Analysis: US port fees the latest headwind for container supply chain

China, tariffs, Red Sea cloud contract negotiations

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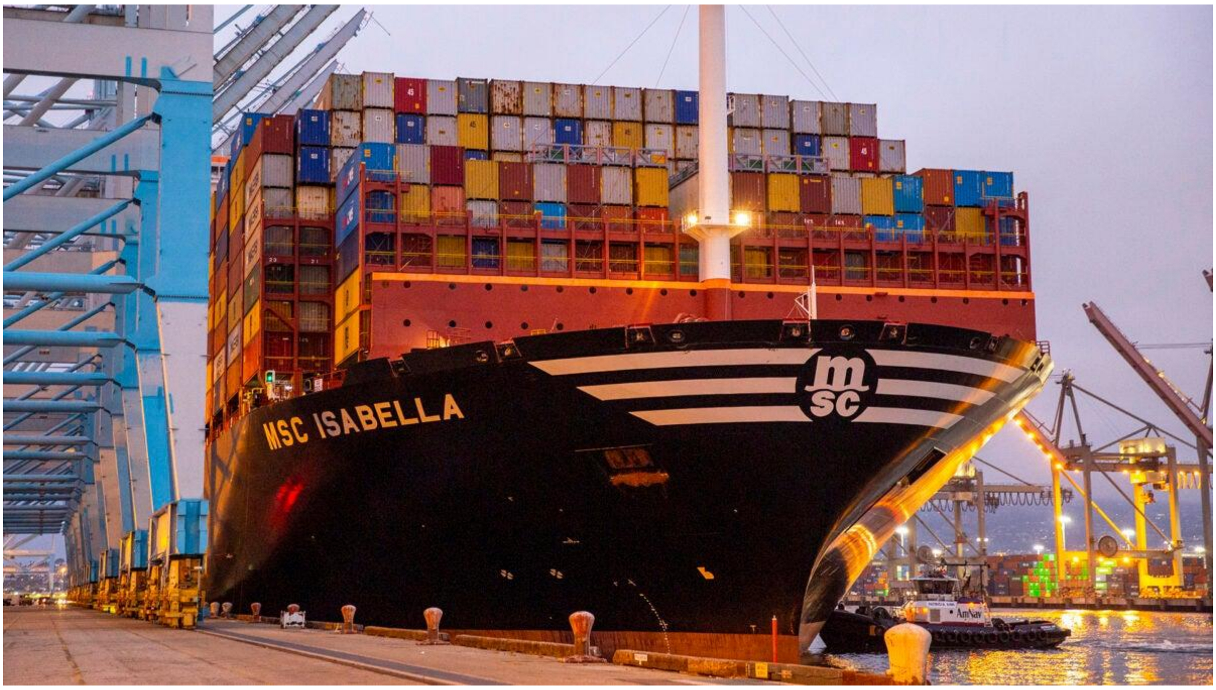
Tuesday, February 25, 2025



(Photo: Port of Los Angeles)

It's a tumultuous time to be in the container supply chain, a business that lends itself not only to shopworn maritime cliches but also time-honored truths. But to say the industry faces significant headwinds may be an understatement.

The latest shot across the bow came from the office of the U.S. Trade Representative, which capped an investigation into China's maritime business by announcing a sweeping set of expensive port fees meant to penalize Chinese ships and shipbuilding while boosting American vessels and yards.

The proposed charges top out at $1.5 million per China-owned ship for each U.S. port call for the largest ultramax vessels, with capacity of 24,000 twenty-foot equivalent units, the industry standard metric, or approximately 12,000 actual forty-foot containers. That's $125 per container for a single call, or less than 2.5% of a nominal spot rate of $5,000 for a loaded container moving on the eastbound trans-Pacific lane from Asia to the U.S. West Coast – hardly a dealbreaker for a high-volume shipper such as Walmart (NYSE: WMT), which a quick Google search found moved approximately 16 million containers in 2023.

But belay that order — those deepwater ships usually call three or four U.S. ports on a single voyage, so the port charge could total $500 for each box, or $6 million per ship per voyage. Now figure in that container ships made 280,000 U.S. port calls in the second half of 2023 alone, according to the United Nations Trade and Development office, and the theoretical dollar amounts generated by the port charges are truly staggering, even with ships of less than ultramax capacity. Just how much of those charges can be passed on to shippers and, in the case of importers, consumers is an open question.

The varying port fees — some call them a tax — not only apply to Chinese vessel operator Cosco, the world's fourth-largest container line, which also owns Orient Overseas Container Line (OOCL), but extends to liner companies domiciled in other countries that roster even a single China-built vessel. That makes it difficult for some operators that employ shell companies and paper trails designed to obscure vessel ownership, similar to the "dark fleet" of crude oil tankers operating in defiance of global sanctions.

But major container lines are anything but a dark fleet. The nature of alliances and vessel-sharing agreements constitutes a complex web of cooperation that will feel the effects of the port fees in ways that aren't spelled out in the USTR proposal.

It's likely that shippers, for the first time, are asking the largest carriers where their ships were built. A carrier with a fleet of 40% China-built vessels would have a different cost structure than a competitor with only, say, 5%. That could put pressure on the former to operate more efficient schedules and most likely, fewer calls at U.S. ports.

Mediterranean Shipping Co. of Geneva, the world's largest container carrier, has been on a recent ordering spree with China shipyards, as has CMA CGM, and Maersk (OTC: AMKBY) is reported to be interested in placing its own orders. The companies did not immediately respond to requests for comment.

While the major U.S. container gateways could see some drop in volume if the liners reconfigured some services to call Mexico or Canada, it's the secondary ports that could suffer most if carriers decide the volume doesn't justify a $500,000 fee and eliminate calls.

President Donald Trump will ultimately decide whether the port fees are implemented.

Ocean lines have been assessing services in response to the Trump administration's 10% tariff on China exports, and 25% tariffs on Mexican and Canadian goods set to go into effect March 4. The port fees could further hinder U.S.-Mexico trade.

The port fees emerge at a critical time for carriers as rate negotiations with shippers are underway.

The Red Sea route remains in crisis. Recently naval forces intercepted two oceangoing shipments of missile parts likely headed for Houthi militia in Yemen. Attacks by the Houthis on merchant shipping forced most container lines in 2024 to divert from the region and on longer voyages around the Horn of Africa. This took capacity out of the supply chain and pushed up rates. A reopening of the Suez Canal route connecting Asia with the Mediterranean, Europe and the East Coast of the United States could cut as much as 14 days from those voyages, but also depress rates.

At the recent Traffic Club of New York's annual dinner, an executive with a major bulk shipper told FreightWaves that contract container rates on some longhaul Europe trades have fallen below $1,000 per forty-foot equivalent unit.

Suez Canal Authority Chairman Osama Rabei of Egypt on Sunday was quoted by Reuters as saying that 47 ships have been rerouted from the Cape of Good Hope to the Suez Canal since the start of February. He offered no other details.

Excess capacity could also be aggravated by the scheduled introduction of new vessels this year, even as carriers work out the kinks from new alliances. It's not uncommon for lines to blank (cancel) sailings to fine-tune operations. It's also possible carriers could balance capacity by scrapping older vessels.

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