INSURANCE AGAINST THE EFFECTS OF MAJOR STOPPAGES IN OCEAN SHIPPING SERVICE

Address by the
Honorable Rafael Hernández Colón
to the San Juan Rotary Club
March 14, 1972

Gentlemen:

Thank you for this opportunity to speak. Just as your organization represents commerce, industry, services, employers, employees, and consumers, my subject today affects people in all walks of life in Puerto Rico. I refer to stoppages in maritime shipping service--like the weather, everybody talks about them but very little has been done about them. I propose to introduce legislation which, hopefully, will lead to doing very much about them.

The impact on Puerto Rico of a maritime stoppage is staggering. Our overseas trade of $4.7 billion in fiscal 1971 amounted to 90% of the Gross National Product. The comparable figure for the U S is 8%. Of all food and goods consumed on the Island, over 70% represent imports or imported material. We export 55% of everything we produce.

There have been 50 stoppages in ocean shipping since 1950, more than 20 of them in the past decade. Most have been of short duration, have affected only a single shipping line, or have closed only one port area either in Puerto Rico or the U S. Such stoppages have little adverse effect on consumers and cause no observable unemployment except among the workers directly involved.

Four major stoppages during the past decade, on the other hand, have had very serious consequences. In all of them, food prices have risen sharply and some food items have been in short supply. Employment, particularly in factories and among dockworkers and truckers, has been substantially reduced with a consequent loss of worker and business income. These four major stoppages of the last decade were caused by strikes in the Atlantic and Gulf ports of the U S between the International Longshoremen's Association (I.L.A.) and the shipping companies, completely outside the jurisdiction of Puerto Rico.

The most recent stoppage for which complete price and employment data are available is the one from December 20, 1968 to February 26, 1969. We calculate that in this short period, the consumer price index suffered an extraordinary rise of 1.8%. This translates into an annual cost to consumers of $58 million. Loss in employment is estimated at 1,550 man years. Direct loss of labor and business income was probably about $11 million, matched by a comparable indirect loss for a total of $22 million. If we add this amount to the $58 million costs to consumers, the aggregate loss in real Commonwealth Net Income is about $80 million.

I am a proponent of collective bargaining and an opponent of infringement of the basic rights of individuals. I propose a solution that will preserve these principles and, at the same time, guard the public interest. A pragmatic and democratic solution that satisfies all these requirements is an insurance plan. While additional research is needed to work out all the facets of the plan, an outline of what I have in mind may prove informative.

There was sufficient notification of all four major stoppages to permit considerable stockpiling by ocean freight prior to the deadline. Nevertheless, emergency air shipments became necessary within less than a month after the stoppage began. Increased stockpiling and emergency airlift are the only means of providing adequate availability of commodities during major stoppages of U S origin. Since maximum airlift capacity that could be made available would take care of about one-sixth the required tonnage, the major reliance must be on stockpiling. For many commodities, normal inventories are sufficient to last through a two-month stoppage.

We have made some preliminary investigation into shipping patterns to ascertain the feasibility of an insurance plan. Fortunately, the airlines would be in a position to provide capacity for all the perishable food and other essentials that must be transported by air. The problem can be boiled down to creating a fund to cover most of the costs of increased inventories and of the differential between air and sea freight. Preliminary calculations suggest tentatively that an insurance premium of about 10% on inbound maritime freight charges would be sufficient to fund the program. This would be equivalent to 0.4% of the total value of 1970 inbound shipments, an amount which would not add significantly to the cost of living nor to production costs.

The plan would be administered by a division within a government department to be known as the Transportation Insurance Fund (Fondo de Següro de Transporte). An appropriation of $500,00 from the General Fund of the Commonwealth would be made to set up the new organization. Subsequently, it would be supported by insurance premiums collected on all merchandise shipped from the U S to Puerto Rico in surface common carriers. The Fund would be used to cover 80% of the costs of providing standby air cargo facilities, for stockpiling and warehousing of appropriate commodities, and for paying the differential between air and ocean freight rates on commodities shipped by air during the course of major stoppages in ocean shipping services.

The insurance premiums would be collected periodically from the ocean freight common carriers in amounts directly related to their total charges for Southbound freight services. These amounts would be billable by the carriers to individual shippers. Cargo shipped in contract or shipper-owned vessels such as tankers, grain and cement carriers would be exempt from the provisions of this law. Importers and exporters who have paid over an established minimum in freight charges over a specified period would be eligible for benefits. Payment would be forthcoming for the least expensive and practicable method of providing continued merchandise availability during the administratively determined maximum stoppage period. Importers and exporters with normal inventories which are in excess of those required to weather the stoppage would be ineligible, along with importers of consumer goods listed administratively as non-essential.

Methods for providing merchandise availability include:

a) Continuous maintenance of adequate inventories
b) Additional warehousing in existing facilities
c) Continuous warehousing in new facilities to be provided under the plan

d) Anticipatory stockpiling by water shipment after announcement of an impending stoppage

e) Shipment by air during the stoppage

Warehousing would be done in either Puerto Rico or in the U S Mainland. As noted earlier, the Fund would pay 80% of the certified costs for such stockpiling, warehousing, or differential between air and sea freights.

The fund would be empowered to modify premium rates on the basis of experience and the status of its reserves. Overall premium rates would be geared to yield only the amounts necessary for efficient operation of the plan. Assets of the Fund would be invested to the maximum prudent extent in interest bearing securities of the Commonwealth Government and its instrumentalities. In the event of a major stoppage before sufficient funds are accumulated, the Fund would be empowered to borrow additional funds as required.

Contracts between the carriers and dock workers in U S East Coast ports now run for three years. We estimate that over this three-year period, 10% insurance premiums on Southbound freight would accumulate to a total of about $24 million. This is about double our very approximate estimate of the amount of benefits that would be necessary to provide continuous availability of foods and other commodities needed by consumers and manufacturers during a two month stoppage of ocean shipping. In any case, a $24 million insurance cost is very small in relation to an $80 million uninsured loss from such a stoppage. Meanwhile, the Fund itself will be invested in socially useful projects of benefit to the community as a whole.

In conclusion, let me reiterate that this seems to me a businesslike solution which balances the burdens, benefits, and equities for the good of all Puerto Rico. It avoids the polarization and confrontation generated by administrative or legislative measures that are anti-labor or anti-business in effect. Since Puerto Rico accounts for only 5% of U S commerce, our plan would not materially affect collective bargaining in a stateside generated stoppage but it would contribute importantly to alleviating the hardships which we suffer here as a result of that stoppage.

Thank you.