle producers of Hawaii hope to stay in business," Bryan said.

Cattle shippers supply their own costly and limited-sized "cowtainers" and still pay premium prices to ship the animals to the mainland, Wood complains. Only specially designed livestock carriers are suitable for shipping the large numbers of cattle the industry needs at a reasonable price. But these vessels are not available in the U.S. fleet.

Wood says the cattlemen pay 25 cents per pound to ship cattle, only 8 cents of which is for the special equipment, while products like pineapple are shipped for 1.67 cents a pound.

"It's frustrating," he said. "Why

not charge us what it costs? We shouldn't have to negotiate like this."

But costs are naturally higher to ship cattle than pineapples because the cattle are alive," said Neil Dietz, co-chairman of the Maritime Cabotage Task Force, a lobbying group for preservation of the Jones Act. "They need feed, water, cleanup. It's more expensive to ship anything that's alive."

Dietz suggests the problem with the beef industry is not transportation.

"(They) are shipping underage cattle to the mainland for fattening and processing, then importing the finished product," Dietz said. "And the state can't sustain a slaughterhouse. This is an industry problem separate from the transportation issue."

Should Hawaii Reform the Jones Act?



In May, we asked our readers to complete a survey telling us their opinions on the Jones Act, which requires that goods shipped between American ports be carried on U.S.-built, -owned and -crewed ships. Since nearly 98 percent of goods consumed in Hawaii come here by ship, it directly affects the cost of doing business, as well as the cost of living.

Republican Sen. Jesse Helms recently introduced a measure to reform the Jones Act. The Hawaii Shippers Council, an organization of businesses opposed to the Jones Act, supports the bill because the council believes it will result in greater competition and lower freight costs.

Matson Navigation Co. and Sea-Land Service, which haul most of the sea freight from the Mainland to Hawaii, oppose the bill, saying it would destroy the U.S. maritime and shipbuilding industries and would force their companies to compete with foreign ships, which do not have to comply with Coast Guard regulations and U.S. labor laws.

ISLAND BUSINESS received 165 responses, many accompanied by a letter detailing the respondent's position on the Jones Act. Well over 50 percent of the respondents do not favor major changes to the Jones Act. They say it would force U.S. carriers out of business and adversely affect Hawaii. Thus, they favor current regulation of the maritime industry.

Here's a tabulation of the poll results: (percentages add up to more than 100 percent due to multiple responses)



Who would benefit from repealing the Jones Act?

consumers	16%
shippers	7%
cargo lines	2%
cruise lines	7%
all of the above	24%
none of the above	60%



Making drastic changes to the Jones Act would force U.S. carriers out of business.

strongly agree	12%
agree	50%
disagree	14%
strongly disagree	21%
no opinion / don't know	2%



If Matson and Sea-Land were forced out of the market, local shipping costs would decrease.

yes, substantially	16%
yes, somewhat	9%
not much	52%
not at all	13%
no opinion / don't know	11%



The local ocean transportation market is large enough for Matson, Sea-Land and foreign competitors.

yes	35%
no	62%
no opinion / don't know	2%



Let free market conditions decide.

strongly agree	35%
agree	4%
disagree	55%
strongly disagree	6%
no opinion / don't know	1%



Allowing foreign competition would not be good for Hawaii.

strongly agree	62%
disagree	9%
strongly disagree	29%
no opinion / don't know	1%



The Jones Act should only be modified to help certain local industries.

yes	10%
-----	-----

no	47%
no opinion / don't know	44%



Deregulation of the ocean industry could have negative effects.

strongly agree	61%
agree	2%
disagree	18%
strongly disagree	15%
no opinion / don't know	4%



Before allowing foreign ships into Honolulu Harbor, more pier space and other infrastructure are needed.

yes	33%
no	27%
no response	40%



State planning officials need to evaluate and take a position on the Jones Act.

yes	82%
no	16%
no response	2%

SPECIAL ADVERTISING SECTION

Associate attorney Benjamin A. Pittenger and legal assistants Sherri Dodson and Myrna Hart (both of whom are licensed attorneys in other jurisdictions) add experienced support.

Located at One Main Plaza, the law offices of Jan K. Apo overlook the governmental and business district of Wailuku and provide convenient access to the courthouse and county and state agencies.

▼ **FASTFACTS**

The first lawyer in private practice in Hawaii, Richard Ford, opened a law office here in 1844.

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ISLAND BUSINESS MAGAZINE QUESTIONS

What is your position on repealing or reforming the Jones Act and why?

The Jones Act requires that cargo transported by water between U.S. ports be carried on U.S.-registered, U.S.-built and U.S.-owned vessels. Similarly, every other domestic transportation movement, be it by air, truck, or train, is similarly reserved for corporations subject to the application of U.S. law. This is extremely important to the U.S. transportation industry. If foreign shipping companies, that are subsidized by their own governments and not subject to U.S. tax, labor, and environmental laws, are allowed into the U.S. domestic cargo industry, our own transportation companies would be at an extreme or fatal competitive disadvantage. I do not feel that it is in the best interest of the state to be completely dependent on foreign shipping interests, and in all likelihood U.S. shipping companies would be displaced in short order because of the higher costs of complying with U.S. law. For these reasons I have continued to be a strong supporter of the Jones Act.

The local press is partially blaming Hawaii's high cost of living on the Jones Act, what do you think?

I believe Hawaii's shipping companies have been well served for over 100 years by the Jones Act, and that the State of Hawaii enjoys some of the world's finest regularly scheduled ocean transportation service. It is my understanding that the price of ocean transportation as paid by the shipper typically accounts for only five percent or less of the cost of goods sold in Hawaii. Hawaii does have a higher cost of living because of its geographic location, and our dependency on ocean transportation may contribute to the higher cost of living in Hawaii, but fixating on the Jones Act as the sole source of the higher cost of living does not take into account our geographic isolation or the costs U.S. companies incur complying with U.S. law.

It seems reform of the Jones Act would boost the state's tourist industry by allowing more cruise operators into the Hawaii market. Would you support at minimum, a passenger service provision for Hawaii?

The Passenger Vessel Service Act (PVSA) has for over 100 years provided that only U.S.-flag vessels shall transport passengers between U.S. ports. Reform of the PVSA may increase tourism to Hawaii and other states, however, before any type of reform is enacted, Congress must consider whether foreign companies should be free to operate businesses within the United States and be exempted from U.S. laws. The consequences of such a proposal would decimate U.S.-flag cruise operations, such as American Hawaiian Cruises, which would still be required to comply with U.S. laws.

It is my understanding that most cruise ship companies are not that interested in operating from the mainland to Hawaii, because of the relatively long distance of the cruise, the potentially rough weather transits, and the fact that most one week cruises are arranged to travel at night and allow passengers to engage in excursions during the day. I believe the primary interest of cruise ship companies would be inter-islands cruises, as well as to continue exemption from the application of U.S. laws on labor, health, and safety.

13/30

Is it good for Hawaii?

Does it inflate prices?

Four perspectives on

THE

Jones Act

Jones Act hurts Hawaii cattle

By Sumner Erdman

The Jones Act requires that merchandise shipped over water between U.S. points be carried only on U.S.-built, U.S.-flagged, U.S.-manned and U.S.-citizen-owned vessels, specifically documented and authorized by the Coast Guard for such shipments.

This law prevents the use of livestock carriers - vessels designed and built especially for the over-water movement of livestock - by Hawaii ranchers when marketing their product in any other U.S. state. Hawaii

cattle producers can legally use these carriers to market their product in foreign countries - just not in America.

The cattle ranchers in Hawaii have been told by a local shipping company and selected congressional representatives that they would oppose any efforts by the cattle industry to seek an exemption from or waiver of the Jones Act.

The fear seems to be that any "dent in the armor" would destroy all of the American maritime industries by exposing them to "unfair foreign competition."

ranchers two ways



Erdman: Beef prices affected

sold in Hawaii (from New Zealand and Australia).

Interestingly enough, Matson and Sea-Land (the companies that do not want "foreign com-

This argument is not easy for the Hawaii cattle industry to swallow. Our local beef prices are severely affected by the price of foreign beef sold in Hawaii (from

petition") bring in foreign to compete against our local industry.

The Hawaii Cattle Council would like to "win-win" situation for all parties in Hawaii. Perhaps time to make some motions in the Jones Act, that was passed by Congress years before Hawaii became a state.

□

Sumner Erdman, a Kan Maui rancher, is president of the Hawaii Cattlemen's Club, which represents more than 100 ranches.

In protecting U.S. shipping, it's been good for Hawaii

By Robert J. Murray
and Philip M. Grill

The Jones Act makes sense. It deserves the continued support of government policy-makers, as well as the people of Hawaii.

The Jones Act requires that water transportation between two U.S. ports be on ships that are U.S.-owned, U.S.-built and U.S.-registered. All are important, but the crucial issue from the standpoint of ship operators, such as Matson, is the U.S. flag registration requirement.

U.S.-flag ships employ American citizen crews and are subject to American law.

Foreign ships serving in the Hawaii trade would be subject to the laws of Taiwan, Holland or China, for example. These foreign ships employ Third-World crews and enjoy a variety of other advantages that may include direct subsidies and favorable tax treatment.

It would be grossly unfair and unprecedented to expect American companies to compete with foreign entities that are exempt from American law within our own domestic economic system.

Defending the Jones Act against a recent series of unwarranted and misleading attacks is the Maritime Cabotage Task Force. This is a coalition of more than 400 American maritime companies, labor unions, trade associations, pro-defense groups and others, including air and land transportation groups.

These other transportation groups have joined with the U.S. maritime industry because



**Murray: Broad
issue is fairness**

supporting the Jones Act is not just a maritime question. At stake is a broader principle involving fundamental fairness to all Americans who do business

solely within our domestic economy.

It is important that consumers in Hawaii are not taken in by unrealistic and self-serving claims of foreign ship representatives.

Under the Jones Act, Hawaii enjoys one of the most efficient, reliable, timely and safest ocean transportation systems in the world. Matson has brought many efficiency innovations and cost savings to the Hawaii trade over its 114-year history of service here.

Hawaii receives this service at rates that are reasonable, highly competitive and that typically make up less than 5 percent of the retail price of goods.

Hawaii has prospered using the Jones Act carriers that have served the Islands for over a century. The Jones Act has been good for Hawaii and deserves its continued support.

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Robert J. Murray is manager, Marine Operations, Matson Navigation Co. Philip M. Grill is vice president, Matson Navigation Co., and chairman, Maritime Cabotage Task Force.

**By Rob Quartel
and Mike Hansen**

Reform of America's maritime laws and regulations — including the "Jones Act" — is long overdue. It is particularly vital to the future economic competitiveness of domestic offshore jurisdictions such as the state of Hawaii.

Maritime reform legislation — the Coastal Shipping Competition Act of 1996 (S. 1813) — has been introduced in the U.S. Senate by Sen. Jesse Helms, R-N.C.. Similar legislation is expected to be introduced soon in the U.S. House.

Existing regulations include the Merchant Marine Act of 1920 (the so-called "Jones Act"), the Passenger Vessel Act of 1886 and a plethora of outdated vessel inspection laws inconsistent with international agreements.

Contrary to recent assertions by the Hawaii congressional delegation and the two monopolies in the Hawaii trade — Alexander & Baldwin's Matson Navigation Co. Inc. and Sea-Land Service Inc. — the Jones Act provides neither stability nor fair shipping prices.

Hawaii, which today has among the world's highest shipping prices, could, in fact, have among the lowest, given that we sit astride intensely competitive international shipping lanes. However, the Jones Act denies us access.

The Jones Act and all it represents place a considerable burden on Hawaii's economy:

The Hawaii ocean freight penalty — the incremental difference between Jones Act monopoly freight rates and the competitive rates that we could have — is estimated to be 31 percent or \$200 million annually for container shipping alone.

Many kinds of vessels are simply not available in the Jones Act fleet, primarily in the tramp and cruise ship segments. The indirect cost of the opportunities denied is considerable.

All told, by rough estimates,



Quartel: Hawaii pays penalty

the cost of the maritime restrictions on Hawaii's economy may exceed \$1 billion annually, nearly 40 years before Hawaii or \$1,000 for each man, woman and child in Hawaii.

Matson and Sea-Land

claim that if the Jones Act restrictions were lifted, foreign carriers would steal their trade and then abandon Hawaii.

A \$1 billion shipping market, and the substantial and sustained competition for it that would occur in a more open market, say that's just bogus.

Hawaii's industries would benefit substantially from the competition, and would gain access to efficient, specialized vessels for the transport of non-liner cargoes such as live animals, grain, coal, fertilizer, gypsum, silica sand, sugar and cement clinkers.

The Hawaii cruise and tourism industry would benefit, too. Today, one 45-year-old Jones Act cruise liner operates in Hawaii. Allowing international competition would stimulate more frequent trans-Pacific and West Coast service, all to Hawaii's economic benefit.

The Jones Act was passed nearly 40 years before Hawaii became a state — to protect a rail monopoly to Alaska from shipping competition.

Why should the people of Hawaii pay for that folly? The Jones Act doesn't benefit Hawaii, or for that matter, other parts of the United States.

The time is ripe for public debate. The Jones Act carriers should promote it, but it's easy to understand why they fear public discussion.

Rob Quartel, a former member of the Federal Maritime Commission, heads the Jones Act Reform Coalition, based in Washington, D.C. Mike Hansen is acting executive director of the Hawaii Shippers' Council.

Lacking shipping competition,

By Charles Totto

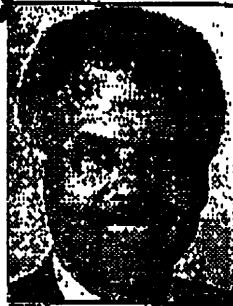
Hawaii's economic lifeline to the rest of the nation is in jeopardy.

About 80 percent of all goods used in Hawaii are brought here by only two ocean carriers — Matson and Sea-Land.

Because of federal laws (one old and one new) the transportation cost for food, building supplies, cars and almost everything else will be excessive.

The businesses, consumers and economy of Hawaii are stuck on the horns of a dilemma — neither effective competition nor economic regulation exist to ensure the lowest reasonable prices for cargo shipped to Hawaii from U.S. ports.

Matson and Sea-Land protest that ocean transport to Hawaii



Totto: Restore rate oversight

built, -crewed and -flagged ships may carry goods between U.S. ports.

Although the nation as a whole benefits from the national security provided by the Jones Act, the substantial added costs to the carriers are passed through to the consumers who, like the people of

is competitive; but the facts don't support their claim.

Matson and Sea-Land are protected from foreign competition by the Jones Act, which requires that only U.S.-

Hawaii, are dependent on ocean transport.

In examining the relationship of Matson and Sea-Land, our office found no evidence of effective competition. Since 1989, when Sea-Land entered the Hawaii trade, it has raised its rates in lock-step with Matson.

Sea-Land has consistently filed for rate increases that are identical to Matson's. They are even filed on the same days.

Furthermore, in comparing the 23 matching commodities of the two carriers, each commodity's price is virtually identical with that of the other carrier, reflecting a difference of only a penny or two (or a dollar or two for containers).

Finally, we found that, to the extent that any competition ex-

rate regulation, Hawaii pays too much

ists between Matson and Sea-Land, it benefits only the largest customers and leaves the small shippers to make up the revenues lost by the carriers as a result of the large-volume discounts.

None of these market power abuses should occur in an effectively competitive market.

Common sense tells us that if there is no effective competition for an essential public service like ocean transportation, the government must regulate rates to prevent excessive profits.

Congress did the opposite.

Last year, it eliminated meaningful rate regulation for Hawaii's two Jones Act carriers. Now either Matson or Sea-Land can automatically raise its rates by up to 7.5 percent each

year. That would amount to about \$45 million each year.

The state's economic lifeline is too important to leave in the hands of Matson and Sea-Land.

Two solutions are currently being debated.

■ One would repeal the Jones Act to allow foreign competition into the Hawaii trade. However, no one knows if this competition will materialize or whether it could be sustained.

In fact, there is hardly enough space in the port of Honolulu to meet the needs of Matson and Sea-Land. Where would the competitors unload cargo?

It's not clear that the competitive solution would be effective.

■ We suggest that federal rate regulation should be rein-

stated to ensure the lowest reasonable rates and to secure Hawaii's economic lifeline.

The opportunity to automatically raise rates each year must be eliminated. Let the carrier justify a rate increase.

This is not a unique solution, and it is used by the Federal Maritime Commission (which Congress has eliminated, effective later this year) and by the Hawaii Public Utilities Commission for utility and transportation service providers.

Rate regulation is the least that the nation can afford Hawaii in light of our heavy burden in shouldering the costs of the Jones Act.

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Charles Totto is the state of Hawaii's Consumer Advocate.

Maritime official: Old law

But shipping execs say
the Jones Act is needed to
protect U.S. interests

BY RUSS LYNN
Star-Bulletin

A 1920 U.S. law that keeps foreign ships out of the cargo business between U.S. ports may be costing Hawaii consumers more than \$600 million a year, says a leading proponent of a bill to overturn the law, known as the Jones Act.

Rob Quartel, president of the Washington-based Jones Act Reform Coalition, says some studies show that figure as the extra cost Hawaii must bear because the mainland-Hawaii freight trade is restricted to U.S.-owned ships built in the United States and manned by U.S. crews.

"That's a 'PFA' figure, as in plucked from air," contends John

Sutherland, vice president Hawaii-Guam of the second-biggest freight line in the trade, Sea-Land Service.

In fact, says Peter J. Finnerty, Sea-Land's vice president of public affairs, the combined total revenues of Matson Navigation Co. and Sea-Land in the Hawaii trade, almost the entire bill for mainland-Hawaii ocean freight, comes to about \$600 million.

A symposium held by the Hawaii Shippers' Council at the Outrigger Prince Kuhio Hotel yesterday produced a debate typical of those that have gone on for decades over the Jones Act. Yesterday's meeting brought together supporters of opening the shipping lanes to foreign competition and opponents of change.

Quartel claimed that the Jones Act protects high cost U.S. shipping lines at the expense of business and the consumer.

Countering the Sea-Land representative's challenge to his esti-

mate of consumer costs, Quartel said Sea-Land isn't counting the multiplier effect as freight costs get added on to every phase of doing business in Hawaii.

Nobody talks about the positive effects on the consumer of repealing the Jones Act, he said.

Quartel called the Jones Act a trade barrier of immense proportions that restricts U.S. commerce to a few shipping companies, impeding shipment of American goods, produced by American workers, to American markets.

"And today Hawaii and Alaska and Puerto Rico and Guam are treated as colonies to be enslaved economically to the handful of Jones Act carriers," he said.

Sea-Land's Finnerty challenged Quartel's arguments, including the claim that foreign ships in the U.S. trade comply with U.S. safety rules. "The fact is, they are absolutely not required to meet the U.S. Coast Guard standards for U.S.-flag ships," he said.