If you own a Chinese built ship calling US ports could get expensive

Five weeks into Trump's second Presidency and international trade and all things maritime have been on the administration's radar.

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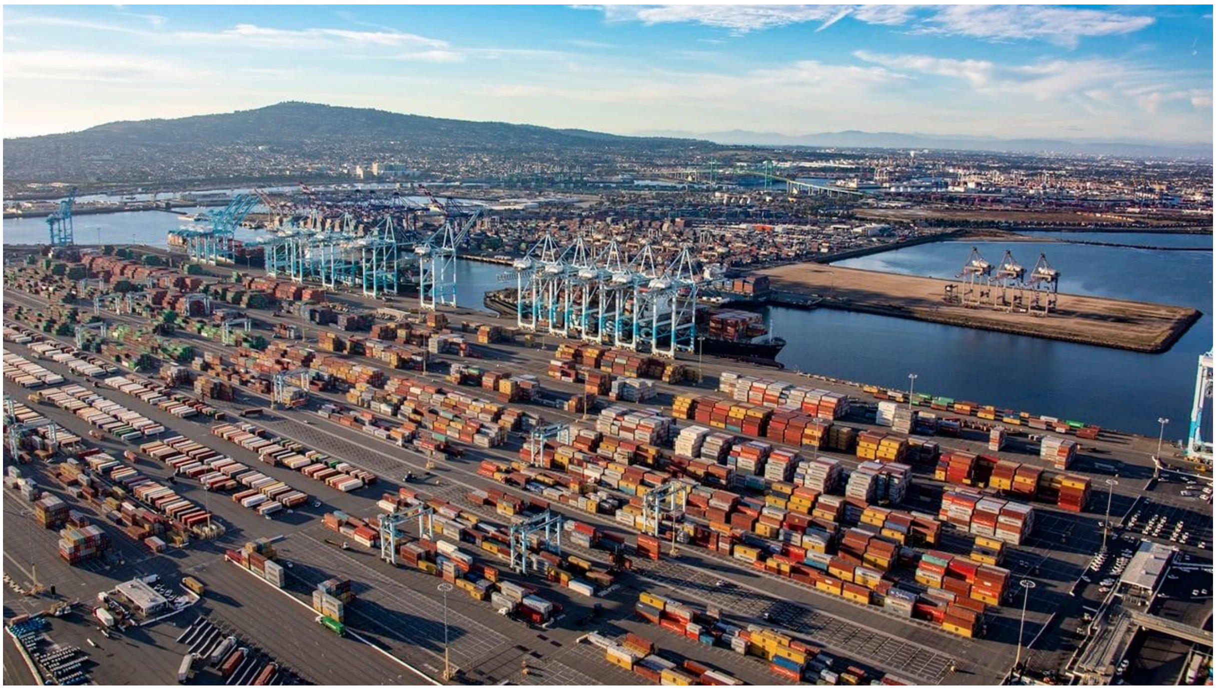

File photo: View of the Port of Los AngelesCredit: Port of Los Angeles

At a Glance

- United States Trade Representative recommends imposing $1.5 million fee for Chinese-built ships calling US ports
- Proposed targets for US exports moving on US-flagged and built ships
- Jeffries analyst describes US port proposal as 'bringing another week of disarray'

With the President’s business background, and ties to influential figures, this should not surprise. Looking back to Trump 1.0, Wilbur Ross- his Secretary of Commerce, had ties to Navigator Holdings (now Navigator Gas) through investment vehicles at W.L. Ross and Co.

This time around, the newly confirmed Secretary of Commerce, Howard Lutnick has now resigned his post at BGC Group, and at affiliated the investment bank Cantor Fitzgerald- which was very active in shipping deals during the late 2000’s decade, under his watch. BCG’s portfolio of businesses includes the well-known LNG and energy brokerage and analytics behemoth Poten & Partners, acquired in late 2018.

In recent days, Lutnick has made news with his suggestions that vessels, notably from the cruise sector, should be paying US taxes; the major international cruise vessels calling at US ports - dominated by the “Big Three” in Florida: Port Canaveral, Port Everglades, and Miami - are registered under flags largely exempt from Federal tax levies.

This week, another agency- the United States Trade Representative (USTR), which reports directly to the President, has been wading further into shipping matters, continuing on an investigation actually launched in early 2024 under the Biden administration.

Related:US seeks public comment on China maritime dominance investigations

Late last week, in a press release, the USTR said that it would be investigating "China's Targeting of the Maritime, Logistics, and Shipbuilding Sectors for Dominance," with hearings scheduled for 24 March, in response to a petition from five prominent US labour unions- including the "Maritime Trades Department" of the AFL-CIO. In a submission to the Federal Register detailing "Proposed Actions", the USTR is recommending the imposition of fees on port calls in the States for Chinese-built of up to $1,500,000 per entry, and Chinese-managed vessels, as well as fees on port calls by vessel operators with ships on order at Chinese yards.

China has grown to dominate global shipbuilding in recent years and some 74.1% of newbuildings contracted in 2024 in tonnage terms were placed at Chinese shipyards according to the data from the China Association of the National Shipbuilding Industry (Cansi). Some 55.7% of all new ships delivered last year in tonnage terms were built at Chinese yards.

The USTR proposals have an aim of promoting US flagged vessels to move US exports, with initial targets for percentages of goods (including bulk agricultural and energy commodities) moving on US registered vessels (not necessarily built in the States). Starting three years out, a US build requirement kicks in, with the "Proposed Actions" mandating export moves on ships constructed in the States. The proposal language includes provisions that: "Effective as of 7 years following the date of action, the international maritime transport of at least 15 percent of US goods, per calendar year, is restricted to export on US-flagged vessels by US operators, of which 5 percent must be US-flagged, US-built vessels, by US operators."

Related:US Committee hearing grapples with Chinese port investment

Analyst Omar Nokta and his team at Jefferies, a leading banker in the maritime sector, commented that the "US port proposal brings another week of disarray." In his daily report to investors, The Jefferies analysts looked closely at the Proposed Actions and explained that: "These fees would likely require re-organising fleet patterns and make US calls more lucrative on a freight rate basis, which operators would aim to pass on. The most affected sector is likely containerships given their multiple port calls."

In developing estimates of hypothetical costs were the measures to come into effect, the analysts voiced the expectation that: "a $1,500,000 fee spread against the average 10,000 teu ship calling in the US would equate to $150 per teu or $300 per feu, taking today's China-LA rate quotes up from $3,000 per feu to $3,300 per feu."

For a hypothetical crude oil cargo moving outbound on a Chinese built VLCC, Jefferies suggested that: "A VLCC cargo from the USG to China costs $8.3 million in today's market or $4.20/bbl, but that would rise to $4.95/bbl including a $1,500,000 fee."

Resource: USTR press release