SHIPPING INSIGHTS

Protectionism and the Cost of Doing Business

February 2025

To say the first few weeks in power for the Trump administration have been eventful would be an understatement. As was the case in his first term, attempting to decipher what is rhetoric and what is ultimately policy can be a tall task. Combine the expansionist policies of Monroe with the Gaza Riviera and annexing Greenland together with Woodrow Wilson's protectionist trade policies and you get one very confused marketplace.

Late Friday, news came out detailing proposed tariffs on Chinese operated and Chinese built ships calling US ports (USTR Section 301) which sent shockwaves through the shipping markets. Previously, the Biden Administration had indicated they were considering going after the Chinese for subsidizing shipbuilding which has been "unfair" for US Industry. For decades, Congress had been warned that the US Maritime industry was falling behind our international peers. The glaring vulnerabilities this presented from a mobilization standpoint were repeatedly pointed out by the defense department (DOD) and largely went ignored by the DC establishment. This sudden change in direction is consistent with the growing nationalistic policies of the past decade but demonstrates little consideration for the adverse effects it would have on the US economy should the regulation become a reality.

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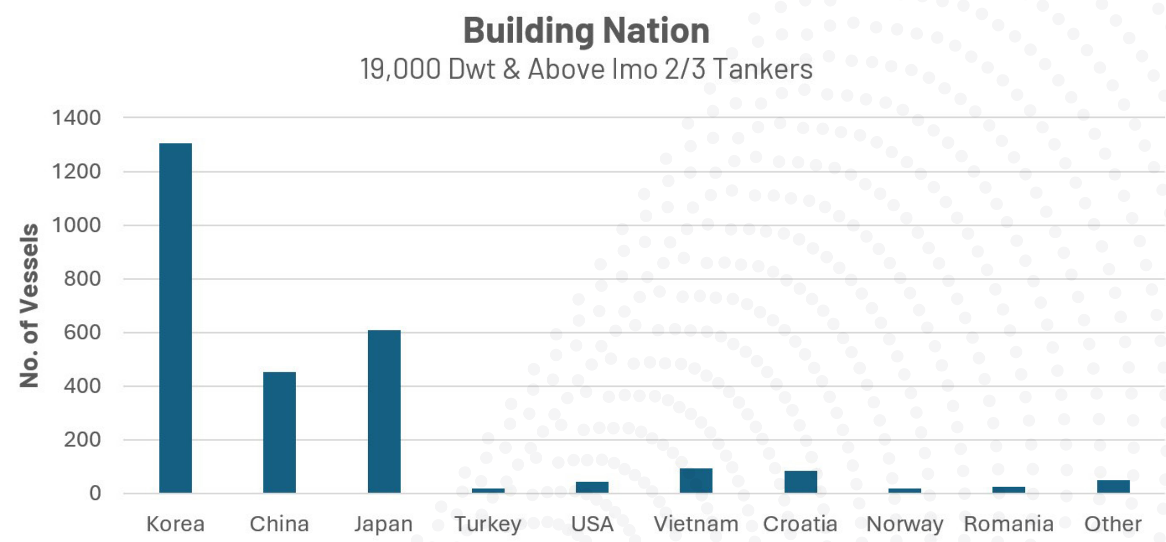
As is the case with Trade Tariffs, the general feeling on the part of economists is that this degree of protectionism is generally bad, however, if used to bring trade partners back to the table to address trade inequities, it could have a positive impact for the US resulting in more exports and serving to level the playing field. It is difficult to see how these policies will have any broad impact on restoring American shipping interests in general. The cost of labor and cost of living in the USA is extremely high and unless the government directly funds and/or subsidizes industries, it is unlikely we will see much near-shoring in the immediate future. Further taxing imports and exports isn't going to change that narrative, and it will take decades to build back the industrial base required to compete with major shipbuilding countries like China, Japan, and South Korea.

The United States Trade Representative (USTR) committees are made up of primarily lawyers, union leaders, and CEOs of companies that stand to benefit from these protectionist policies. It's safe to say that these appointees know very little about specialized shipping and more specifically the bulk parcel trade, so this latest "proposed action" is likely directed at Container vessels with chemical tankers (potentially) being the collateral damage. The irony of these policies, if ratified, is that they would effectively undermine any sort of competitive advantage for the US and have an immeasurable impact on US consumers.



To better understand the potential implications for IMO 2/3 tankers, Quincannon Associates looked at the fleet composition for vessels greater than 19,000 dead weight (12,000 gross tons or more). While China represents a significant position, Korea and Japan still represent a larger portion of the fleet. At present, there are some 65 stainless steel tankers 19,000 dwt or greater on order in China (382 vessels if we include coated tonnage). Of the roughly 800 chemical tankers on order, nearly 70% are slated to be built in China underscoring their immense role in global shipbuilding.

When looking at the main stainless-steel operators serving the USA, the impact could be far-reaching with two of the World's largest operators having 25% of their ships built in China specifically for international trade. We can say with some degree of certainty that these operators did not receive government subsidies from the Chinese government and that the projects were funded mainly through western financial institutions. While the decision to build in China has largely been cost driven, the potential legislation fails to address some of the more glaring reasons. Specifically, the US does not have the yard facilities or expertise capable of building stainless steel chemical tankers suitable for the bulk parcel trade, nor the industrial scale of shipyards capable of putting out sufficient tonnage to compete in the global marketplace. Even if they did, the cost to build would be at least 4-5+ times higher than building foreign with significantly longer lead times again calling into question the viability without significant subsidies.

The legislation goes further to set aggressive targets for US Fleet assets mandating an increasing percentage of US exports be carried on U.S.-flagged tonnage. The schedule would ramp up fast with a one-percent US flagged quota effective immediately, followed by three percent by 2027, five percent by 2028, and 15 percent by 2032. With just eighty vessels of all types trading internationally, the US Flag fleet is underequipped to meet these ambitious targets. There is some speculation that the Jones Act fleet could be called upon to assist, however, the 43 tankers are fully employed exclusively in the coastwise trade calling into question what role, if any, they can play in changing the US shipping narrative. What is very certain is that the US fleet assets are not capable of handling the bulk parcel trade and the movements of acids , specialized products, and a laundry list of other products used in everyday manufacturing.

Until we see how (if) the regulations take shape, it is difficult to quantify the costs given the ambiguity of the language. If ships are charged "per port call". It wouldn't make sense for the owners to call the US with Chinese built ships, nor would it make sense to move product on these ships. If we conservatively use the $1.5 mil assessment, shipping costs could easily increase by a 40-60% premium on freight both in and out of the US. This would likely mean a reshuffling of the fleet and higher freight rates as markets adjust. What is certain is that US shipping interests will see higher costs for moving products into and out of US ports, which ultimately will get passed on to consumers.

The USTR is inviting comments from the public, so it is likely that many US Companies are engaging their legal teams and soliciting the help of their lobbyists in Washington to push back on the proposed tax which will have a huge impact on both imports and exports. Inevitably, the markets will find balance, but the impact to the US chemical and products industries could be far reaching should the legislation be ratified.

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