SHIPPING INSIGHTS

AFPM 2025 Highlights

April 2025

Quincannon Associates sent seven delegates to participate in this year's American Fuels & Petrochemicals Manufacturers (AFPM) annual meeting in San Antonio. On Sunday evening, Quincannon Associates hosted a cocktail reception at Devil's River Distillery which was well attended. The remainder of the conference was spent meeting with existing partners and connecting with potential new partners looking for solutions in the shipping space.

What is the actual price of building back the U.S.'s shipping interests?

The topic of Section 301, and more specifically the proposed tonnage tax on companies operating (any) Chinese built vessels dominated the discussions at this year's AFPM conference. Proposed legislation in the USA (USTR Section 301) seeks to tax Chinese built and operated vessels up to $1.5 million per port call, impacting operators with ships either built or on order in China. If ratified, the cost for shipping Chemicals into and out of the USA could increase by as much as 200%. With 56% of stainless-steel Chemical tanker fleet orders and 63% of the entire IMO 2/3 orderbook being built in China, the implications for chemical and refined product shipping interests with U.S. exposure are far reaching. Industries had been invited to provide comments, which were scheduled to be heard in Washington just as the conference ended, so there was much speculation as to what the outcome of these pivotal sessions would be.

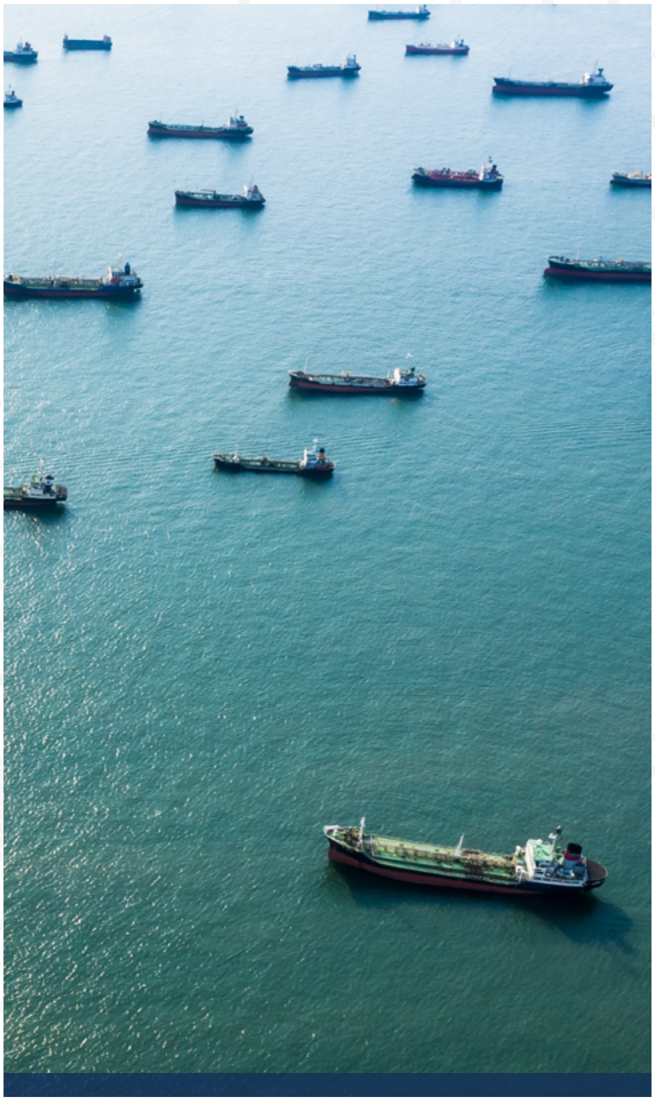
It is generally agreed that the likelihood of increased tariffs and taxes on foreign built ships calling U.S. ports resurrecting the U.S. lost industrial base is remote. High living standards and labor costs will make it difficult for companies to rebuild without government subsidies and even so, the U.S. is looking at decades to build production lines and the necessary infrastructure required to support it. The U.S. also relies heavily on imported "inputs" to support industries which are adversely impacted by reciprocal tariffs. The hope is that law makers will recognize the potential impact to U.S. interests and opt for other ways to rebuild U.S. shipping.

Despite market uncertainty, the fleet continues to grow.

Despite high steel costs and new build prices reaching historic levels (higher than in 2008), the appetite for contracting ships was robust. 2024 saw a surge in new building orders, particularly in China where the construction of tankers for foreign trade is being driven through favorable loan terms designed to stimulate local industries.

With the freight markets notably down from their ultimate highs in Q4-22 / Q1-23, the threat of new and potentially harmful trade tariffs, primarily driven by the US, there are clear and evident market headwinds for chemicals as producers and consumers try to make sense of the changing landscape. Given the uncertainty, there is a noticeable reduction in demand for chemicals and for chemical tankers. The influx of new capacity is creating additional uncertainty about where the freight markets are heading near to mid-term. As has always been the case, the conference provided a good opportunity for the operators and shippers to discuss new opportunities.

Houthi attacks on merchant vessels in the Red Sea continue to place a strain on capacity as ships reroute around the Cape of Good Hope. Estimates suggest this has reduced capacity by upwards of 5-10%. Now with the ceasefire in Gaza over, the expectation of ships returning to normal routing is being pushed out even further, while some operators are electing to take their chances given the noticeable reduction in spot rates.



Energy Transition, with climate change still a critical topic, why are we no longer talking about it?

The topic of climate change had been at the forefront of discussions globally, be it public, private, local, national, and international levels. The topic received much less coverage as major corporations walk back their net-zero commitments in an apparent return to oil and gas exploration. Outside the EU and China, central Governments are cutting funding and subsidies to support energy transition projects as they look to tackle their own fiscal issues. In the US, the change in administration could see a repeal of the Inflation Reduction Act (IRA) which was instrumental in expanding the US's own contributions to energy transition. The established players in the renewable fuels markets continue to focus on developing their supply networks and remain committed to their investments in the space. On the other hand, Clean Ammonia has not fared as well with most of the projects not receiving final investment decisions. Despite ~$9 trillion in global investment since 2010, global consumption in renewable energy is only increasing by ~0.5% annually, underscoring not only the high cost of energy transition, but the critical role subsidies play in propping these markets up.

Opportunity Amid Uncertainty

Despite the uncertainty, there was an air of optimism at the meetings. The EU's dependency on imports from Asia and the USA will continue to grow as local production becomes increasingly less competitive. Europe's energy costs are expected to remain 4-5 x's higher than other developed economies, which will necessitate more imports. While Europe's climate agenda adds additional headwinds, the need to keep people and plants employed should provide growing opportunities for shipping. Weak demand for chemicals in Asia should push length on to the water resulting in a higher ton-mile which should help to mitigate some of the overhang as tonnage comes into the fleet.

As manufacturers adjust for continued erosion in demand and prices are already under pressure, producers are adjusting to be more forward facing in the market. A potentially weaker dollar can position US manufacturers favorably in the marketplace but will require additional working capital commitments to drive sales and potentially offset the role traditionally filled by traders. The large volume commodity chemical producers conveyed a generally positive outlook on their volumes going forward.

For established vessel operators, the opportunities will come in the form of tonnage as the markets correct. This will likely happen through commercial management or favorable time charter deals as secondary and tertiary Owner/ Operators struggle to compete in a lower freight market. The upside for the operators being they don't have to put up their own capital to expand or renew their fleets.

by **Patrick J. Quincannon**
President, CEO
Quincannon Associates

For up to the minute market intelligence and support, please reach out to one of our shipping specialists: ship@quincannon.com

About Quincannon Associates

Quincannon Associates provides a variety of services that help businesses safely and cost-effectively manage their bulk **marine logistics**, including **voyage chartering, ship sale and purchase agreements, demurrage calculations, port operations, and ship finance**, as well as provide consultation on **marine insurance** and **legal matters**. With offices in New York, Dubai, Singapore, and Shanghai, Quincannon is well-positioned to provide global solutions to the maritime sector in real time. By partnering with Quincannon Associates, businesses can ensure safe transport of gas, chemicals and vegetable oils while meeting local regulations and maximizing profits through our knowledge of international maritime law and technological advancements in shipping. **Contact us** today to speak with a shipping expert.