POTEN TANKER OPINION

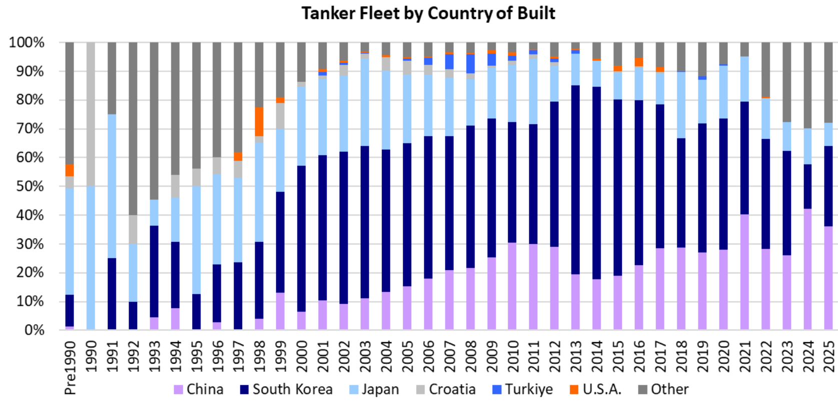
It's Complicated!

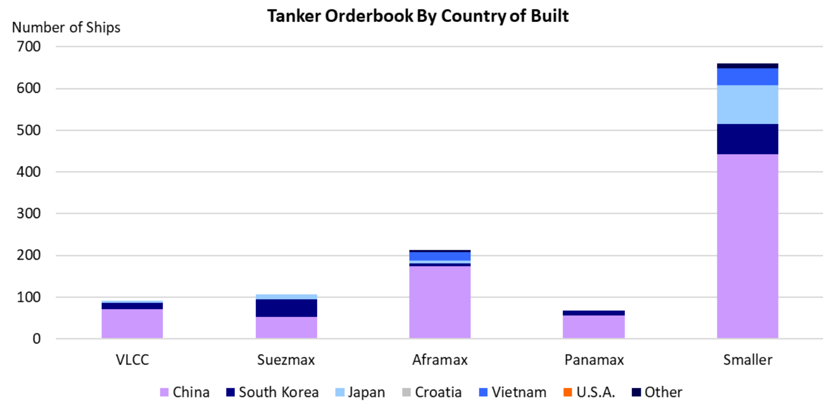
Targeting Chinese vessels could be costly for the U.S.

A few weeks ago, the Trump administration announced a set of proposed actions to address China's "dominance in the global maritime, logistics and shipbuilding sectors". These proposed actions include imposing significant port fees on Chinese owners/operators as well as other operators who have Chinese built vessels in their fleet or on order. They also mandate the use of U.S.-flagged and U.S.-built vessels for a fixed percentage of U.S. exports. We first wrote about the potential implications of these proposed actions on the tanker market in our Tanker Opinion of February 28th ("Chinese Shipping In The Crosshairs"). Our preliminary conclusion was that if these proposed actions would be implemented as-is, it would make Chinese owners/operators and vessels instantly uncompetitive in the U.S. import and export markets. Since then, more people have given their opinion on this proposed action. In today's Tanker Opinion we will go into more detail about the implications and consequences (intended and unintended) of the proposals of the Office of the United States Trade Representative ("USTR").

To put things into perspective, let's first take a look at the existing tanker fleet and determine how many vessels are built in China. As of March 1st, 2025, the total tanker fleet (>10,000 dwt) consists of 6,891 vessels. The top three shipbuilding countries are South Korea (3,251 tankers or 47%); China (1,543 vessels or 22%) and Japan (1,287 tankers, 19%). The U.S. built fleet, in contrast consists of only 59 tankers or <1% of the global tanker fleet. As can be seen in Chart 1, China's presence in the global shipbuilding market started to grow in the late 1990s/early 2000s, when China's economic growth cycle started in earnest. Chinese shipyards took advantage of the commodity super-cycle in the early 2000s, when demand for new vessels (tankers, bulkers, containerships, offshore vessels, etc.) was so high that existing shipyards filled up. This created an opportunity for Chinese new entrants in the market. In recent years, the market share of Chinese shipyards has exceeded that of the Korean builders, which had been the leading players in the shipbuilding market over the last 25 years. This trend continues in the orderbook (Chart 2). Chinese shipyards dominate the tanker orderbook in all tanker segments. In contrast, there are no tankers on order at U.S. shipyards.

Implementation of the rules as proposed would make a large proportion of the tanker fleet uneconomical to trade to the United States. It would also make oil exports and imports more expensive for U.S. based charterers. Many vessel owners, operators, charterers and other interested parties have commented on the Proposed Action. While there are certainly people that are in favor of the USTR proposal, most of the comments from participants that are active in the oil and tanker industry are pointing to significant potential problems. Oil exports from the United States would become much less competitive in international markets if charterers needed to pay a significant additional service fee. The alternative is to use non-Chinese tonnage. While these vessels may be available, reducing the pool of accessible vessels will create inefficiencies and a two-tier market with higher freight costs for U.S. based companies. The reduction in international competitiveness could disincentivize U.S. crude oil production.





Source: Poten & Partners

While this USTR proposal is not yet agreed, some market participants are already taking action to prepare themselves. There are reports of owners that are selling their Chinese vessels and/or newbuilding contracts. Companies that are looking to time-charter tonnage are excluding Chinese built vessels from their inquiries. If implemented, the value of Chinese vessels will be discounted relative to tankers built in other countries. This will create potential insurance and valuation complications for shipowners, banks and investors.

While the tanker industry can probably adjust to the potential port fees by reshuffling trade flows and repositioning the fleet, this is not necessarily the case with the USTR requirement to use a percentage U.S. built vessels for U.S. imports and exports. As mentioned before, U.S. built vessels are less than one percent of the international tanker fleet and are mostly employed in the protected coastal "Jones Act" trades. The last U.S.- built commercial tankers were delivered in 2017. Tankers built for the Jones Act are typically at least three times the price of a comparable ship built in China, Korea or Japan. While the U.S. can rebuild its shipbuilding industry, it will take a long time for U.S. shipyards to build large tankers at competitive prices.

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