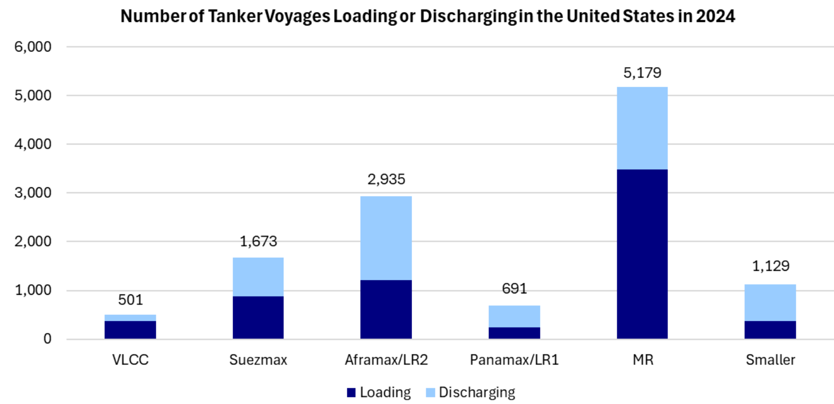
Chinese Shipping In The Crosshairs

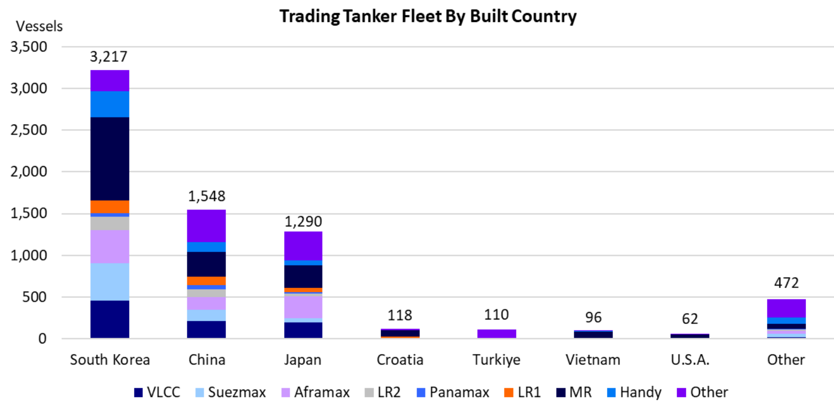
Implications of the proposed fees on the tanker market

According to the office of the U.S. Trade Representative (USTR), China is targeting the maritime, logistics and shipbuilding sectors for dominance. The USTR concluded this at the tail end of the Biden Administration in response to a petition filed by five U.S. labor unions back in March 2024. Under Section 301 of the Trade Act of 1974, the USTR is allowed to "address unreasonable or discriminatory acts, policies or practices that burden or restrict U.S. commerce". Now, the new Trump Administration has announced the actions it proposes to take. It is considering imposing additional fees on Chinese shipping companies, companies that use Chinese ships and/or companies that have ships on order in China each time one of their vessels enters a U.S. port. The USTR also proposed a requirement that a percentage of U.S. exports are transported on U.S.-flagged ships, a subset of which would also need to be U.S. built. At this point, this is only a proposal (the USTR is asking for public comments by 24 March 2025) and important details with respect to implementation & enforcement are still unclear. However, in this Tanker Opinion, we will try to determine how implementation of proposals as they are currently written, may impact the crude oil and product tanker market.

The main elements of the proposals are as follows:

1. Vessels from Chinese owners or operators will be charged a fee of up to $1 Million (or up to $1,000 per net ton of capacity) each time they enter a U.S. port
2. Any operator of a Chinese-built vessel that enters a U.S. port will be charged a fee of up to $1.5 Million. If the operator's fleet is >50% Chinese built, vessels of that operator will be charged a fee of up to $1 Million per entry; if the operator's fleet is 25-50% Chinese built, the fee is up to $750,000 per entry; for fleets <25% Chinese built, the fee is up to $500,000 per entry.
3. Additional fees are proposed for operators that have vessels on order at Chinese shipyards. If more than 50% of an operators' orderbook (for delivery within the next 24 months) is from Chinese yards: $1.0 Million; more than 25% and less than 50%: $750,000; and $500,000 if more than 0% and less than 25%.
4. Some of the fees can be refunded if operators use U.S. built vessels for entry into U.S. ports.
5. In addition to the above, U.S. exports will need to increasingly use U.S.-flagged, and U.S. built vessels: 1% of all exports in year 1 will be restricted to U.S. flagged vessels by U.S. operators, growing to 5% after 3 years (of which 3% to be U.S. built) and ultimately (after 7 years) 15% U.S.-flagged and operated and 5% U.S. built.





Source: Poten, Vortexa

To determine what might happen to the tanker trades if these rules are being put into effect "as-is" later this year, we have to put things in perspective. Based on Vortexa data, tankers made an estimated 12,108 port calls in 2024 (Chart 1). We don't know how many of these calls were made by Chinese operators or operators with Chinese built vessels in their fleet or operators with newbuildings on order at Chinese shipyards. However, if we take a look at the current tanker fleet and the orderbook, we can get a general feel for the numbers. As per February 1st, the total tanker fleet of vessels >10,000 dwt consists of some 6,907 ships, of which 1,548 (22%) are built in China. Out of the total orderbook of 1,130 tankers, 788 (70%!) are being built in China.

In the highly competitive oil transportation market, a tanker that is subject to any of the proposed additional port fees will be instantly uncompetitive. As a result, Chinese tanker operators will no longer call on U.S. ports. International operators that own both Chinese and Non-Chinese built tankers will keep their Chinese vessels out of the U.S. trades. To avoid the "additional fees" (no 3.), international owners with vessels on order in China will also no longer call on the U.S. Some of these owners may try to sell their Chinese newbuildings and switch to Korean yards. It will create a two-tier market where Chinese built vessels are discounted relative to Korean or Japanese built vessels. U.S. charterers would have access to a smaller pool of vessels and may face higher freight costs. Overall, the implementation of these measure could lead to a reshuffling of trade flows and create more inefficiencies in the tanker market.