Rock the Boat, Don't Rock the Boat— *Impact of the Jones Act on U.S. Crude Oil Markets*

Source: Crowley Maritime

- Booming U.S. crude oil production, pipeline constraints, and the flexibility offered by waterborne deliveries to domestic refineries have resulted in a significant increase in the use of Jones Act tankers and barges to move crude.
- Tankers and barges can be a particularly effective means of crude delivery when used in combination with rail because of the economies of scale and flexibility gained.
- Competition for Jones Act vessels to move crude continues to intensify, driving up the cost of leasing or chartering tankers and barges and chipping away at the economic advantages of "crude-by-water."
- The dynamics of the crude-by-water transportation sector will remain in flux as new oil-production plays emerge, new pipeline capacity is built, and arbitrage opportunities wax and wane.

The need to move vast quantities of crude oil from the nation's booming shale-play regions to refineries along the Gulf, East and West coasts has led to a significant increase in the use of tankers and tank barges, and focused new attention on the Merchant Marine Act of 1920. Better known as the Jones Act, the law regulates maritime commerce, and requires that all goods transported by water between U.S. ports be carried in U.S.-flagged ships, be constructed in the U.S., be owned by U.S. citizens, and be crewed by U.S. citizens and U.S. permanent residents.

This report provides a comprehensive review of the Jones Act trade, particularly regarding the expanded use of tankers and barges for moving oil and the impact of that movement on the crude oil market in North America. "Crude-by-water" has emerged as a valuable transportation alternative for shippers hampered by pipeline bottlenecks and enticed by the higher price they can receive if their products are deliverable to certain coastal locations. Whether used in tandem with pipelines or railroads, waterborne transportation can provide shippers with greater flexibility and improved arbitrage opportunities. But moving crude—or any other product—by Jones Act vessel can be costly, given the law's requirements, the limited number of certified tankers and barges, and burgeoning demand for those vessels.

Our analysis begins by detailing the Jones Act and its requirements, delves into the economics of moving crude between U.S. ports, and explains how using tankers and barges has emerged as a critically important transportation option for oil producers. Then, the report describes the types of Jones Act vessels, lists and elaborates upon the major routes for crude-carrying tankers and barges, and catalogs the companies that own and operate the nation's Jones Act fleet.

Table of Contents