U.S. Food Aid and Agricultural Cargo Preference Policy

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1 What is Agricultural Cargo Preference?

Agricultural Cargo Preference (ACP) is a policy requiring that 75 percent of US food aid commodities be shipped on privately owned, registered US-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 seafarers
- Maintenance of the financial viability of US-flag vessel operators
- Protection of US 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, USDA and USAID, 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.

Box 1: Competition Effects

Perhaps the most anti-competitive influence is an obscure policy from the Maritime Security Act of 1996 known as MSA-17, which requires that 25% of all bagged food aid cargo pass through Great Lakes ports and exempts this 25% from the ACP requirement of shipment on US-flag vessels. As a result, MSA-17 absorbs the maximum 25 percent foreign-flag shipment allowable under ACP, effectively limiting shipments from all other ports to US-flag vessels. This drives up costs by eliminating competition and reducing flexibility within USAID and USDA's procurement processes.

FY2006: USAID Food Aid Tonnage Allocated to U.S. and Foreign-Flagged Vessels

		PERCENT OF TONNAGE	
		Bagged	**Bulk**
FOREIGN-FLAG	**Percent foreign-flag winning bids**	MSA-17: 24.4%	22%
		Non-MSA-17: 0.4%	
US-FLAG	**Competitive ocean rate**	9.6%	0.2%
	Non-competitive ocean rate	46.6%	52%
	Missing foreign-flag bid	MSA-17: 0.2%	25%
		Non-MSA-17: 18.8%	
TOTAL		**100%**	**100%**

There are significant differences in competitiveness between subsectors of the US-flag fleet. While US-flag ocean carriers very rarely offer competitive rates, virtually none (0.2%) of the bulk vessels did, while almost 10% of the containerships carrying bagged food aid offered competitive bids.

2 Data and Analytical methods:

To estimate the costs of ACP, we analyzed transactions-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.

FY2006: All ACP-Related Costs and Payments ($ millions)

	Costs accrued to USAID	Costs accrued to MARAD	**Costs to taxpayers**
Total OFD incurred due to ACP	57.6	19.5	**77.1**
Total costs due to missing alternate bids	26.8		**26.8**
MARAD TPEF payment to USAID	(34.8)	34.8	
Total payments	**49.6**	**54.4**	**103.9**

The Ocean Freight Differential is the difference in cost between the winning US-flag bid and a competing foreign-flag bid for a given shipment. OFD costs are the basis for determining the costs of ACP and calculating reimbursements by MARAD to USAID and USDA.

The Twenty Percent Excess Freight provision requires a transfer of funds from MARAD to USAID and USDA when the cost of shipping exceeds 20 percent of the value of the commodities shipped.

For those shipments not receiving a foreign-flag bid, OFD cannot be calculated and therefore the costs of ACP are difficult to ascertain. We applied an average per-ton cost of shipment on a US-flag vessel to these shipments in order to estimate the additional costs to USAID

MARAD is required to reimburse USAID and USDA for one third of OFD costs associated with vessels 24 years old and younger. This has significant implications, given the aging of the US-flag fleet and significant cost differentials associated with shipment on older vessels.

The above costs combined with an estimate of the USDA 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 II non-emergency food aid programs in Africa for FY2006 ($143 million).

The Future of Agricultural Cargo Preference:

The core problem with Agricultural Cargo Preference is the difficulty inherent to pursuing multiple policy objectives through a single policy instrument. Therefore, our primary recommendation is to untangle ACP policy objectives and address them one by one.

Increase competition by relaxing or removing entirely MSA-17 restrictions on Great Lakes shipments. This will allow for greater price-based competition among ocean carriers.

Address national security concerns through direct subsidies to militarily useful vessels and mariners via the existing DoD/MARAD MSP program. Additionally, ACP eligibility could be restricted to vessels that are clearly militarily useful, thereby eliminating costly support for older, more expensive vessels.

American companies, mariners and other shipping industry employment will benefit from more stringent guidelines regarding corporate parentage of eligible carriers.

3 Findings at a Glance

- ACP constrains food aid agencies by limiting competition (Box 1).
- ACP costs taxpayers an estimated $140 million/year. USAID's costs are outlined below in Box 2.
- 70% of US-flag vessels eligible for ACP failed to meet the Department of Defense's definition of militarily useful vessels, while ACP costs more than $99,000/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).

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 vessels 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 $2.9 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.

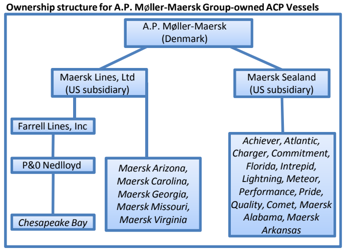
ACP helps employ US citizen mariners. Exact employment figures are elusive, but best estimates indicate that each mariner position costs taxpayers $99,342. In the half century since ACP was first enacted, there has been no documented call-up of civilian mariners from ACP vessels for national security purposes.

Box 4: Ownership of Cargo Preference Vessels

One of the require-ments for US-flag status is that the vessel be owned by an American company. Our research indicates that, while all ACP vessels are owned by US companies, many of those companies are ultimately owned by foreign corporations.

Ownership structures of US-flag vessels are difficult to trace, but we found that Denmark's

Ownership structure for A.P. Møller-Maersk Group-owned ACP Vessels



A.P. Moller-Maersk indirectly owns at least 21 of the 144 ACP vessels through subsidiaries Maersk Lines, Ltd. and Maersk Sealand. Meanwhile Neptune Orient Lines, of Singapore owns 10 vessels through its subsidiary American President Lines. Almost 40% of the tonnage we could identify conclusively with a corporate parent was hauled on vessels ultimately owned by a foreign corporation.

Questions or Comments?
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