

March 24, 2020

ICS-ECSA-ASA Position Concerning Installation Vessel Provision of US Coast Guard Authorization Act of 2019

Background: The United States Congress is currently considering the proposal to amend a provision in the US Coast Guard Authorization Act of 2019. The proposal, which addresses installation vessels, is likely to have the effect of extending the original intention of the Merchant Marine Act of 1920 (Jones Act) from the transportation of merchandise, to also include maritime construction tasks.

Concerns

- The proposed amendments would likely have an adverse impact on the US offshore oil and gas sector, as well as the offshore renewable energy industry.
- The changes would likely also have a negative impact on non-coastwise qualified offshore installation vessel operators, which have made substantial investments over several years to support this strategic US industry.

Potential consequences

- The proposed modifications would likely make offshore oil, gas and offshore wind operations in the US much more costly, complex, less viable and could have knock-on effects for both US offshore oil and gas jobs and US renewable energy jobs. They are also likely to hinder offshore oil and gas market forecasts, which currently anticipate growth by an average rate of 10% annually until 2023.
- If enacted, the changes could have a highly detrimental impact on the ability for the US to grow its domestic offshore wind supply chain, since highly specialized vessels are required to achieve this. These vessels are crucial to perform heavy lifts to install the significant amount of offshore foundations, substations and other wind farm components at sea.
- The proposed waiver procedure is complex. If adopted, it would likely lead to unwelcomed uncertainty and unpredictability. In combination, these factors would undermine confidence in the US offshore energy market, which is vital to ensure that the market remains attractive for long-term investment.

Consensus position of the global shipping industry

- The global shipping industry does not wish to undermine the integrity of the Jones Act, but rather to ensure that fair framework-conditions and predictability are maintained, and in that way contribute towards US economic growth and energy independence.
- The contribution of non-coastwise qualified vessels is indispensable, with oil and gas operations – and the process of building offshore wind farms – being based on cooperative efforts between local technicians (working on behalf of offshore energy producers) and operators of specialist non-coastwise qualified vessels performing heavy lifts.
- Operations of non-coastwise qualified vessels are based on time-limited projects, intended to set up the necessary infrastructure to support the operations of offshore energy producers. Those advanced vessels then need to proceed to provide support to other projects elsewhere in the world, in most cases.
- It should also be noted that due to the sensitivity of heavy lift vessels to certain weather conditions, operators are compelled to conduct these operations within a limited timeframe in any calendar year, in order to justify the considerable investments that are made. Any uncertainty in the US market could act as a disincentive for operators of non-coastwise qualified vessels, who could potentially seek to invest in alternative markets as a result. This could potentially create bottlenecks in the US market and increase costs.
- On conclusion of heavy lift operations, offshore support vessels, such as Service Operation Vessels (SOVs) and Crew Transfer Vessels (CTVs) are then used to carry out services related to construction and maintenance of local offshore wind farms. Such vessels are either currently operating as coastwise qualified vessels or can be built in the US, in line with national requirements for US vessels to be built and flagged in the US, and crewed with personnel from the US.
- Upholding the existing synergy between non-coastwise qualified vessel operations (supporting heavy lifts) and US offshore oil, gas and offshore wind operations is vitally important. It contributes significantly to increasing economic growth and strengthens the jobs growth in those sectors. Another by-product of these collaborative projects is capacity building, with training and development being provided by offshore energy producers to local technicians servicing offshore wind farms. The positive economic impact of these sustainable projects is considerable.

- The economic sustainability of US offshore oil, gas and offshore wind operations is inextricably linked to that of non-coastwise qualified vessel operations that support heavy lifts. The proposed installation vessel provisions could therefore significantly undermine growth in those local industries. Further consideration should also be given to other factors expected to have a negative impact on the commercial performance of US offshore oil, gas and offshore wind operations in 2020 and potentially beyond. This includes the economic impact of the Coronavirus (COVID-19) outbreak, which is likely to have a considerable effect on those operations, as COVID-19 continues to: (1) affect oil prices; (2) decrease supply and demand; (3) lead to travel restrictions and office closures; etc.

Recommendation

- The US Customs and Border Protection (CBP), following its latest public consultation concerning Jones Act rulings, developed a framework to address these issues, as outlined in its final ruling published on December 19, 2019 and effective since February 17, 2020.
- The consensus position of the global shipping industry is that Congress should carefully consider the negative impacts of overruling this effective compromise, developed between all stakeholders in an open and transparent process.