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Impacts of the Jones Act on US Petroleum Markets

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The Merchant Marine Act of 1920, also known as the Jones Act, requires that goods shipped by water from one US port to another be carried by vessels that are US-built, US-owned, US-crewed, and US-registered. These restrictions result in increased domestic shipping costs compared with the cost of shipping goods internationally over the same distance. Studies have shown that this policy increases the cost of products, including road salt in New Jersey, hurricane aid relief in Puerto Rico, and offshore wind in Massachusetts.

Our research focuses on measuring the costs of the Jones Act in US petroleum markets. A significant portion of the United States' oil and gas resources, as well as its refining capacity, is located in Texas and along the Gulf of Mexico coast, far from the urban demand centers on the East and West Coasts. One way to solve this imbalance is to move petroleum products from the Gulf Coast to the East Coast by shipping around Florida and up the coastline. However, the East Coast imports large quantities of fuel from across the Atlantic, while the Gulf Coast exports the same fuels to destinations as far away as Asia. A leading explanation for this pattern is that Jones Act–compliant movements from the Gulf Coast to the East Coast are estimated to cost three times as much as movements on foreign-flagged vessels. Therefore, advocates of repealing the Jones Act argue that it distorts oil and refined product markets, leading to higher prices for East Coast consumers, lower prices for Gulf Coast producers, or both. Our research suggests that repealing the Jones Act would decrease average petroleum product prices in the United States and increase the well-being of consumers.

We studied the petroleum products with the largest volumes of Gulf Coast exports and East Coast consumption: light sweet crude oil, conventional gasoline, jet fuel, and ultra-low-sulfur diesel. We used data on these products from Bloomberg and the US Energy Information Administration, including the quantities of products exported and the prices set by suppliers on the Gulf Coast and the quantities of products imported and the prices paid by buyers on the East Coast. We focused on the years 2018 and 2019 to avoid the disruptions in petroleum markets

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caused by the COVID-19 pandemic and Russia's 2022 invasion of Ukraine.

To estimate the costs of the Jones Act, we must ascertain what would have happened to petroleum product movements and prices if exporters could transport freight domestically at costs comparable to those of international freight transport. Shipping from the Gulf Coast to the East Coast that is not compliant with the Jones Act is currently prohibited, so we estimated the cost of non–Jones Act shipments. To estimate how distance affects shipping costs, we used data from Argus Media on transportation costs for shipments from the Gulf Coast to certain international destinations that used vessels not compliant with the Jones Act. We then used these results to estimate the costs of shipments from the Gulf Coast to the East Coast without the requirements of the Jones Act. Our results suggest that these costs are less than the average price differentials of petroleum products between the East Coast and the Gulf Coast, implying that the Jones Act caused Gulf Coast producers to ship fewer products to the East Coast than they would have otherwise. If Gulf Coast exporters could have received a higher price (after accounting for transport costs) by shipping to the East Coast rather than abroad, they would have done so. However, the Jones Act foreclosed this opportunity by raising transport costs.

In our research, we estimated the quantity of Gulf Coast global exports that would have been shipped instead to each region of the East Coast (including the Lower Atlantic, the Central Atlantic, and New England) in each month of 2018 and 2019 if the Jones Act did not exist. Evaluating each region separately was important because shipping costs increase with distance from the Gulf Coast. Overall, repealing the Jones Act would have increased total Gulf Coast–to–East Coast movements of all fuels from 253 million to 371 million barrels per year, and economic efficiency would have increased by $403 million per year.

These changes in product movements would have changed prices. Our findings suggest that removing the Jones Act would have decreased average East Coast prices for gasoline by $0.63 per barrel, jet fuel by $0.80 per barrel, ultra-low-sulfur diesel by $0.82 per barrel, and light crude oil by $0.36 per barrel. Price decreases would have been largest in the Southeast and smallest in New England. These changes would have increased East Coast consumers' well-being by $896 million per year (including $94 million per year for East Coast refineries, as they are also consumers of crude oil), with Southeast consumers benefiting the most. However, the well-being of East Coast producers would have decreased by $573 million per year. In the Gulf Coast, average gasoline prices would have increased by $0.30 per barrel. Thus, Gulf Coast consumers' well-being would have decreased by $127 million per year, and Gulf Coast producers' well-being would have increased by $205 million per year.

NOTE

This research brief is based on Ryan Kellogg and Richard L. Sweeney, "Impacts of the Jones Act on US Petroleum Markets," Becker Friedman Institute for Economics Working Paper no. 2023-152, December 2023.