THE MARITIME LAWS OF THE UNITED STATES OF AMERICA AND THEIR IMPACT IN PUERTO RICO'S CURRENT ECONOMY

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Abstract

The purpose of this paper is showing the outcomes that United States of America's Maritime Laws have on Puerto Rico's economy. Throughout the years, it has been conjectured about if the coastal trading laws have helped or prevented the economic development of Puerto Rico, a territory of United States of America. While some argue that the economy is adversely affected, others sustain that have a positive impact because maintain a competitive advantage in access one of the biggest markets in the world and, at the same time, it help to the national security. The fact is that a lot of the literature about this topic is based on pure particular interests. This action diminishes the relevance that may have those studies. In summary, authors make a literature review about the US Maritime Laws and its treatment in Puerto Rico to formulate a conclusion based on empirical data obtained from the research.

Keywords: Maritime Laws, International Commerce, Transportation Costs

Introduction

Puerto Rico has been part of United States of America (USA) after been ceded by Spain in 1898. Since then, USA has established all applicable federal laws over this territory, including the coastal trading laws. The coastal trading laws and international commerce of Puerto Rico is an interesting topic to analyze, according to Pesquera (2006). As she states, “coastal trading is a term that apply to the navigation between coasts within a same country. It is the trade performed between maritime ports of a nation.” On the other hand, the coastal trading laws regulate the interstate commerce of merchandises and passengers between US and its territories (Alameda, 2002).

Pesquera (2006) affirms that the US merchant marine is the most expensive in the world. This is due to the costs of ships construction and infrastructure required to offer service; as well as, staff wages and operational costs are higher.

An important fact is the Puerto Rico’s geographical location—is an ideal bridge to commerce between US and Latin America. The territory should find new ways to develop financial infrastructure, physical investment, and technological advances to insert its economy within the globalization movement (Alameda, 2002).

According to Herrero, Soriano, & Valentín (2001), keep a sustain growth in the international exchange represents one of the most important challenges that countries may face to sustain their economies in the future. The promotion of exports will be a key element in the strategy of Puerto Rico’s economy development.

Arguments about the Coastal Trading Laws in the Puerto Rico’s Economy

Since the implementation of the US coastal trading laws in Puerto Rico have been existed a debate about the effect that may cause such laws in the economy of the territory. Many economists and researchers (Alameda, 2002; Frankel & Associates, 2000; Pesquera, 1965) consider that these laws affect adversely the economy due to the huge costs imposed to the maritime transportation. Quiñones (2005) mentions that the coastal trading laws increase costs up-to $700 million, considering that part of its foreign commerce is transported via US maritime ports.

Herrero, Soriano, & Valentín (2001) argue that this federal law is a limitation to the free trade, since exclude the foreign competence within the maritime transportation market of Puerto Rico. The effect of this action guides the local market to the US. In addition, this federal law means a customs duty in the maritime transportation of merchandises that the territory buys and sells to the US, increasing the transportation costs in the exchange.

Alameda (2002) clarifies that in Puerto Rico have been realized very few empirical studies that can clearly demonstrate the costs rising and the effect that cause the US coastal trading laws in this territory. The majority of the researchers argue, that in fact, cause an increase in transportation costs; while, many others affirm that this increase in minimal and justify that the benefits are sustained.

The US maritime merchant is considered old, restrictive and that require maintenance. The US ships are smaller, but can transport bigger shipment containers than the ones used by foreign ships. European ships use 40 feet containers versus US ships that use 53 feet containers. This fact shows how restrictive is the US maritime merchant, since avoid economies of scale. For instance, US ships can transport up-to 2,000 containers, while European ships may transport up-to 4,000 containers. This can mean less transportation costs due less travels are required to import or export the merchandise. In addition, the US coastal trading laws limiting the use of new technologies in the merchant field. It is considered approximately eighty percent (80%) of the imports and exports of Puerto Rico apply the US coastal trading laws. Therefore, USA needs to establish the required controls to keep the monopoly.

Frankel & Associates (2000) conclude that maritime transportation from a foreign port to another foreign port do not apply the US coastal trading laws, even if the merchandise travel throughout any US or Puerto Rico's port. In addition, imports and exports between US and Puerto Rico do not apply these laws if the merchandise is moved directly from one port of US or Puerto Rico to any foreign port, without loading or unloading merchandise, using any port of US or Puerto Rico as an intermediate point.

Determination of the US Coastal Trading Laws impact in the Puerto Rico's economy

On this research, authors used the transportation costs reported by the Planning Board of Puerto Rico (April 2013), Program of Economic and Social Planning, Subprogram of Economic Analysis. Refer to Appendix A. Then, it was estimated the relationship between transportation costs and the total amount of Puerto Rico's imports and exports reported from 2003 to 2012, inclusive. Next step, was re-calculate the above relationship particularly for the US Coastal Trading Laws. This includes the eighty percent (80%) of imports and exports that is estimated apply to the US coastal trading laws multiplied by 1.5 times, considering a possible increase in costs of up-to fifty percent (50%) versus foreign ships. Finally, it was calculated the average of the relationship (transportation costs vs. total amount of imports and exports) during the 2003-2012 period to determine the US Coastal Trading Laws impact in the Puerto Rico's economy during recent years. Refer to Appendix B.

Conclusion

Throughout the years, many people have argued about the harmful effects that the US Maritime Laws, specifically the coastal trading laws in the economic development of Puerto

Rico. For example, we can mention Eastman & Marx (1953); Pesquera (1965); Herrero, Soriano, & Valentín (2001). In their studies, these researchers make reference to the higher transportation costs that these laws represent to the interstate commerce between Puerto Rico and the rest of US.

On the other hand, there are the ones that agree with the implementation of these laws (Radalet & Sachs, 1998; Reeves & Associates, 2001). These examiners establish that in addition to bring greater national security, have a minimal impact on costs of goods and services imported and exported from Puerto Rico since these costs are reduced rapidly during recent years.

These opposing visions have provoked that a consensus be difficult to reach. Studies are mainly based—in the vast majority—not by empirical studies, but by pure economical and/or ideological particular interests (Alameda, 2002).

On this research, authors found that the figures compiled by the Planning Board of Puerto Rico (April 2013) for the past decade show the transportation costs have represented, a little amount of the total imports and exports—1.75% in average. Even considering the possibility that the US coastal trading laws may increase transportation costs up-to fifty percent (50%) compared to foreign ships, we can obtain transportation costs just over 2% (an average of 2.09%) during the 2003-2012 period. Refer to Appendix B.

Finally and based on our findings, the US coastal trading laws do not represent an obstacle for the distribution of goods and services between Puerto Rico and the rest of US. This fact is sustained with the study of the Office of Technology Assessment (1989) and cited by Alameda (2002), establishes the US Virgin Islands (USVI) increased (from 26% to 44%) the use of US merchant marine to exchange products derivative from oil during 1977-1987 period. Even though, the USVI are no subject to these laws.

Limitations

Although on this research, authors establish the US coastal trading laws have no adverse impact to the Puerto Rico's economy, does not examine what would happen if actual political and economic status change between the territory and US mainland. For that reason, they encourage academics and researchers perform new studies about the topic. For instance, if the US coastal trading laws are eliminated, will the Puerto Rico's imports and exports increase or decrease? This decision cannot be taken too fast because we have to consider if the territory can focus in reach new markets—e.g., Latin America, Europe or Asia—without sacrifice the US market. The US mainland is the major business partner of Puerto Rico in both imports and exports.

On the other hand, it have been discussed the possibility to exempt partially Puerto Rico from the US coastal trading laws. In particular with The Americas Transship Port in the southern region of the territory; but we have to ask the following question, will this action really help to improve the local economy? Considering that the distance between Puerto Rico and US mainland is shorter stopping at the northern shore, where it is actually Puerto Rico receives and sends the goods and services between them. In addition, it is estimated that about seventy percent (70%) of the merchandise is consumed at the northern region. As we can observe, there is a lot of room to contribute to the discussion of this subject; but it is necessary to take care at the time to disclose a statement that can affect—in one way or another—the economy of the territory.

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Appendix A – Puerto Rico's Exports and Imports: Fiscal Years (in millions of dollars)

Source: Planning Board of Puerto Rico (April 2013), Program of Economic and Social Planning, Subprogram of Economic Analysis. Economic Report to the Governor, 2012.

	2003r	2004r	2005r	2006r	2007r	2008r	2009r	2010r	2011r	2012p
Exports										
Sales of Goods and Services	62,683.0	66,057.5	68,247.1	72,233.8	72,567.8	76,266.1	73,839.2	73,965.4	77,016.2	73,668.3
Transportation Costs	492.3	494.9	512.5	516.7	523.3	540.5	470.2	438.6	433.6	466.4
Imports										
Purchases of Goods and Services	76,513.7	79,890.6	82,764.3	87,069.2	86,511.9	90,008.5	86,499.0	86,308.6	90,172.3	86,183.7
Transportation Costs	2,067.5	2,164.4	2,365.7	2,442.2	2,541.5	2,481.0	2,156.4	2,015.9	2,063.4	2,106.0
Exports and Imports										
Total Sales and Purchases	139,196.7	145,948.1	151,011.4	159,303.0	159,079.7	166,274.6	160,338.2	160,274.0	167,188.5	159,852.0
Total Transportation Costs	2,559.8	2,659.3	2,878.2	2,958.9	3,064.8	3,021.5	2,626.6	2,454.5	2,497.0	2,572.4

Legend:

r – Revised figures
p – Preliminary figures

Appendix B – Percentage (%) related to Transportation Costs

	2003r	2004r	2005r	2006r	2007r	2008r	2009r	2010r	2011r	2012p	Average (2003-2012)
Relationship between Transportation Costs vs. Exports & Imports (*)	1.84	1.82	1.91	1.86	1.93	1.82	1.64	1.53	1.49	1.61	1.75
Related to the US Coastal Trading Laws											
Relationship between Transportation Costs vs. Exports & Imports (**)	2.21	2.19	2.29	2.23	2.31	2.18	1.97	1.84	1.79	1.93	2.09

Legend:

r – Revised figures
p – Preliminary figures
(*) – Figures obtained from Appendix A (Source: Planning Board of Puerto Rico)
(**) – Figures show the eighty percent (80%) of imports and exports that is estimated are subject to the US coastal trading laws multiplied by 1.5 times, considering a possible increase in costs up-to fifty percent (50%) instead of using foreign ships