GAO

United States
General Accounting Office
Washington, D.C. 20548

160010

Resources, Community, and
Economic Development Division

B-279386

March 6, 1998

The Honorable John McCain
Chairman, Committee on Commerce,
Science, and Transportation
United States Senate

Subject: Maritime Issues: Assessment of the International Trade Commission's 1995 Analysis of the Economic Impact of the Jones Act

Dear Mr. Chairman:

The "Jones Act," the popular name for section 27 of the Merchant Marine Act of 1920 (46 U.S.C. app. 883), along with several related trade laws, requires that, with few exceptions, cargo transported by water between points in the United States be carried on U.S.-built, -registered, -owned, and -crewed ships. Over the years, the need for retaining the Jones Act and the potential costs and benefits that accrue from the act have been the subject of much discussion and debate. Some say the act keeps the United States on an equal footing with other nations that do not permit U.S.-owned ships to carry their domestic cargo[1] and protects the United States' shipping businesses and jobs, shipbuilding capacity (including that for building naval vessels), and capability to transport cargo during wars. Others say that not allowing foreign ship operators to compete for transporting domestic cargo keeps shipping costs artificially high, increasing costs for U.S. businesses and consumers.

Three reports prepared by the U.S. International Trade Commission (ITC) have been an important part of this debate. These reports, titled The Economic Effects of Significant U.S. Import Restraints and prepared in 1991, 1993, and 1995 at the request of the Congress and the U.S. Trade Representative, concluded that the Jones Act has substantially increased the cost of domestic

[1]In 1992, the Maritime Administration sent a survey to 62 countries that were selected based on the size and capability of their vessel fleet and coastal access to international waterways. The survey, to which 57 countries responded, showed that 44 countries maintained some form of cabotage laws–that is, laws that require national flag vessels to provide domestic interport service.

160010

waterborne commerce.[2] The reports have estimated the annual economic impact in terms of the economic gains from repealing the act at a high of $9.8 billion in the 1991 study to a low of $2.8 billion in the 1995 study.[3]

While some groups have used ITC's estimates to support their position favoring repeal, those in favor of retaining the Jones Act have contended that the estimates are in error for four main reasons. Specifically, those in favor of retaining the Jones Act charge that ITC's estimates (1) make erroneous assumptions about increases in Alaskan oil production that would result from lower costs for transporting oil from Alaska, (2) underestimate the number of U.S. maritime workers who could potentially lose their jobs if the act was repealed, (3) overstate the likely difference between the cost of shipping cargo on U.S.-flagged and foreign-flagged ships,[4] and (4) exclude the costs that foreign vessel operators would incur if they had to comply with relevant U.S. laws affecting U.S. vessels. At your request, we reviewed ITC's latest report (1995) to assess the validity of these criticisms. As agreed with your office, we focused our analysis on the following four questions:

- Was ITC's estimate of the impact of reduced transportation costs on Alaska's North Slope oil production unreasonably high?
- How reasonable was ITC's estimate of the impact that repealing the Jones Act would have on the number of U.S. workers in the domestic maritime industry?

---

[2]In 1991, the Senate Finance Committee asked ITC to review a number of significant import restraints, one of which was the Jones Act. Subsequently, the U.S. Trade Representative asked ITC to update its 1991 study biennially, which resulted in studies' being issued in 1993 and 1995. At the request of the U.S. Trade Representative, ITC did not publish a report in 1997 to permit ITC analysts to obtain more current economic data. The next report will be published in 1999. According to ITC staff, ITC was asked to focus only on the economic impacts of repealing the Jones Act; other issues, such as the effect of repeal on national security and the federal budget, were outside the scope of their study.

[3]These gains do not consider some "transition" costs that might occur if the act was repealed, such as possible defaults on shipbuilding loans guaranteed by the federal government; the total amount of these loans is currently estimated at $1.3 billion.

[4]We refer to this difference as the "rate differential."

- How reasonable was ITC's methodology for calculating the differential between the shipping rates of domestic and foreign vessels, and were the data ITC used accurate and complete?

- To what extent did ITC include in its analysis the additional costs to foreign vessel operators of complying with relevant U.S. laws if they were allowed to engage in domestic trade?

SCOPE AND METHODOLOGY

Our work was limited to assessing the validity of the criticisms of ITC's analysis and was not a quantitative assessment of the economic impact of the Jones Act or its repeal. First, we interviewed ITC staff and officials at the Maritime Administration (MARAD); umbrella groups such as the Jones Act Reform Coalition and the Maritime Cabotage Task Force, which represent different opinions about the Jones Act; and member organizations of these umbrella groups. Second, we examined studies related to the Jones Act's economic impact done by GAO, ITC, the Department of Energy, the Office of Technology Assessment, the Congressional Budget Office, and private consultants. Third, we conducted a review to assess which U.S. laws might result in significant compliance costs for foreign vessel operators if the Jones Act was repealed.

Table 1 provides an overview of our findings, and the sections that follow explain these findings in further detail.

Table 1: Summary of Findings on Specific Review Questions

Question	GAO finding
Was ITC's estimate of the impact of reduced transportation costs on Alaska's North Slope oil production unreasonably high?	ITC's estimate in this regard is not excessive. We found that in the 1995 study, ITC's estimate implied a small reduction in domestic oil production. Critics who charged that ITC estimated a large increase in Alaskan oil production misinterpreted information in ITC's 1991 study; our review of the 1991 study showed that ITC actually estimated a small increase in domestic oil production that represented less than 3 percent of Alaska's oil production.
How reasonable was ITC's estimate of the impact that repealing the Jones Act would have on the number of U.S. workers in the domestic maritime industry?	ITC's assumption about the number of jobs that might be affected by the repeal of the Jones Act appears reasonable, given that major segments of the maritime industry are generally recognized as currently being competitive with foreign-flagged vessel operators. Critics believe the degree to which these segments remain competitive depends on how existing immigration and other relevant laws would apply to foreign-flagged vessel operators and foreign seamen working in the United States if the act was repealed. We cannot predict at this point how all relevant laws would apply. Likewise, the accuracy of ITC's estimate about the percentage of workers that could lose their jobs in the coastwise maritime sector cannot be determined because ITC's estimate relies on an assumption about how cargo would be divided between U.S.- and foreign-flagged ships. Because foreign-flagged ships currently carry none of this cargo, ITC had to assume a proportion (for its economic modeling) that cannot be verified.
How reasonable was ITC's methodology for calculating the differential between the shipping rates of domestic and foreign vessels, and were the data ITC used accurate and complete?	ITC's methodology appears to be reasonable, though declines in Alaskan oil shipments would probably decrease ITC's estimated rate differential of 89 percent. While ITC's overall approach seems reasonable, the applicability and accuracy of the data it used to calculate the rate differential cannot be verified because a substantial portion of shipping information was proprietary and unavailable to ITC.
To what extent did ITC include in its analysis the additional costs to foreign vessel operators of complying with relevant U.S. laws if they were allowed to engage in domestic trade?	ITC did not fully consider the costs of compliance. Our assessment shows that if foreign-flagged vessel operators incurred additional costs because they had to comply with some or all of the laws applicable to U.S.-flagged vessel operators, the additional costs would probably be incurred in three main areas: taxes, labor, and employee protection.

The accuracy of ITC's estimate of the economic impact of the Jones Act is uncertain because of the limitations of the data and the assumptions that ITC used in its analysis. Also, other important factors that were outside the scope of ITC's study, such as the national security and potential federal budget implications, deserve consideration in an evaluation of the benefits and costs of the Jones Act.

TRANSPORTATION COSTS FOR ALASKAN OIL

In estimating the impact of the Jones Act, the cost of shipping oil from Alaska to refineries on the West Coast and the Gulf of Mexico is important because this cargo constitutes most of the tonnage shipped between U.S. ports. In its 1991 report, ITC's analysis implied that lower rates to transport Alaskan crude oil would stimulate the demand for this oil.[5] One critic charged that the increased demand implied by this report exceeded both the capacity of Alaska's North Slope to produce oil and the world tanker fleet's capacity to transport it.

After reviewing the data and ITC's analysis, we believe that ITC's estimate is not excessive. We found that in the 1995 analysis, ITC's estimate implied a small reduction in the domestic production of oil, not a large increase as the critics have contended.[6] The critics' charge regarding the Alaskan oil production issue is based on ITC's 1991 report. In that report, ITC's estimate implied a small increase in domestic oil production, which we determined was less than 3 percent of Alaska's oil production. After talking with ITC officials and reviewing their supporting documentation on this issue, we believe that ITC's critics misinterpreted how the demand for oil was related to transportation rates; the increase in oil production ITC estimated in its 1991 study was much smaller than that interpreted by the critics.

EXTENT OF EMPLOYMENT LOSSES

ITC's 1995 analysis estimated that repealing the Jones Act would cause the loss of about 2,450 U.S. maritime jobs because foreign-flagged vessels would replace some U.S.-flagged vessels.[7] Critics contend that ITC's analysis underestimated the number of U.S. workers who would be displaced. Some critics place the number of displaced workers at as many as 124,000 over time, which is the total employment within the maritime activities fully or partially protected by the Jones Act. Others believe the number is not that high but is still greater than the ITC's estimate of 2,450.

The gap between the estimate in the ITC report and the estimates of ITC's critics on this issue results mainly from two factors. One is that the two sides

---

[5]Although the repeal of the Jones Act would affect the cost of transporting oil from Alaska, ITC did not specifically identify Alaska as the source of increased domestic oil production.

[6]Although ITC's estimate in its 1995 report implied a small reduction in the production of Alaska oil, according to ITC staff, this result should be interpreted as statistically not significant, implying no observed effect on production.

[7]These 2,450 workers represented about 23 percent of the 11,000 maritime workers in the coastwise (domestic oceanborne) trade.

made different determinations about which segments of the maritime industry–coastwise, lakewise, and inland–would be affected.[8] The second is that the two sides made different assumptions about the extent to which foreign competition would displace American jobs in the maritime segments that would be affected. ITC's estimate with regard to the first point appears reasonable, since the inland and lakewise sectors of the maritime industry are generally recognized as being competitive with foreign-flagged operators. The reasonableness of ITC's estimate of the extent of job displacement cannot be determined because it depends on an assumed division of cargo between domestic and foreign-flagged vessels.

Determinations About the Maritime Segments Affected

In its 1995 analysis, ITC concluded that the impact of repealing the Jones Act would be limited to about 2,450 of the 11,000 workers in the coastwise trade.[9] By comparison, the analysis that produced an estimate of 124,000 workers losing their jobs over time was based on the assumption that the lakewise and inland segments of the industry would also be affected. ITC concluded that the lakewise and inland segments of the domestic trade would not be affected, reasoning that these segments were sufficiently efficient and competitive that foreign-flagged vessels would not replace U.S.-flagged vessels. Therefore, ITC concluded that the repeal of the Jones Act would not lead to job losses in these segments. We believe that ITC made a reasonable assumption on this particular issue.

Critics with whom we talked have disagreed with ITC on several points. First, while the critics do not challenge ITC's judgment that the inland and lakewise segments may be currently competitive with foreign-flagged operators, the critics believe that if the Jones Act was repealed, the jobs of workers in these segments of the maritime industry would be at risk. The critics believe that foreign seamen, if paid less than their U.S. counterparts, might replace at least some U.S. seamen, depending on how immigration and other laws and factors were applied to foreign seamen working in the United States. MARAD officials, for example, said that all 124,000 workers could be affected by the repeal of the Jones Act. As we discuss later in this report, the degree to which relevant laws

[8]Coastwise shipping is the oceanborne transport of goods from one U.S. port to another; lakewise shipping is transport between U.S. ports in the Great Lakes; and inland shipping includes all transport of goods in inland waterways made navigable by lock structures.

[9]This estimate is for the year 1993.

might apply to foreign-flagged vessel operators and foreign seamen working in the United States if the Jones Act was repealed is unclear, depending, in large part, on how the Congress amended the act and other laws, how the administrative agencies and the courts interpreted existing laws, and the extent to which foreign-flagged vessels operated in U.S. commerce.

Second, the critics argue that ITC did not include shipyard construction and repair workers in the coastwise segment of the maritime sector that would be affected.[10] In its study, ITC did consider the potential impact on these workforce groups, in that ITC categorized shipyard and maintenance and repair workers in two other employment sectors–consistent with standard industrial classifications developed by the Department of Commerce–rather than as coastwise maritime workers.[11]

Assumptions About the Extent of Displacement

Between its 1993 and 1995 analyses, ITC changed its assumption about the degree to which domestic workers would be displaced. In the 1991 and 1993 analyses, ITC assumed that 100 percent of the workers in the domestic coastwise segment of the industry would be displaced; in 1995, it used a method that derived an estimate of 23 percent. Critics base their estimate of job losses on the assumption that 100 percent of the industry's workers would be displaced.

We were unable to assess the validity of ITC's estimate about the extent to which workers would be displaced. The extent of worker displacement depends on estimates of how cargo would be divided between U.S.- and foreign-flagged ships. This, in turn, depends on the relative rates charged by foreign-flagged vessels and U.S.-flagged vessels. Because foreign-flagged ships currently carry none of this cargo, there is little information on which to base estimates of how cargo would be divided. Nonetheless, as an initial step to apply its economic model, ITC was forced to assume a division of cargo. Applying ITC's model to different initial assumptions on the division of cargo would result in different estimates. There is no way to determine if the division that ITC initially chose is the most reasonable one.

---

[10]Critics told us that they believe that shipyard construction and repair workers currently number about 5,300 to 5,600.

[11]ITC estimated that the number of workers in the maintenance and repair sector would increase slightly if the Jones Act was repealed. The employment loss in the shipbuilding sector would be 36 jobs, according to ITC.

EXTENT OF THE RATE DIFFERENTIAL

ITC's estimate of the economic impact of repealing the Jones Act was based, in large part, on the difference between what foreign and domestic vessel operators charge for transporting cargo. MARAD data show that shipping cargo on U.S.-flagged vessels is estimated to cost more than shipping it on foreign-flagged vessels. However, because foreign-flagged vessels are currently prohibited from engaging in the domestic trade, actual rate differences that might exist for domestic routes cannot be determined. ITC therefore estimated the rates that foreign-flagged ship operators would charge and determined the difference with rates for U.S.-flagged ships by using a set of assumptions. The greater the rate differential, the greater the economic impact would be of repealing the Jones Act because of the lower rates U.S. businesses would pay to ship cargo on domestic routes. The smaller the rate differential, the smaller the economic impact would be of repealing the act.

ITC's 1995 study, which was based on data from 1993, estimated the rate differential as 89 percent; that is, the average shipping cost to transport goods on U.S.-flagged vessels was 89 percent higher than that for comparable foreign-flagged vessels. Critics contend that this estimate exceed the likely differential because ITC underestimated the rates that foreign-flagged ship operators would charge on domestic routes. As a result, these critics said, ITC's rate differential overstated the potential impact of repealing the Jones Act.

ITC developed this rate differential using the following methodology. First, ITC determined that 90 percent of the total U.S. domestic cargo was oil carried from Alaska and that the remaining 10 percent was dry cargo.[12] This distinction was important because the rate differential was greater for oil than for dry cargo. Second, ITC categorized the oil shipments from Alaska by distance, with 85 percent going to the West Coast (referred to as "short haul") and 15 percent going to the Gulf of Mexico ("long haul"). This distinction was made because rate differentials for long hauls are greater than rate differentials for short hauls. Third, ITC identified comparable rates for foreign-flagged ships for transporting oil and dry goods by reviewing rates charged on comparable international voyages and computed the rate differential for each type of voyage.[13] Last, ITC used these differentials and weights based on the cargo

---

[12]These percentages are based on ton-miles for total domestic cargo.

[13]The 10-percent rate differential for dry cargo was based on estimates reported by Clinton H. Whitehurst, Jr., in American Domestic Shipping in American Ships: Jones Act Costs, Benefits, and Options (Washington, D.C.: American Enterprise

percentages to compute the weighted average rate differential.

ITC's use of a weighted average approach for computing the rate differential is reasonable. Nonetheless, the accuracy of ITC's estimate (89 percent) depends on the accuracy and completeness of the shipping rates developed for foreign-flagged vessels. As explained previously, there are no data for foreign-flagged vessels operating on U.S. coastwise routes because the Jones Act bars foreign entry into the domestic trade. In its study, ITC had to use rates for certain existing overseas routes that it deemed comparable, based on distance, type of oil, and vessel size.[14] However, a different selection of routes may have produced different results. In addition, while some data are available for estimating rates, a substantial portion of this information is inaccessible because it is proprietary. The accuracy of the rate differential also rests on some factors that could change markedly, depending on how the repeal of the Jones Act was carried out, such as the degree to which foreign vessels would be subject to U.S. laws (discussed in the next section). Therefore, a full assessment of the accuracy of ITC's rate differential is not possible.

Furthermore, actual conditions have changed considerably since ITC issued its 1995 report. If the estimates were adjusted to account for what has occurred since ITC made its estimates, the price differential might be reduced significantly.[15] The two adjustments and their effects are as follows:

- Oil shipments from Alaska to the Gulf Coast, which had represented the largest rate differential between U.S.-flagged and foreign-flagged vessels, have been essentially eliminated, according to the Alaskan oil pipeline operator, because of increased demand for this oil on the West Coast and the declining production of Alaska's North Slope oil field. ITC staff indicated that when they update the databases used for their study, they will adjust the overall rate differential estimate as appropriate. If rate differentials for long-haul oil shipments are not considered in calculating the overall rate differential, then the estimated average rate differential

---

Institute, 1985).

[14]All of the routes used included the Port of New York, according ITC staff.

[15]The effect of the adjustments described here would be to reduce the rate differential; however, whether the differential would actually decrease would depend on the extent to which any other factors might cause it to increase. ITC staff said that other factors, such as a reduced demand for tankers worldwide, could increase the economic costs of the Jones Act.

could be reduced by as much as 11 percentage points, from 89 percent to 78 percent–all other things being equal.

– As Alaskan oil production has dropped over the last few years, the shipping pattern has shifted toward a higher share for dry cargo and a smaller share for oil, although oil still accounts for most of the cargo transported on domestic routes. To derive its rate differential estimate for its 1995 study, ITC used data showing that oil constituted 90 percent of the domestic cargo transported and dry cargo, 10 percent. This ratio was based on 1988 data that were not updated for ITC's 1995 study.[16] According to 1996 data from the Army Corps of Engineers, domestic cargo is about 79 percent oil and 21 percent dry cargo.[17] Because the rate differential for dry cargo is smaller than the differential for oil, this change in relative cargo shares would lower the average rate differential. Applying this current ratio, in combination with the elimination of long-haul oil shipments discussed above, would lower the price differential to 70 percent instead of the 89 percent ITC used in its 1995 study–all other things being equal. In turn, this would lower the economic impact of repealing the Jones Act, although we cannot quantify by how much.

COSTS OF COMPLIANCE WITH U.S. LAWS

ITC's 1995 analysis did not include an estimate of the additional costs that foreign operators might have to bear in complying with U.S. laws if the Jones Act was repealed and they entered the domestic trade. Critics argue that if these costs were estimated and included, any rate advantage that foreign operators have over domestic operators would be virtually eliminated. If this is true, the estimates of economic benefits to shippers from eliminating the Jones Act would have to be substantially reduced.

ITC staff, while acknowledging that their rate differential did not fully take into account the costs of compliance, said that some costs of complying with U.S.

---

[16]ITC staff said that as they were preparing the 1995 study, they did not independently verify that oil constituted 90 percent and dry cargo 10 percent of the domestic cargo transported. Rather, they contacted a state of Alaska official they believed was knowledgeable on this subject; the official indicated it would still be valid to assume that this split was accurate.

[17]According to the Alyeska Pipeline Company, Alaskan oil production declined by 10 percent between 1995 and 1997 and is projected to decline by 2 to 3 percent each year over the next decade.

laws, such as those for complying with environmental laws, are already reflected in the rates they used for foreign-flagged vessels that call on U.S. ports. However, they did not include an estimate of the costs of complying with other relevant laws, such as taxes, labor costs, and employee protection costs. ITC staff believed the costs of compliance were not as great as critics have contended. They said foreign-flagged operators' lower ship construction costs accounted for the largest share of the rate differential and that compliance with U.S. minimum wage laws would have little impact because foreign crews are already paid at least at that level. Given the short time available for conducting our work, we were unable to determine whether foreign crews are paid at this level. We do note, however, that foreign seamen have sought in U.S. courts to have U.S. minimum wage laws made applicable to them.[18] MARAD has said that foreign crews are paid substantially less than U.S. crews, some less than U.S. minimum wage.[19]

Arriving at an accurate estimate of the costs to foreign carriers of complying with U.S. laws would be very difficult, in no small part because the estimate would depend heavily on which laws were included in developing it. If the Jones Act was repealed and the Congress did not amend other statutes to take the repeal into account, the administrative agencies and the courts would be left to interpret the existing laws. The applicability of the laws may depend on the extent to which foreign vessels operated in U.S. domestic commerce; intermittent or infrequent contacts might make the laws inapplicable.

The additional costs that might be incurred fall into three main areas: taxes, labor, and employee protection.

– Taxes. Income generated by foreign corporations operating foreign-flagged vessels in domestic trade could be taxable. The Internal Revenue Code has special rules for "transportation income." If the transportation income is

---

[18]In Cruz v. Chesapeake Shipping, Inc., 932 F.2d 218 (3d Cir. 1991), 228 Filipino crewmen brought suit under the Fair Labor Standards Act, claiming that they were entitled to minimum wages and benefits under the law. The Filipino seamen were crew on several Kuwaiti tankers that were reflagged as U.S. vessels during a conflict between Iran and Iraq. The court ruled that the act did not apply to the foreign crew in these circumstances.

[19]According to MARAD data, crew costs vary greatly depending on ship types and the trades in which they operate; for tankers, which carry most Jones Act cargo, the differential is smaller (between U.S. and foreign rates) than the average differential for all vessels.

attributable to transportation that begins and ends in the United States, it is treated as income derived from sources in the United States. If it begins or ends in the United States, 50 percent of the transportation income is treated as income derived from sources in the United States. The Internal Revenue Code also excludes from the gross income of foreign corporations income derived from the international operation of vessels if their home countries grant an equivalent exemption from paying taxes to U.S. corporations. Many of these exemptions are found in bilateral tax treaties. To the extent that foreign corporations had transportation income from transportation that began and ended in the United States, that income would be taxable if no other exemptions applied.[20]

- Labor. It is unclear which labor laws would apply if the Jones Act was repealed. Crews of foreign-flagged vessels engaged in U.S. coastwise trade might be covered by U.S. minimum wage laws, and crews might be allowed to engage in collective bargaining under the National Labor Relations Act and negotiate wages that are closer to U.S. standards. The extent to which immigration laws could also increase costs for foreign-flagged vessel operators depends on many factors. If the seamen did not leave the vessel, they might not need visas. But if the foreign-flagged ships spent most of their time in U.S. waters, the Immigration and Naturalization Service might decide that the seamen were working in the United States and needed visas. The difficulty of obtaining work visas might require the foreign-flagged vessel operators to hire U.S. citizens, which would greatly increase their costs.[21]

- Employee protection. Permitting foreign-flagged vessels with foreign crews to engage in domestic commerce might subject operators to costs associated with merchant marine benefits and protections. Foreign seamen would be likely to have legal remedies in the U.S. courts for personal injury and death. Since seamen are not usually covered under worker's compensation laws, foreign-flagged vessel operators could incur increased insurance costs to defend against and pay awards for these cases in the U.S. courts.

---

[20]The tax rate would vary from a 4-percent withholding rate to a higher corporate rate, depending on the foreign corporation's connections with the United States.

[21]Of course, if foreign-flagged vessel operators engaging in coastwise trade did not have to comply with U.S. minimum wage laws and did not have to pay Social Security and Medicare taxes or federal unemployment taxes, their wage costs would be lower than those of U.S.-flagged vessels.

While the applicability of relevant laws to foreign-flagged operators is an important question, so too is the question of whether accurate and reliable data are available to allow analysts to better estimate the impact of the Jones Act. The answer to this question, which was outside the scope of our review, is unknown, and MARAD officials, along with many critics on both sides of the Jones Act issue, have serious doubts about the availability of all the data that would be needed to estimate the impact of the Jones Act.

OBSERVATIONS

Because of the changed conditions, the data limitations, and some unverifiable assumptions made in ITC's 1995 study, the degree to which the 1995 estimate accurately reflects today's economic impact of the Jones Act is uncertain. For example, using current data on the relative volumes of oil and dry cargo carried in the domestic trade–rather than the 1988 data used in ITC's study–could significantly lower the estimate of the economic impact, assuming other factors had not changed as well. Conversely, as ITC staff pointed out, changed conditions and other factors, such a reduced demand for tankers worldwide, could increase the economic impact. Any decision to repeal the Jones Act would have to be made with the recognition that precise, verifiable estimates of the impact of the act are not available. Moreover, other important considerations, such as the national security implications of reducing the U.S. merchant marine fleet and the budget implications of potential defaults on federally guaranteed shipbuilding loans, should be included in an evaluation of the benefits and costs of the Jones Act.

AGENCY COMMENTS AND OUR EVALUATION

We provided the International Trade Commission with a copy of our draft report for review and comment. We met with the agency's Director of External Relations to obtain the Commission's comments. Overall, the Commission's staff said that the draft report was well balanced and accurately described the Commission's methodology and analyses used. They provided clarifying and technical comments, which we incorporated as appropriate.

- - - - -

If you have any questions, please call me at (202) 512-3650. Major contributors to this report were David Bryant, Jay Cherlow, David Hooper, Janeyu Li, Richard Scott, and Randy Williamson.

Sincerely yours,

Gerald L. Dillingham
Associate Director, Transportation Issues

(348066)

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (202) 512-6061, or TDD (202) 512-2537.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

http://www.gao.gov

United States
General Accounting Office
Washington, D.C. 20548-0001

Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100

Official Business
Penalty for Private Use $300

Address Correction Requested