U.S. Food Aid and Agricultural Cargo Preference Policy

Elizabeth R. Bageant, Christopher B. Barrett and Erin C. Lentz
Department of Applied Economics and Management, Cornell University


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Charles H. Dyson School of Applied Economics and Management, Cornell University

What is Agricultural Cargo Preference?

Agricultural Cargo Preference (ACP) is a policy requiring that 75 percent of U.S. food aid commodities be shipped on privately owned, registered U.S.-flag vessels, regardless of whether these vessels offer a competitive bid for the service. According to the Maritime Administration (MARAD), ACP’s primary objectives include:

- Provision of essential sealift capability in wartime
- Maintenance of skilled jobs for American seamen
- Maintenance of the financial viability of U.S. flag vessel operators
- Protection of U.S. ocean commerce from foreign domination

Multiple agencies with divergent interests are involved in the administration of ACP. MARAD primarily represents ocean carriers and actively enforces compliance with ACP rules. The food aid agencies, USAID and USDA, often find ACP compliance a costly burden related to their primary goal of effective provision of international food aid. Until now, there has been very little empirical analysis of the costs of ACP and its effectiveness in advancing its stated goals.

Findings at a Glance

- ACP constrains food aid agencies by limiting competition (Box 3).
- ACP costs taxpayers an estimated $140 million/year. USAID’s costs are outlined below in Box 2.
- 70% of U.S.-flag vessels eligible for ACP failed to meet the Department of Defense’s definition of militarily useful vessels, while ACP costs more than $982,000/mariner annually, although no ACP mariners have been mobilized for military service in more than half a century (Box 3).
- ACP appears to benefit many foreign-owned corporations (Box 4).

Data and Analytical Methods

To estimate the costs of ACP, we analyzed transaction-level data on all 1,741 bulk and bagged food aid shipments by USAID during fiscal year 2006. These data include detailed information on each individual shipment, including commodity, tonnage, vessel name and flag status, ocean freight costs, and the presence or absence of alternate bids for the shipment. Our computations were guided by a 1987 Memorandum of Understanding between MARAD and the food aid agencies.

Box 2: Costs of Cargo Preference

USAID adherence to ACP policy in FY2006 cost taxpayers a total of $104 million. This represents a 46% markup over competitive freight costs. The division of these costs between the Maritime Administration (MARAD) and food aid agencies is the source of some contention. A complex system of subsidies and reimbursements divides FY2006 costs between the agencies as indicated in the table below.

<table>
<thead>
<tr>
<th></th>
<th>USAID</th>
<th>MARAD</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs due to ACP</td>
<td>$76.8</td>
<td>$27.6</td>
<td>$104.4</td>
</tr>
<tr>
<td>Costs due to OFD</td>
<td>34.8</td>
<td>34.8</td>
<td>69.6</td>
</tr>
<tr>
<td>Shares of costs</td>
<td>USAID (54%) MARAD (46%)</td>
<td>USAID (54%) MARAD (46%)</td>
<td></td>
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</tbody>
</table>

The above costs combined with an estimate of the USAID costs amount to a total estimated cost of $140 million spent on adherence to ACP regulations in FY2006. This is nearly equivalent to the value of all Title I international food aid. Until now, there has been very little empirical analysis of the costs of ACP and its effectiveness in advancing its stated goals.

Box 3: National Security Contributions

ACP aims to support national security by maintaining a fleet of vessels available for military call-up. Yet a majority of vessels do not appear to be militarily useful. The Department of Defense defines militarily useful as container vessels (rather than bulk or tanker vessels) that are less than 15 years old and provide liner service. Under this definition, at least 100 of the 142 ACP vessels were not militarily useful.

Since 1996 ACP has duplicated the more targeted Maritime Security Program (MSP), which pays owners of militarily useful vessels $2.5 million/year for what amounts to a call option on vessels and crews. 47 of the 60 MSP eligible vessels are also ACP qualified, although only 25 of them carried USAID food aid cargo in FY2006. Less than 7% of ACP expenditures supported MSP vessels.

ACP helps employ US citizen mariners. Exact employment figures are elusive, but best estimates indicate that each mariner position costs taxpayers $99,342. In the half century since ACP was first enacted, there has been no documented call for a single US merchant vessel to respond to a national security emergency. The costs associated with employing mariners under ACP are primarily an aggregate of the following:

- costs to USAID (34.8)
- costs to MARAD (34.8)
- costs to OFD (77.1)
- costs to taxpayers (99,342)

In the future, ACP mariners may also benefit from the Maritime Security Act of 1996 known as MSA. This act provided a subsidy for new vessels and maintenance, and restructured the Maritime Administration to allow for better management of the fleet.

Box 4: Ownership of Cargo Preference Vessels

Ownership structures for US-flag vessels are difficult to trace, but we found that Denmark’s Maersk-Ma unhindredly owns at least 22 of the 144 ACP vessels through subsidiaries Maersk Lines, Ltd. and Maersk Sealand. Meanwhile Neptune Grains Lines of Singapore owns 10 vessels through its subsidiary American President Lines. Almost 40% of the tonnage we could identity conclusively with a corporate parent was based on vessels ultimately owned by a foreign corporation.

Questions or Comments?
Please Contact: Elizabeth Bageant (erb32@cornell.edu)