



THE INTERNATIONAL PROPELLER CLUB *of the United States*

An international business network dedicated to the promotion of the maritime industry, commerce and global trade.

Cabotage



Cabotage laws reserve the transportation of people and goods to companies of the countries in which they are operating. For example, in the aviation world, a German air carrier cannot pick up passengers in New York and fly them to Los Angeles. Over 91 countries have cabotage laws that they apply to maritime transportation in their country. This includes the European Union and countries such as Russia, China, and the United States.

However, in these 91 countries there is variation regarding the types of vessels, cargoes, and passengers to which their cabotage laws apply. For example, in Brazil a foreign vessel may only engage in their cabotage trade if it is chartered by a Brazilian company. In China, a foreign vessel (including a Chinese vessel chartered to a foreign company) may not operate a shipping business between Chinese ports.

The United States cabotage system has its origins in the 3rd law passed by the very first Congress in 1789. At that time, all ships entering a port had to pay a tariff or duty to the country in which the port was located. This 1789 law established a significantly lower tariff rate for U.S.-flag vessels than the rate for foreign-flag vessels engaged in the U.S. cabotage

(coastwise) trade. This continued until the enactment of the Navigation Act of 1817, which restricted the U.S. coastwise trade to U.S.-flag vessels. The U.S. cabotage laws have been amended over the decades such as to clarify how they apply to corporations (75% of the stock must be owned by U.S. citizens) and to the transportation of passengers (in 1886). The Merchant Marine Act of 1920, commonly referred to as the “Jones Act” made many changes to maritime law including expanding the coastwise laws to Alaska and clarifying that the coastwise laws can be waived for national security purposes (an outcome of World War I). However, the fundamental principles have remained unchanged in over 200 years: That to transport “merchandise” between 2 points in the U.S. the vessel must be:

- U.S.-flag
- owned by U.S. citizens
- built in a U.S. -shipyard; and
- 75% of the mariners onboard must be U.S. citizens.

U.S. Customs and Border Protection is the Federal agency responsible for interpreting what constitutes a coastwise movement. This principally focuses on:

- What is merchandise?
- What is a point in the United States? (When a vessel drops anchor in the U.S. 200-mile Exclusive Economic Zone it is then a “point in the United States”).

Today, there are over 50, 000 vessels engaged in the U.S. cabotage trade that have been built in U.S. shipyards. This includes more than:

- 5,800 towing vessels
- 31,000 barges
- 730 ferries
- 1,200 offshore supply vessels
- 2,700 commercial fishing vessels

There are organizations that are opposed the U.S. cabotage laws such as the CATO Institute (a Libertarian Think Tank). However, these organizations fail to understand the importance of cabotage laws to the United States. These include:

National security: The U.S. Navy states that the repeal of the Jones Act would “hamper [America’s] ability to meet strategic sealift requirements and maintain and modernize our naval forces. The U.S. military ships 95% of their supplies by water.

Economic security: Over 42,000 mariners are employed on these vessels and this cabotage trade supports 650,000 sustained jobs in the United States and \$150 billion in annual economic output. In 2017 over 578 million tons of cargo were shipped on the U.S. inland waterway system and over 160 million tons were moved on the Great Lakes.

Impact on U.S. companies and banks: U.S. companies have invested billions of dollars in the U.S. maritime industry based on the law at the time they made their investment decisions. Similarly, U.S. banks have financed U.S.-flag vessels based on those same laws. Repeal of the Jones Act would result in the bankruptcy of most (if not all) of these companies and the devaluation of the mortgages on these vessels held by the bank. The Maritime Administration has issued over \$1 billion in loan guarantees for vessels in the U.S. cabotage trades – which may go into default and force the U.S. taxpayer to pay-off these mortgages.

In summary, cabotage laws (reserving the transportation or passengers between 2 points in a country to ships or aircraft registered in that country) is a common practice in over 91 countries. Elimination of those laws can result in significant economic dislocation and compromise the national security of that country.

For more information regarding cabotage laws you may want to look at a publication in 2018: [Cabotage Laws of the World](#) by the International Transportation Workers' Federation.

[American Maritime Partnership](#)