

The Jones Act: Charting a New Course after a Century of Failure

Session IV: Charting a New Course: Options for Jones Act Reform

Panelists:

**KELI'I AKINA**, President and CEO, Grassroot Institute of Hawaii

**HOWARD GUTMAN**, Former U.S. Ambassador to Belgium; and  
Managing Director, The Gutman Group

**THOMAS GRENNES**, Professor Emeritus of Economics, North Carolina State University

**MICHAEL HANSEN**, President, Hawaii Shippers Council

Moderator:

**INU MANAK**, Visiting Scholar,

Herbert A. Stiefel Center for Trade Policy Studies, Cato Institute

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**INU MANAK:** My name is Inu Manak. I'm a visiting scholar here at the Herbert A. Stiefel Center for Trade Policy Studies, and joining me here today are a great group of panelists who know far more about the Jones Act than I do.

And to my left—I'll go in order—is Dr. Keli-I Akina, who is president and CEO of the Grassroot Institute of Hawaii. Next to him is Ambassador (retired), former Ambassador to Belgium, Howard Gutman; and also Managing Director of The Gutman Group. Next to him is Thomas Grennes, who is Professor Emeritus of Economics at North Carolina State University, and next to him is Michael Hansen, who is president of the Hawaii Shippers Council. So thank you all for being here today and being on this panel.

So the previous sessions have outlined a common theme in the Jones Act revealing that while the costs are significant, they're sort of spread out across the economy as a stealth tax. As a result, building a coalition to reform the Jones Act it quite difficult. This is also compounded by the fact that the beneficiaries are very concentrated, well organized, and resist any changes to reform.

This doesn't mean that reform efforts have not been attempted. From state-level resolutions, as we'll hear in Hawaii and the other non-contiguous jurisdictions, to the numerous attempts for exemptions and amendments put forward by even the late Senator John McCain, the Jones Act's critics have persisted.

However, because the Jones Act is not in the minds of Americans on a day-to-day basis, save for the exceptional tragedies that we do have, like with Hurricane Maria in Puerto Rico, the political momentum for reform is often lost.

So this session will address options for reform bearing the challenges in mind to achieving these reform proposals. To start, before I ask my first question, I want to make a point of clarification about what I'm going to ask the panel to begin with in dissecting reform proposals because the Jones Act can be considered sort of in a broad sense, which is all the U.S. coastwise laws, regulations, judicial and administrative rulings that have to deal with that, but I want to focus on Section 27 of the Merchant Marine Act of 1920 and take that as a starting point and saying what are some of the reform proposals that have been put forward so far to reform this law, and what aspects of this law would they affect?

So, please, to my panel. Would you like to start, Michael? Would you like to start with that?

**MICHAEL HANSEN:** Oh, okay. Thank you very much, Cato, for inviting me to the conference here. I appreciate it very much. My name is Mike Hansen. I'm with the Hawaii Shippers Council. We were formed in 1998 to support the Jones Act Reform Coalition, which Rob Quartel led, and also to seek specific reforms to the Section 17 of the Merchant Marine Act of 1970 that would benefit what is known as non-contiguous jurisdictions. That's basically Alaska, Hawaii, and Puerto Rico and also, to a certain extent, Guam. Guam has a unique status in that it's exempt from the Jones Act, when specifically meaning Section 27 of the Merchant Marine Act, in the instance that foreign-built, U.S.-flag vessels can be used, and those vessels can be owned by a foreign entity through a U.S. corporation. So that's a bit different than what the other jurisdictions are dealing with.

Our reform basically called for allowing foreign-built, U.S.-flag ships, self-propelled, over 1,000 gross tons to be allowed to carry cargo in what are known as the non-contiguous trades. The primary objective was to lower the capital cost of the shipping companies that are operating in those trades, that is, the carriers, to the benefit of the shippers, shippers meaning the merchant cargo owners, and ultimately, that would flow to the consumers. Not only would allowing foreign-built U.S. flags into the trade lower the capital cost by approximately four-fifths, but it would also bring new competition into those trades, new competitive pressures into those trades as soon as the barrier to entry is dropped so dramatically by allowing the lower-cost ships into the trade.

We believe that that would increase necessarily the amount of competition in the trades and lower freight prices and costs in general, this being important in Hawaii and the other non-contiguous jurisdictions because typically business and living costs are higher. For example, in Hawaii, if you look at the Department of Commerce Bureau of Economic Analysis, regional cost parity data, Hawaii is running around 19 percent higher than the U.S. average, and that's the broadest measure of costs in the economy. And when you look at the USDA, the U.S. Department of Agriculture figures for food at home, the cost in Hawaii is over 40 percent greater than the national average. So these are significant cost differences, which we think

can't be completely cured by reforming the Jones Act, but certainly, we can make some progress towards reducing those costs.

**INU MANAK:** Very interesting. So I'd sort of like to focus on one specific reform idea that was mentioned in an earlier panel that was put forward as production subsidies in return for eliminating the U.S. build, flag, crew, and ownership requirements. I know, Tom, you've written a little bit about this. Mike, you have some knowledge of this too. Could you briefly explain what this would do? And to what extent would it solve the problem? Because as I understand, we had something similar to this at some point, which was the U.S. Program for Construction Differential Subsidies, and maybe you can touch upon that as well. So, please, Tom.

**THOMAS GRENNES:** The subject was discussed a little bit in the earlier discussion we had, those ugly diagrams, triangles, and all that. So the idea is that production subsidies in some narrow sense would be more efficient than the Jones Act or a quota in the sense that you'd lose one of those triangles and not the other. So the idea in terms of this inefficiency would be Jones Act is essentially a quota of zero on foreign ships, can't have any or a prohibitive tariff.

The result of that is you have two losses. There's the higher price that the consumers eventually bear and also the and inefficient production. So you lose both of those. With the production subsidy, it would allow competition. It would allow foreign ships. It would just simply make a direct payment to the producer. So you would still lose this inefficient production, which would have the low price. You'd save the consumer loss. So that's the sort of logical case for production subsidy.

Now, it's been tried in the past. We had the U.S. government subsidizing production and management of ships for some time. Finally, it got so expensive in the Reagan years, it was eliminated. The fact it was eliminated is kind of interesting in the sense that if you're the protectionist, you don't like these direct subsidies because they show up in the budget. Everybody can see them. They can say it's exorbitant. You can get rid of it. So it's kind of a problem. But if you're looking for efficiency, you'll like the fact that transparency—you want to see that in the budget, how big is it, and if it's too big, you can get rid of it. So that's been gotten rid of in the U.S.

What's interesting nowadays, I think, is that now, increasingly, we hear from our government in Washington referring to foreign production subsidies and how they're killing us and how these are a terrible thing; foreigners are subsidizing all kinds of things, including Chinese subsidizing ship production, et cetera. Most recently, we found Japan filed a case before the WTO claiming illegal, improper production subsidies in South Korea. So, all of a sudden, this production subsidy, bad, even in the United States. So that's essentially the issue.

**INU MANAK:** So you don't think this would rank as high as one of the political compromises that could be made to reform the Jones Act?

**THOMAS GRENNES:** If you had to do something, there's a case for production subsidies being better than the Jones Act, essentially. You get the competitive prices. Yeah.

**INU MANAK:** Interesting. Mike, did you have anything to add?

**MICHAEL HANSEN:** Yeah. There was a production subsidy for the construction of deep-draft ships in the United States, and that was put in place by the Merchant Marine Act of 1936. The program was known as the Construction Differential Subsidy Program, and that provides a subsidy to the U.S. shipbuilding yard to produce ships for employment in the foreign trade of the United States, not in domestic trade, but in the foreign trade of the United States. And those subsidies were based upon estimates of what it would cost to build the same ship in a foreign shipyard, and the differential then was paid by the U.S. government through the Maritime Administration to the shipyard.

And that program was actually defunded. I think it's still on the books, but it was defunded by the Reagan administration in 1982. They did that. It was defunded because the program had gotten so out of hand. The shipyards, the U.S. shipyards that were building these ships for employment in the foreign trade and receiving the CDS subsidies got so good at fleecing the government that the government finally decided to shut down the program.

**INU MANAK:** Did you have something to add?

**KELI'I AKINA:** Right. Inu, you were talking a bit about the strategies to be able to accomplish Jones Act change. I think it's important for us to understand that the proposals that have been put forth have often been too narrow or too broad, too narrow in the sense that they may have dealt with only one jurisdiction or region like Hawaii or Puerto Rico or Alaska or one industry and so forth, which doesn't really deal with the overall national impact of the Jones Act.

On the other hand, it may be too broad sometimes when we call for a full repeal of all aspects of the Jones Act. I have committed a little bit of heresy here, if you'll see my paper that I prepared for the conference. It's called "Updating the Jones Act for the 21st Century: Why It's Time to Quit Calling for a Repeal of the Jones Act." Now, forgive me for that religious heresy for a moment here.

I do believe that in a perfect world, there would be no Jones Act, but at the negotiating table, although we know that the arguments for national security and for protection of union jobs are specious by the other side. Why not let them have that? They get the feeling of national security, and I say it's a feeling. It's a religious belief. It's an ideology. And the security for union jobs, they get those from three planks of the Jones Act, and that is the U.S.-flag, the U.S.-crewed, and the U.S.-owned planks.

Now, we don't gain a lot by eliminating those planks economically. The vast majority of economic benefit and free market benefit comes from eliminating the U.S. build requirement, and if we focus on eliminating the U.S. build requirement and leave on the table for the other

side their good feeling or their ideology of national security and defense of union jobs, then we may be able to bring them along collaboratively. Once again, please know in a perfect world, I believe there would be no Jones Act, but we're having to look at strategies.

In Hawaii, in particular, which is a predominantly single-party state, a state in which the forces of the unions, the monopoly shipbuilding companies, and the political party in power have colluded, we have to give them something that they are getting out of the deal if we're going to ask for Jones Act reform. So it may be better for us to go after a strategy of updating it for the 21st century.

And I'll just add one thing before handing off to my colleagues. Even in this current Republican administration under President—

**HOWARD GUTMAN:** Trump.

**KELI'I AKINA:** Trump. No difficulty in saying that. But even in the current Trump administration, there is such an ideology of protectionism of American jobs, we need to leave something on the table for the Trump administration as well, calling for a repeal only of the build requirement could get under the table.

**INU MANAK:** Thank you. So I just want to pick up on—you've mentioned Hawaii, and I think it's been noted in various occasions today that the Jones Act, the impact of the Jones Act is felt very disproportionately among the non-contiguous jurisdictions, so Alaska, Hawaii, and Puerto Rico.

Now, they face a larger share of the costs, and I think that's fairly clear from the data as well. I want to show a video that illustrates how the Jones Act has impacted small businesses in Hawaii by looking at the experience of the Koloa Rum Company in particular. So if you turn your eyes to the screen, please watch Bob Gunter, who is president and CEO of the Koloa Rum Company, explain to you the challenges of the Jones Act to Hawaii.

[Video presentation begins.]

**BOB GUNTER:** We are geographically and logistically challenged here in Hawaii. We are nearly 3,000 miles from any continent, and 90 percent of what we consume in Hawaii comes in by ocean cargo. All of us who live here pay a premium on just about everything we purchase because of the Jones Act.

There are two shipping companies that comply, and so there is very little opportunity for competition, and as a result, we pay higher freight rates. It adds another layer to the cost of doing business here, and the end of the day, it makes us less competitive.

We shipped a 20-foot ocean container of rum to Australia. The freight rates to the West Coast was about \$5,800. From the West Coast to Sydney in Australia, it was \$1,900. There's no one

in Hawaii that makes glass bottles. There's no one here that makes caps and labels. So all of that has to be shipped in by ocean cargo. It costs us now approximately \$6,500 just for freight to get a container-load of glass bottles shipped from the West Coast, and then we make the product, fill the bottles, and ship it back at the same cost. Our competitors who are making rum avoid that cost. It's just not fair how we are impacted the other 48 contiguous states are not.

I believe that repealing the Jones Act would open up competition, which would in turn lead to lower freight rates, and it would give us generally more flexibility. Once people really fully understand that everything that they buy has that premium attached to it, I think there would be a groundswell of support. It's time to change.

[Video presentation ends.]

**INU MANAK:** I sort of want you to touch on this as being our delegates from Hawaii—

**KELI'I AKINA:** Sure.

**INU MANAK:** —and explain a little bit about how this specific example relates to the broader challenges that Hawaii faces in particular because of the Jones Act.

**KELI'I AKINA:** Sure, Inu. You know, I spoke with Bob Gunter this afternoon mainly because I wanted to make sure the rumor I had heard that he sent up a case of Koloa Rum for our reception today was true, and he said it is true. And he's a friend of mine, and in the conversation, he pointed out that the biggest problem he has with the Jones Act is it makes him less competitive than his competitors across the world. And that's a real problem for him in his business.

We have a friend—and his business was referred to a little bit earlier in a prior panel—who owns a company called The French Gourmet, which sent delicacies from Hawaii all the way across the world, even to Dubai, and yet the government, through the Jones Act, has pretty much shut them out of business. We went to federal court and documented the fact that the shipping costs, because of the monopoly that the Jones Act allows in Hawaii, have just gone through the roof in such a way that in one year, the owner of The French Gourmet was paying \$4,000 for a container to be sent. And 3 years later, he was paying \$12,000 for the same quantity to be shipped, and he had to go out of business. And I could tell you that story over and over from Hawaii.

In answer to your question, Inu, the point is that when we put a human face on the Jones Act and stop simply talking about protectionism or the free market and so forth, people can get what's going on. And the stories that we have coming from Hawaii are across the country actually. There are actually hundreds of thousands, if not millions of business people, who if they had the right information could talk about the impact of the Jones Act on their business, and I think that's going to have to be part of the reform effort.

**INU MANAK:** Mike?

**MICHAEL HANSEN:** Yeah. Those are two examples that are probably not very indicative of the problems that people are facing.

In the case of the Koloa Rum incident shipping to Australia, there is, in fact, direct shipping from Hawaii to Australia. He was not aware of that at the time that he made that shipment and therefore incurred the cost of shipping the container to the West Coast and then having to transload it and reshipe to Australia. He contacted me about 5 years ago, and I informed him of the alternative. And I think he's been able to take advantage of that since.

And in the case of the baker in Honolulu, he was shipping in the international trade. This was not a case that he was shipping—yes, he was shipping some domestically, but his primary market was overseas. And what happened is that the shipping line he was using, Sealand, went out of business or stopped doing the business that they were doing in Hawaii, and he then had no alternative as far as his foreign—he had alternatives to foreign shipping, but they had increased the price. So that's not really the main problem that's facing Hawaii.

The main problem that's facing Hawaii is the shipping between the U.S. West Coast and Hawaii, which is, of course, a Jones Act trade, and that's where our focus is. The reason we initially put out our proposal, which we called the Non-contiguous Jones Act Reform Proposal, is back in 2010 was to make a very narrow-focused proposal that would only deal with the non-contiguous jurisdictions being the most disadvantaged by this law and also because we wanted to keep it small in scope and hopefully find some way of having the Congress respond to that as opposed to a much larger approach.

For example, Senator McCain's proposal, which he called Open America Shipping Waters, was a proposal that would do away with the build requirement across all vessels and all of the different cabotage laws. This would be everything from seagoing ships as we proposed to fishing vessels and the whole range of vessels, and Senator McCain was—until his last time that he introduced the bill, last year, was unable to get a single cosponsor. So that's how difficult even the broader reform effort might be.

Earlier this year, when he did introduce his Open America Waters Act again, he only got the Senator from Utah, the junior Senator to sign on. So it's a very limited area.

**INU MANAK:** Right. Tom, you had something?

**THOMAS GRENNES:** I would observe that the Hawaiian rum producer is more radical than my Hawaiian colleagues up here. He wants to repeal the Jones Act, and both of them are more pragmatic, and they just want to get rid of certain portions. But it's really quite clever. I think maybe realistic, probably. But, yeah, of all reforms, it can be radical and repeal the whole thing. Several people have suggested that. There's almost no political support for that.

The other possibilities would be get rid of it. You get a waiver for one area, Puerto Rico or Hawaii, or the other one is—I forgot the regions. In fact, the build requirement, what they've done is essentially do a composite of those two approaches. I'm sympathetic to this Hawaiian Shippers Council's reform.

**INU MANAK:** Go ahead.

**KELI'I AKINA:** Well, first of all, I'd like to say I respect the work of Michael Hansen at the Hawaii Shippers Council and hope you'll go to his website and see some of his work. It's some of the best in the world.

But we do have a little cross-town rivalry between us in terms of the interpretation of the facts, and the only one I would address is the interpretation of Senator McCain's keystone pipeline rider. When that came out, it was easy to read, and I immediately went online and read it. It could have been written on the back of an envelope. Specifically—and Mike is right—it called for a removal of the American-built requirement for the Jones Act.

Now, what was interesting is that Senator McCain's news releases were worded very differently. The news release out of his office called for a full repeal of the Jones Act, and I couldn't believe the difference. I wasn't sure why that was so, but it resulted in news media and the Democratic Party and the American Maritime Partnership launching a full-on assault across the nation in the media attacking the actual proposal, which was very moderate for Senator McCain, because they said it would cost union jobs. They said it would invoke all of the usual standard talk-point arguments, such as even as exotic as saying that OSHA requirements would no longer be used on our ships, and therefore, they would be sweatshops for human rights abuses and so forth. And Senator McCain's proposal did not invoke that.

So the question is, Why was it rejected? It wasn't rejected because it was so broad. It was rejected because in the wording of the McCain camp, which actually was speaking to his supporters, this was being viewed as something that would be a total repeal of 100-year-old law.

To my point earlier, I don't think it's going to be easy for us to win a battle in Congress that's 100-year-old law—I mean that's a repeal of 100-year-old law that has tentacles in multiple agencies and untold regulations spawning from it. Instead, let's go for the part of it that has the greatest economic value for those of us in Hawaii, Puerto Rico, Alaska, and across the nation, and that is let's get rid of the U.S.-build requirement. And that's not going to be that hard because for those who hold sacred the U.S. security argument, even our military buys ships from our allies, and so all we'd be asking, a removal of the U.S.-build requirement, is to allow our commercial shippers to do what our military does, which is to buy vessels from our allies, which could still be American-crewed, American-flagged, and American-owned. It's a much better argument.

**MICHAEL HANSEN:** When you say American shippers, Keli'i, are you referring to the ship owners or to cargo owners?

**KELI'I AKINA:** I could be referring to both of them.

**MICHAEL HANSEN:** Oh, really?

**KELI'I AKINA:** Shippers can be used for both the sender of the shipment and the owner of the ship.

**MICHAEL HANSEN:** Yeah.

**KELI'I AKINA:** Thank you.

**INU MANAK:** That brings up to mind, interestingly, looking for pragmatic ways to reform parts of the Jones Act, and I think a generally overlooked fact that was mentioned somewhat earlier in the discussion was that the Jones Act is part of this broader web of laws that are very old, and that penalize the U.S. economy in a myriad of ways. One such similar law is the Foreign Dredge Act of 1906, which Jen alluded to earlier.

Now, Howard, I'm hoping that you can sort of give us a little bit more insight into what the Foreign Dredge Act is, what are possibilities to reform, and what can we do here as we repeal this?

**HOWARD GUTMAN:** So let me go one step better than my colleagues, and I've been working on opening the U.S. dredging market to investment and competitive bidding by foreign dredgers using U.S. labor, indeed, U.S. unionized labor.

Let me make three statements about that that should seem patently absurd to all of you. They are all correct, and once you realize they're all correct, you won't wait until the end of this. You'll get up. You'll pick up the phone and start calling Senator Cornyn and the administration because if anything could come out of today's session, we could at least fix this problem.

So here are the three statements about opening the U.S. dredging market to investment and competition by foreign dredgers, and we're essentially talking about four European companies, two Belgian and two Dutch. Number one, it is the single most important U.S. economic policy initiative today. It is the single most important economic policy initiative in the U.S. today. Number two, it is the most readily attainable. It is low-hanging fruit. And, number three, all the objectives you've heard, the pushback by the Jones Act supporters, not one of them applies to at least making that reform.

So let me explain why and how. How could opening the market to bidding, competitive bidding by two Belgian and two Dutch foreign dredgers be the single most important economic policy initiative in the United States today? If you went to the Port of Houston and asked if we could

only have the capacity and if it was only affordable to get you back to the level from the 2015 hurricane and then if we could only have the capacity and the funding to get you back to the 2017 hurricane, neither which are they back to yet, and then if we could finally get you to the post-Panamax depths, double depths, what would that be worth to the U.S. economy? So they were asked that question, and they had third parties study it. And they showed it would create, directly and indirectly, over 1 million U.S. jobs.

You ask the 10 ports waiting for dredging, the 10 critical U.S. ports waiting for dredging that same question. The total job creation just from deepening our 10 ports to post-Panamax depths would be 5.5 million American jobs.

Now, the last 2 years of the Obama administration or the first 2 years of the Trump administration, that's created 4.2 million jobs. This one change would create 5.5 million American jobs. Then if you turn to the Army Corps of Engineers and said, "Look, I just learned a fascinating fact. We could create 5.5 million American jobs if we could just dredge our 10 ports. When will they be done?" they will tell you it's going to take more than 15 years.

But if you then open the market to competitive bidding by four companies, it can be done in 4 years, and how has that happened? We don't have the capacity to do the dredging, and we don't have the money. So each of these ports is sitting with about 50 percent of what they need to pay to be dredged, and they're waiting for someone who has a free dredge to go do them. But it's not the dredgers that's holding them up because the money doesn't exist, anyway. But when the Belgian and Dutch clients bid the same projects, the prices fell in half, 40 percent to 50 percent off. The time to complete it fell to a third, and there was enough capacity to do them all right now. So we are sitting in a country that has enough money to dredge every one of its ports right now. There's enough capacity if we open the market to the four largest dredgers. How could that be? Well, they build 19 dredgers in the time we built two. There were 15 dredgers in Europe in those four companies, larger than any dredge in the United States, and their largest dredge is three times as large as ours. So they do it differently. They use hopper dredgers, where we have to build placement areas. So the time for Houston would be cut to a third. The costs are cut in half. There is currently enough money in the United States to do all of our ports simultaneously to be done in 4 years, creating 5.5 million American jobs, without costing a single American job that exists now while we create 5.5 million American jobs, because those companies would use U.S. labor.

You don't have to touch the U.S. labor requirement whatsoever in the Dredge Act, and you really don't have to touch the Jones Act particularly because when you amend the Dredge Act, which is the same thing as the Jones Act, all you have to note is with this waiver or with this amendment, that for purposes of any other statutes, construction, moving stand, digging shall not be considered transportation. That will leave that fight for these guys, for Cato in the long run, but all you have to do is say for construction, that isn't true. When we dig sand, we weren't transporting sand; we're just dealing with the Dredge Act. You keep the American labor requirement. You just opened it to foreign investment, foreign-built ships, and we get our ports done.

So how is it easily attainable? Well, we could do it for Corpus and Houston tomorrow with the national security waiver, and if you just take a look at either the definition of national security, now to include Americans' economic security, or our energy needs to get oil and gas to just look at Corpus' project with Carlyle now to build a crude oil terminal, that project, the costs fall more than \$100 million and is put online years earlier. And we can finally get oil out of Corpus.

That can be a national security waiver, not affecting a single American job, done on Monday or Tuesday. I figure it won't get out until Friday, so let's wait until Monday or Tuesday. But that could be done now.

**KELI'I AKINA:** I'm voting for you.

**HOWARD GUTMAN:** There you go.

There's not a single question that terrorists come in. It's American crews. There's not a single question that we've lost union jobs. We protect the 3,000 existing ones. We create 5.5 million new ones. None of the classic arguments, any of the arguments matter, and it can be achieved today. So why isn't it? Because it even helps the five existing U.S. dredgers because ultimately no one has invested in the U.S. dredging market in decades and decades, and they don't have the money to do it themselves. But they just haven't seen it, and the initial reaction is this must be about something against their interests.

So that for really how to do reform that we can actually achieve, the U.S. build would be great for the long run, but if you just got a waiver tomorrow for Corpus or Houston and we saw the economic results for creating the American jobs, this is this administration. This isn't give them something. This is them doing it. You would then see—once it was proven in Houston or Corpus, what about Charleston or Savannah? Savannah, we started dredging 18 months ago. They finally got the money. It is further from being complete today timewise or moneywise than it was the day they started. Cost overruns and time overruns out-lag spending and time spent.

So Savannah and Boston and Charleston and Jacksonville and Corus and Houston, we get one waiver. That will all go forward, and at least we can get that sector done.

**MICHAEL HANSEN:** Howard, can I ask you a question?

**HOWARD GUTMAN:** Yes.

**MICHAEL HANSEN:** Are you proposing to reflag or keep the foreign flag on with the U.S. crew?

**HOWARD GUTMAN:** You have a U.S. crew. You waive the requirement of what's the ownership. Ultimately—by the way, these are Belgian and Dutch companies that operate in the United States today, and they can install windows. And they do offshore windows. They can do environmental remediation, and they do. They just can't do what they do best, even though

they invest in the U.S. and their U.S. subsidiaries. Those subsidiaries just happen not to be allowed to dredge, so we allow those companies to do it.

**MICHAEL HANSEN:** They can't own a dredge—they can own a dredge, but they can't dredge in the United States.

**HOWARD GUTMAN:** They can't dredge in the United States, and they can't use one of their dredgers. And where are these dredgers built, by the way? Are these built in—

**MICHAEL HANSEN:** China.

**HOWARD GUTMAN:** —China? No. No. These are built in the Netherlands where labor costs are 30 percent higher and energy costs are 40 percent higher. They just spent time competing against each other for 50 years where protectionism meant nobody in the U.S. had to invest. They could take their profits out. So they built 19 ships, 15 bigger than anything we've ever had, while we've built nothing.

**MICHAEL HANSEN:** So you are talking about having a foreign-flagged dredge—

**HOWARD GUTMAN:** Right.

**MICHAEL HANSEN:** —probably through a U.S. subsidiary—

**HOWARD GUTMAN:** Yes.

**MICHAEL HANSEN:** —with a U.S. crew on board.

**HOWARD GUTMAN:** Yes.

**MICHAEL HANSEN:** And so you need the waiver for the flag, and you need the waiver for the ownership.

**HOWARD GUTMAN:** Of the Dredge Act.

**MICHAEL HANSEN:** Right.

**HOWARD GUTMAN:** Not of the Jones Act. And then we need a provision in that waiver.

**MICHAEL HANSEN:** The problem with some of that terminology is that often people mean all of the U.S. cabotage as the Jones Act.

**HOWARD GUTMAN:** Right.

**MICHAEL HANSEN:** But you're—for Section 27 of the Merchant Marine Act of 1920.

**HOWARD GUTMAN:** So this is for the Foreign Dredge Act of 1906.

**MICHAEL HANSEN:** I understand.

**HOWARD GUTMAN:** And since the lift is too hard generally to get something done in the short, the best way to get it done is to prove the small and then generalize after, if you want to do that. Prove the small is this is one little subset of why we're here today, but that subset should be a no-brainer.

**INU MANAK:** Yes, please.

**KELI'I AKINA:** You know, I would have loved to have seen Howard in all his glory when he was the Ambassador to Belgium negotiating on our behalf. We might not have had Brexit because you're so talented in that.

But actually, putting aside the details of your proposal, what I really liked about it is it's part of a category of proposals that says let's get industry involved in seeing what value there is in reforming the Jones Act or the Dredge Act so that money will flow for the purposes of lobbying. When you bring in the construction industry and you have a project so massive as dredging across the entire United States, you're talking about the flow of capital. And part of the reason that the Jones Act remains in place is simply that the American Maritime Partnership and the others who promote the Jones Act have the capital flow going to our policymakers.

As one person put it once, there's just not enough money in politics. Maybe if the Cato Institute can give more money to our congressional members, we'll see a change in the Jones Act. It has to be the (c)(4) of the Cato, I suppose.

But my point is this. A realistic change of the Jones Act has to demonstrate to industry that there is financial value in the change, and then what will happen is the political will will follow.

**INU MANAK:** Howard, you raise an interesting point that made me think a little bit about when we think about the dredgers. They're European companies. If we expand this to think about Jones Act reform in general and the Dredge Act, is there some value to thinking about—well, the national security argument says we're afraid of letting foreign companies in to compete with us, or they might undermine our national security. How do NATO allies, as these companies are, potentially damage national security? That's a good question to raise. Could we think of a broader exemption for our allies when it comes to both the Dredge Act and also general coastwise trade? How would that work?

**HOWARD GUTMAN:** So when I said that not one of the traditional arguments applies, first of all, these are Belgian- and Dutch-owned companies that already operate in the U.S. They're allowed into the U.S. They're allowed into environmental remediation, far more sensitive. They just can't do this because of a law passed in 1906.

But, second, if you even bought that we needed a merchant marine fleet to someday defend ourselves, could you see Secretary Mattis saying, "Oh my God, we're being attacked. Call up the dredgers. Bring them into battle"? Dredgers aren't part of the national security fleet. Or could you see the argument, "Belgians could be sneaking into our country"? You are keeping the 75 percent U.S. labor requirement, and then there are some executives who own second homes in New York because they have operations here. By the way, American dredgers own homes in Europe. I mean, this is just—from 1906, it had no idea what the world would look like today in this area more than any. There is no national security issue, other than the national security issue that if we don't dredge Houston and we don't dredge Corpus, we can't get energy out of our ports, we can't compete economically—it's national security alone the minute I say 5.5 million American jobs.

**MICHAEL HANSEN:** I think it's worth noting that the American dredging industry is part of the American Maritime Partnership, and the American Maritime Partnership is the primary lobbying organization for all of these cabotage interests. And they're pretty well stitched together, insisting that nothing get changed, because they have this camel's nose under the tent idea that if you give them an inch, they're going to take a mile.

**HOWARD GUTMAN:** And what I would say is anyone who thought they were part of cabotage has never seen a dredge. They are part of the American Construction Council, whatever that trade association is, and they get no protection.

These same companies can build a port building, and they do sometimes. It just can't touch the water.

**MICHAEL HANSEN:** Yeah, that's right.

**HOWARD GUTMAN:** So this is the construction group. They're digging in the same earth. It just got the water over it instead of the land over it. They're part of the Construction Council. So whoever thought the camel's nose was going into the tent, the camels have run so far from the tent in that case, we're not in the desert. We're nowhere in the desert.

**MICHAEL HANSEN:** Went through the tent.

**HOWARD GUTMAN:** We're nowhere in the desert.

**INU MANAK:** Go ahead, Tom.

**THOMAS GRENNES:** I have a question about both of these proposals, the Hawaiian Shippers Council proposal asking for an exemption, but for two specific purposes. One is big ships exempt and then the building requirements, fairly well defined.

**MICHAEL HANSEN:** Yeah. All we want is what our proposal was. It was an early proposal, and we were trying to narrow it as much as possible. So self-propelled ships over a thousand gross

tons in the non-contiguous trades, very narrow, very targeted, so that we draw the least amount of opposition possible.

**THOMAS GRENNES:** I agree. I'm thinking about a comment made earlier—I think it was by Anne Krueger—about if you make exemptions, which bureaucrat decides who gets the exemption and who doesn't? You got a massive bureaucracy. I think this one, yours, is fairly narrow. Things are pretty well defined, only certain kind of ships in certain areas.

Now in thinking about this waiver, it seems more vague. Who's going to decide—

**MICHAEL HANSEN:** I think Howard has got a good idea because he's saying, "Give us a waiver, and we'll show you what we can do," and after that, then I'm sure, Howard, you're looking for something permanent.

**HOWARD GUTMAN:** We'll start with Ted Cruz and John Cornyn calling Donald Trump and saying, "You know, Houston and Corpus kind of critical to our energy, and Houston is not back from 2015. Then we got 2017, and then we got post Panamax." There's not a nickel of federal funding. It's not an authorized project. They're paying for it privately, and they can get started now, done in 2 years at half the cost. This doesn't take a lot to at least start Houston. If it doesn't work, okay. I have a feeling if Houston is done in 2 years at half the cost, only American labor creating a million American jobs—

**MICHAEL HANSEN:** The rest of the world will know. Yeah, sure.

**INU MANAK:** Well, that's interesting. What I keep coming back to from this panel and other panels that came before is that there's no shortage of ideas for how to move forward. I think that there's been plenty put down on the table for how to move away from the Jones Act and make this a little less of a burden on the American economy.

But there always seems to be something that we stumble on, and that seems to be the politics of it, of course, and it reminded me, when I was preparing my notes for this, I was reading the floor statement by the late Senator John McCain for something that was mentioned earlier, which was the amendment he made to the approval and the Keystone XL pipeline in January 2015, and I want to read a little bit of that floor statement to you. And I think that perfectly captures some of the problems that we're facing and moving forward with reform.

He stated, "As clear as the benefits of free trade are, taking action here to remove trade barriers and open markets can be almost impossible here in Congress. Special interests that have long and richly benefited from protectionism flex their muscles and issue doomsday warnings about the consequences of moving forward on free trade. And judging from my amendment and hysterical reaction by some of the special interests to simply filing it, the debate over the Jones Act will be no different."

So I ask my panel a little bit to sort of respond to this. I mean, what are some of these forces that have been impeding progress on Jones Act reform? This is a law that's been around for almost 100 years now.

**MICHAEL HANSEN:** And you could also say that these requirements have been around for 200 years. The first real cabotage law in the United States was passed in 1817, after the War of 1812, and continued disputes between the U.S. and the Brits regarding the use of American ships in the Caribbean trade. And so it's been there for a long, long time, and the interests have become—over many generations have become accustomed to being protected.

This group is highly organized. You've got the labor side, and you've got the ship operating side and the shipbuilders. And they pool their resources, and they work actively to defend the Jones Act. Somehow you have to be able to develop enough of an effort on the other side in order to counteract that.

The guy who has had the most experience with this is Rob Quartel leading the Jones Act Reform Coalition, or JARC, in the 1990s, and they made some real progress in terms of getting some proposals out and garnering some political support, but in the end, they were defeated by the cabotage group. At that time, the American Maritime Partnership was known as the Maritime Cabotage Task Force, and they certainly were able to stop that particular effort.

**THOMAS GRENNES:** Yeah. Why is it so difficult? We've heard a lot that the benefits are concentrated and the costs are spread. That's certainly a difficult, difficult issue.

The other one, I think is the national security somehow persuades a lot of people, and we heard a session. A lot of us think that the national security claims are greatly exaggerated. You look at what's happened to the shipbuilding industry, down, what's happened to the size of the American fleet, down, et cetera. So those are two difficult issues.

On the other hand, I don't think we should be completely negative about the chances for reform. I would look back a little bit and say once upon a time, there were tariffs among the states in the United States. Before the Constitution, we had Articles of Confederation, which one state invokes a tariff against other states, and then you had a constitutional convention. And you finally got agreement that we have free trade among the states. I think this commerce clause is one of the main reasons for the great prosperity of the United States, so it's not all negative.

**INU MANAK:** Yes.

**KELI'I AKINA:** I think one of the good things about this conference today is we've heard about the economic costs of the Jones Act. We've looked at some of the research and the need for more research. So, on the financial side, we can see that it's a losing proposition, except for a small group of people who are making money.

Now, what gives them power is something psychological, and that is the almost religious belief that the Jones Act results in national security or that the Jones Act creates better working conditions and protection of jobs for union members.

Now, the important thing to realize is that those two beliefs are predicated upon three of the four planks of the Jones Act. They're predicated upon the U.S.-crewed, U.S.-flagged, and U.S.-owned features of the Jones Act. So reform efforts that attack the whole Jones Act invoke these two psychological religious beliefs, and they're very hard to get rid of. I have friends who are high-level brats in the Navy League, and they know the facts about the Jones Act, that the Jones Act is not really resulting in national security. But because it's a doctrine embraced by higher-ups in the military, they have to embrace it.

So I think in answer to your question, one of the reasons it's been so hard to bring about change in the Jones Act is that our industry of the think tank world has largely gone after proposals for the total repeal of the Jones Act, and as I said earlier, even though the goods by the other side gets from the three planks that are not the build requirement are illusory, why not let them have that and let's focus on a more narrow approach, which is showing the benefits of reforming the build requirement?

**MICHAEL HANSEN:** I would also note that there is quite a lot of claim on the pro-Jones Act side that American shipyards are far superior to foreign shipyards and produce a better product. So they haven't given up that plank yet.

**HOWARD GUTMAN:** But just two things on that. For American shipyards, they can and are owned by foreigners.

**MICHAEL HANSEN:** Yes.

**HOWARD GUTMAN:** So that's mind by—we're protecting the American ship—first of all, nobody is building dredgers in America, right? They've built two in the last two decades. So nobody is building dredgers over the last decade, number one.

Number two, the main shipyards are foreign-owned, whereas the dredgers can't be.

**MICHAEL HANSEN:** Well, there's seven, what they call, major shipbuilding yards in the United States. Five of them build only military vessels, military ships.

**HOWARD GUTMAN:** Right.

**MICHAEL HANSEN:** Two of them build only commercial vessels, and those two are foreign-owned. One is Philadelphia, and that's owned by Norwegians.

**HOWARD GUTMAN:** Right.

**MICHAEL HANSEN:** And the other one is Halter Marine, which is owned by a Singapore company.

**HOWARD GUTMAN:** Right.

**MICHAEL HANSEN:** And the third one is owned by General Dynamics. That's the NASSCO Shipyard in San Diego, and that builds both commercial and military vessels. Those are the major shipbuilding yards in the United States, the ones that build the deep-draft ocean-going ships, over 1,000 gross tons, that the non-contiguous jurisdictions rely upon for their cargo flows. So that's a major issue.

**HOWARD GUTMAN:** And, by the way, if we did open at least to dredging, can you imagine if 10 ports were being done simultaneously, the number of barges and tugs and things we do build in our shipyards? Our shipyards would actually have a renaissance at that level to support that efforts, and the only ones that could possibly claim as a Norwegian- and a Singapore-owned operation—and you ask why is that position so big? Well, on that issue, if you can picture out there 330 million Americans and here are 5—one, two, three, four, five—that's the split because the U.S. dredging industry is 3- to 5,000 people total. All of them would be employed, regardless of who owned the company. There's only five companies that can even think about doing any of these projects, the large port projects. So it's the five CEOs, all of whom, by the way, would end up making more money in affiliation with foreigners coming in, but at most, it's 330 million to five. So how can't we beat five people? Misinformation, the American Maritime Partnership not realizing their construction, and we're maritime. But it's only five American companies, and all their employees immediately get used. And many more have to be hired if we're going to do all 10 ports at once, but then the jobs created by ports being done is the 5 million.

**MICHAEL HANSEN:** All you have to do is get the Congress to agree.

**HOWARD GUTMAN:** That's what your job is. My job was to take it to you. The rest, you're supposed to be able to make the phone calls now.

**INU MANAK:** Well, I want to turn now to the audience to ask some questions, as I think you've got a lot probably to ask for our panel. I just want to remind you to please state your name and affiliation, and keep it to a question, please. We have one in the front here.

**ATTENDEE:** Jay Vaugh [ph], no affiliation.

I'm just wondering what kind of protections exist in other countries, like China, Canada, EU, Brazil, Australia, regarding shipping between the ports and their countries? Do they have equivalents to Jones Act in those countries? Are foreign ships allowed to operate within those countries who are between their ports? Thanks.

**MICHAEL HANSEN:** Yeah. Internationally, it's known as cabotage or maritime cabotage, and most of the coastal and river marine countries in the world have some degree of cabotage restrictions.

Typically, they may restrict their river and ocean traffic domestically to ships that are registered in the country; in other words, flying the flag of the country. Generally, there is some kind of a crewing requirement. But ownership is not always required.

And there's only two countries now in the world that I'm aware of that actually have a domestic build requirement, and one is Peru and the other one is Nigeria. So, as they say, do you want to join that company or not?

**THOMAS GRENNES:** Many countries have these restrictions. There's an index, OECD index, that shows what they are. The U.S. is more restrictive than the average, and Inu and her colleagues have a paper, which they cite this OECD index. So it's common. It's more severe in the U.S.

And I would say one more thing. If people think this is a burden—and it is a burden—if economic efficiency—if they all got together and negotiated, they could negotiate them down, and everybody would gain.

**MICHAEL HANSEN:** Right. The American system, cabotage, is sometimes referred to as "super cabotage" because it's so much more restrictive than the international norm.

**HOWARD GUTMAN:** In the dredging world, the rest of the free world is open to—these four companies do the rest of the free world without—and I trust because they hate each other and they bid against each other. They compete very hard against each other—not to hate each other. They compete very hard, but they do it all over, including Canada has reached an agreement, and they can do Canada.

**KELI'I AKINA:** Singapore shipping company owners call the Jones Act the "granddaddy of all protectionism."

**INU MANAK:** Another question? One here.

**EDWARD CATTELL:** Edward Cattell.

I think it's a mistake to focus on the American flag, American crew, American ownership as a solution; if we give them that, we'll win. I do not think that the American carriers, the ship owners, really care that much about it, but their big issue is if you repeal the Jones Act and somebody can come into my trade with capital equipment that cost 10 percent of what I paid, it's going to kill me. Now, me being hurt economically is not something I can sell, but if I can get a bunch of admiral and wave the flag and beat the drum, that's a really good showmanship kind of argument.

So it seems to me that if you really want to try to diffuse the opposition, you've got to defang the guys who are trying to protect their economic interest, and the way to do that is to take—Matson line, a whole bunch of brand-new container ships built at Aker in Philadelphia, cost them hundreds of millions of dollars. If somebody can compete with the same ships built in Korea for a third or 20 percent—

**THOMAS GRENNES:** A fifth, a fifth of the price.

**EDWARD CATTELL:** —it's difficult. But if part of the program to end this Jones Act build requirement once and for all—no subsidies, no waivers, just get rid of it—would be buy out their equity, the differential between what they would have had to pay for a Korean ship and what they had to pay for a U.S. Jones Act ship, so that they are now standing economically equal with their potential competitors, that could be a solution.

Now, why would Congress say let's pay all that money? I think the answer is that to change the Jones Act and take away the economic value of these vessels is potentially a Fifth Amendment taking that the government is going to have to pay for, anyway. And there's actually a precedential case from the Court of Claims in the D.C. Circuit that held exactly that.

So work on—it just seems to me work on the carrot that we talked about a little bit earlier of buying out the loss for these vessel owners so that they are now going forward equal to their competitors. I'd like comments on that.

**THOMAS GRENNES:** You're suggesting it's similar to an all-production subsidy, that idea. You would have competition, but the production subsidy would come from the taxpayers.

**EDWARD CATTELL:** One time only.

**MICHAEL HANSEN:** You're absolutely correct that doing away with the build requirement would have to involve some kind of compensation for the existing ship owners because the value of the vessels on the books is going to be a lot larger than what it would cost to build a similar foreign-flag ship or a foreign-built ship, and so that would have to be something that would be part of the arrangement to provide for the ending of it.

But in addition to that, there is the notion amongst the ship owners that they prefer to have the U.S. build requirement and the very high price of U.S. ship construction because it creates a barrier to entry for other new entrants to come into their market, and this is a very real thing is that even though they're paying considerably more money for the ship than they would have to on the world market, that this provides them an additional protection in addition to the other Jones Act protections. This is an issue that you'd have to deal with there.

**HOWARD GUTMAN:** That part doesn't apply over to the dredging because we're talking about expanding the number of ports able to do. We don't have the capacity already. Those ships could all be deployed on projects they're more suited for.

**THOMAS GRENNES:** This idea of a buyout, as we talked before, I think James Coleman mentioned it this morning. Also, on the old tobacco program, it was a similar program. They were bought out a few years ago by the taxpayers. So it has been done, could be done.

**INU MANAK:** Question in the front.

**JUSTIN LeBLANC:** Thanks. Justin LeBlanc, Crossroad Strategies, again, represent Seattle-based commercial fishing interests.

I've found the discussion about reform of the Jones Act either through some sort of sectoral exemption or repeal of some, if not all, of the requirements of the Jones Act to be interesting. I'd like to solicit the panels' thoughts on what I consider to be not the way to reform the Jones Act, and that is through these one-off vessel-specific waivers that we see from time to time move through Congress. We just had one on the Coast Guard Act from last week that exempted one particular commercial fishing vessel, and the problem with those one-off waivers is that while they may demonstrate or be a case study of the burdens and the problems with the Jones Act, within the sector they create an unfair advantage to the entity that gets that one-off waiver. So I'd just like to solicit the feedback from the panel on that.

**INU MANAK:** Do you want to take that?

**KELI'I AKINA:** Well, ship-specific waivers are subject, of course, to politics, and that's not a good thing overall.

But I would like to lump that together with many efforts that are taking place to find geographic-specific or industry-specific efforts. For example, I think there's nothing wrong with the fact that some in Hawaii want an LNG exemption. There's nothing wrong with the fact that Puerto Rico would like a geographic exemption. Alaska has at least a half-a-dozen specific industry exemptions and so forth. Nothing wrong with those being advocated from the locality up, but overall, they're not going to do the heavy lifting of transforming the protectionism-negative effects of the Jones Act, and that's what we need.

I think we need to be able to show two things. Number one, that the Jones Act is a nationwide problem, a national problem, and number two, that the average person is impacted by it.

I briefed Senator Ted Cruz, who was mentioned earlier here, once on the Jones Act, and at the end, I turned around and asked him for advice. I said, "What would you do in order to bring about change in the Jones Act?" and he thought about it. And he said, "I would show how bad the Jones Act is in a commercial that had pictures of starving Hispanic children." Think about that for a minute. Putting a face on the problem.

So there's nothing wrong with the specific kinds of waivers you're talking about, but they don't do the work of accomplishing a national reform. And a nationwide reform is going to require

people at home who can actually feel the pain of the Jones Act and see it as a very personal thing.

And that's why the story of the Koloa Rum Company and other stories is so effective. It shows that there are hundreds of thousands, if not millions, of businesses that are really suffering because of the Jones Act.

**MICHAEL HANSEN:** I think you were referring to America's finest?

**JUSTIN LeBLANC:** Correct.

**MICHAEL HANSEN:** And the problems they ran into with the use of formed steel that was imported from the Netherlands, I believe.

In your position, say, for example, with Senator McCain's Open America Waters Act, is that something you would have been in favor of because it touched on fishing vessels, or would you not be?

**JUSTIN LeBLANC:** Yeah. I think the idea is more that everybody within that fishing sector has to play by the same rules. So it's whether we're all subject to this Jones Act or we're exempt from the Jones Act. Everybody is hit upon together, so the analogy of that, company-specific one-off vessel waivers that create a competitive advantage for that one company as it relates to their competitors in the sector is inappropriate.

**THOMAS GRENNES:** Did America's Finest get a new waiver? I'm not aware of it.

**MICHAEL HANSEN:** Yes.

**THOMAS GRENNES:** Oh, they just got on?

**JUSTIN LeBLANC:** They got a waiver with certain conditions.

**MICHAEL HANSEN:** They're limited in what they can—

**THOMAS GRENNES:** They must have some clout somewhere.

**INU MANAK:** We'll take another question, right in the front here.

**NOELANI BONIFACIO:** Hello. Noelani Bonifacio with the Republican Study Committee in the House.

So I'm from Hawaii, and kind of going back to your point, Keli'i, about the increased prices of food and energy in Hawaii—and, Mike, you kind of touched upon this—I think the people in Hawaii have a difficult time connecting the prices of food and energy with the Jones Act. So I

was wondering if there are any studies that quantify the effect that the Jones Act has on the average consumer.

**KELI'I AKINA:** Well, Noelani, there are many studies, but frankly, they're not good enough, and they're contradictory of each other. And that's why we support what we said in an earlier panel, that there needs to be a rigorous cost-benefit analysis.

With that, I'd also like to apologize that it's the Jones Act that has raised our cost of living in Hawaii so much. That we have such a brain drain, that our finest like you, Noelani, have to leave and come and work in Washington, D.C. We hope you can make enough money up here so you can afford a mortgage back home.

[Laughter.]

**INU MANAK:** Another question? On the corner here.

**WILLIAM HEMSLEY:** William Hemsley, Legislative Construct.

What is the present, immediate political nexus for the effective repeal or adjustment of the Jones Act other than the Cato Institute? Who else is working?

**INU MANAK:** Who else is working on the reform?

**MICHAEL HANSEN:** I think there's a number of different groups that are working. For example, Manuel Reyes in Puerto Rico, his group has been very active in the Jones Act. There's other people in Puerto Rico that have taken some action in that regard.

**WILLIAM HEMSLEY:** I'm more concerned about an umbrella.

**MICHAEL HANSEN:** Yeah. There's no national organization like there was in the 1990s with the Jones Act Reform Coalition.

**KELI'I AKINA:** The kind of coalition that's going to be effective has to really cross political aisles. It can't simply be conservatives, libertarians, or Republicans battling for Jones Act reform, and there's good news. There are Democrats that are starting to see how the Jones Act doesn't live up to its promises. In Hawaii, as it has been mentioned, Ed Case, a Democrat, has become our Congressional District 1 representative, and he's going to be bringing a different voice to the Hawaii delegation.

But probably the most promising hope is with the unions themselves. All throughout our country, we're seeing unions realizing the fact that they need transformation in order to meet the needs of their members, and a growing number of members—we can tell you certainly in the State of Hawaii—are seeing that the Jones Act itself is not beneficial to them simply as regular citizens who have to pay a cost of living like everyone else. So the more that we can get

people who do not line up with one political ideology working together to modify the Jones Act, the more successful we will be.

**INU MANAK:** And I just want to add in terms of our project on Jones Act reform at the Cato Institute, it is a bipartisan effort, and that's what we are trying to do by reaching out to people on both sides to figure out what their stories are, to figure out what their interest are, and we see this as something that is not a Democrat or Republican issue but really something that touches everyone in the United States, regardless of political affiliation.

So I think the more that we research and figure out what's going on with the Jones Act—we hear all these stories from all over the United States of how people have been negatively affected. So I think at the end of the day, the full reform or repeal of the Jones Act is going to come from everyone working together to address this issue that they all share.

**THOMAS GRENNES:** Is it possible that Rob Quartel will make a comeback?

[Laughter.]

**INU MANAK:** Next question.

**JOHN KING:** John King, speaking for myself.

I'm a retired budget analyst from the Pentagon who spent most of the time working for the Navy, an institution that has never built a ship on time or on budget. But we have seen examples where innovators who are willing to take risks have come in and helped the price and cost structure. The guy I'm thinking of, for example, is Elon Musk, SpaceX, where the number of manufacturers was down to two, and they formed a consortium so they could overcharge the Air Force on satellite costs, at least on the booster phase.

But when he came in, he went down the supply chain for the booster rockets, and when he didn't like the answers, he basically constructed from scratch the engineering talent who make and improve all of those systems. And when he first came in with the bid to the Air Force, it was basically 50 cents on a dollar. So the Air Force was shocked. But he attacked the cost structure, and now you got Jeff Bezos right behind him also on driving those prices down. Do we have nothing like that in the ship construction industry where we can drive the cost side of the equation down and at least equalize the prices?

**MICHAEL HANSEN:** I would say that you might draw an analogy with Austal USA Inc., operating in Alabama. That's an Australian company that builds aluminum vessels, high-speed vessels for the military, almost exclusively. They were also the yard that built the vessels for the Hawaii Superferry that ended up being repossessed by MARAD. But that's an Australian company that's highly successful in selling into the world market from their shipyard in western Australia. They also have a major yard in the Philippines that they use for their international contracts.

Yet when they came to the United States, basically as a military contractor, their pricing is not that much different from the other military contractors building ships, and just exactly why they haven't been able to be more successful in lowering their costs, I'm not sure. Maybe there was no incentive for them to do that, but certainly, military construction costs for ships has been escalating, and it's a major problem for the national defense budget.

And one of the arguments in support of the Jones Act and especially the Jones Act domestic build requirement is that by requiring that all ships used domestically in the United States be built in the United States, that will bolster the shipbuilding industry and make that industry more competitive and at lower cost for national defense purposes. But that doesn't appear to have worked out that way.

**INU MANAK:** Well, I'm going to wrap up this session here, actually, because I realize we're getting close to the debate, and I hope you stick around for that. And you can continue to ask our panelists some questions as we set up for that, but now I just want you to join me in thanking this panel for an excellent discussion.

[Applause.]