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Blowing the Doors off: The U.S. Government's Proposals to Curb Shipbuilding in China

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"You're only supposed to blow the doors off!"

In the eternally popular 1969 British comedy, the Italian Job, Michael Caine's character, Charlie Croker's, exasperated exclamation to his "explosives expert", who had just demonstrated how he was going to blow the doors off the bullion van (and had blown up the whole van), has become a catchphrase for plans which have excessive consequences.

The phrase sums up the concerns of many in the global shipping industry to The Proposed Action of the United States Trade Representative (USTR) suggesting the imposition of substantial port fees on vessels entering U.S. ports that were built in China, operated by Chinese companies or even operated by non-Chinese companies that have *other* vessels either built or on order in China. The proposals also contain minimum quotas for U.S. exports to be carried on U.S.-built ships.

The key question is – if implemented as suggested, would the Proposed Action achieve the U.S. government's aim of reducing China's dominance in global shipbuilding and shipping and increasing the U.S.'s market share of the global shipbuilding market, and what would be the other consequences?

The importance to the U.S. administration of the U.S.'s commercial shipbuilding capability was highlighted in the U.S. President's address to Congress on Tuesday, 4 March 2025. The President committed to resurrecting the U.S. commercial and military shipbuilding industry. For that purpose, the U.S. government would create a new office of shipbuilding in the White House and to offer special tax incentives, so that the U.S. would build vessels "very fast, and very soon".

Background

On 12 March 2024, a "Section 301 petition" was filed under the U.S. Trade Act of 1974 by five labour unions. This alleged "unreasonable" acts, policies and practices of China to dominate the maritime, logistics, and shipbuilding sector which burdened/restricted U.S. commerce, and requested action pursuant to Section 301(b). Pursuant to Section 301(b), actionable matters include acts, policies and practices of a foreign country that are unreasonable or discriminatory and burden or restrict U.S. commerce. The Trade Act goes on to set out examples of what such acts, policies and practices may involve.

On 17 April 2024, the USTR initiated an investigation of the issues raised in the section 301 petition, which included providing the public and interested persons an opportunity to present their views via a public comment process and a public hearing. The USTR requested consultations with the government of China, but the government of China refused to participate. The USTR released a report on the investigation on 16 January 2025, which concludes that:

> *(1) China's targeting of the maritime, logistics and shipbuilding sectors for dominance is unreasonable.*
> *(2) China's targeting of the maritime, logistics and shipbuilding sectors for dominance burdens or restricts U.S. commerce.*
>
> *The results of this investigation provide a basis for finding that responsive action is appropriate.*

The Proposed Action

The USTR published the "Proposed Action" in a federal notice on the USTR's website on 21 February 2025 requesting comments and giving notice of a public hearing. Whilst the precise terms of the Proposed Action are somewhat unclear at this stage, our understanding of this is summarised below. The USTR has proposed that (i) *"appropriate and feasible action may include one or more of the following options*" and (ii) "*any fees, charges, or restrictions that may be imposed would be cumulative and additional to other existing or proposed fees, charges, or restrictions*".

1. *Fees on Services*

Service Fee	**Parties Impacted**	**Details of Service Fee**
Service Fee on Chinese Maritime Transport Operators	Chinese vessel operators	(a) Up to $1,000,000 per entrance of any vessel of that operator to a U.S. port; or (b) Per entrance of any vessel of that operator to a U.S. port, at a rate of up to $1,000 per net ton of the vessel's capacity.
Service Fee on Maritime Transport Operators with Fleets Comprised of Chinese-Built Vessels	Vessel operators with fleets comprised of Chinese-built vessels	Upon the entrance of a Chinese-built vessel to a U.S. port: (a) Up to $1,500,000 (b) Based on the % of Chinese-built vessels in the operator's fleet: • ≥50%: up to $1,000,000 per vessel • >25% to <50%: up to $750,000 per vessel • >0%to <25%: up to $500,000 per vessel; or (c) Based on the percentage of Chinese-built vessels in an operator's fleet: an additional fee of up to $1,000,000 per entrance to a U.S. port if the number of Chinese-built vessels in the operator's fleet is ≥25%

Service Fee on Maritime Transport Operators with Prospective Orders for Chinese Vessels	Vessel operators with prospective orders for Chinese vessels	An additional fee based on the percentage of vessels on order from Chinese shipyards: (a) Percentage of vessel orders in Chinese shipyards or vessels expected to be delivered by Chinese shipyards over the next 24 months (amounts are per vessel entrance to a U.S. port): • ≥50%: up to $1,000,000 • >25% to <50%: up to $750,000 • >0% to <25%: up to $500,000; or (b) A fee of up to $1,000,000 per vessel entrance to a U.S. port will be charged to a vessel operator if 25% or more of the total number of vessels ordered by that operator, or expected to be delivered to that operator, are ordered or expected to be delivered by Chinese shipyards over the next 24 months.

The USTR has proposed that these additional fees on the maritime transport services charged to an operator may be refunded, on a calendar year basis, in an amount of up to $1,000,000 per entry into a U.S. port of a U.S.-built vessel through which the operator is providing international maritime transport services.

2. *<u>Restrictions on Services to Promote the Transport of U.S. Goods on U.S. Vessels</u>*

These proposals by the USTR are that the international maritime transport of all U.S. goods (e.g. capital goods, consumer goods, agricultural products, and chemical, petroleum, or gas products) must comply with the following schedule:

Effective date following date of action	**Restriction on services re international maritime transport of U.S. products, per calendar year, transported by vessel**
0 years (effective as of date of action)	At least **1%** of U.S. products restricted to export on:

	• U.S.-flagged vessels by U.S. operators
2 years	At least **3%** of U.S. products restricted to export on: • U.S.-flagged vessels by U.S. operators
3 years	At least **5%** of U.S. products restricted to export on: • U.S.-flagged vessels by U.S. operators of which **3%** must be • U.S.-flagged vessels by U.S. operators and • U.S.-built vessels
7 years	At least **15%** of U.S. products restricted to export on: • U.S.-flagged vessels by U.S. operators of which **5%** must be • U.S.-flagged vessels by U.S. operators and • U.S.-built vessels

The USTR has also proposed that the international maritime transport of U.S. goods must comply with the following restriction:

U.S. goods are to be exported on U.S.-flagged, U.S.-built vessels, but may be approved for export on a non-U.S.-built vessel provided the operator providing international maritime transport services demonstrates that at least 20% of U.S. products, per calendar year, that the operator will transport by vessel, will be transported on U.S.- flagged, U.S.-built ships.

3. *Other Actions*

The USTR has proposed actions to reduce exposure to and risks from China's promotion of the National Transportation and Logistics Public Information Platform (LOGINK) or other similar platforms, such as:

- Recommending that relevant U.S. agencies investigate alleged anticompetitive practices from Chinese shipping companies
- Restricting LOGINK access to U.S. shipping data
- Banning or continuing to ban terminals at U.S. ports and U.S. ports from using LOGINK software

The USTR has proposed that it may also consider entering into other negotiations with allies and partners in order to counteract China's acts, policies and practices and to reduce dependencies on China in the maritime, logistics and shipbuilding sectors.

Next Steps

Currently, the Proposed Action just comprises proposals. The relevant/next steps are:

- 21 February 2025: Comment period opened

- 10 March 2025: Deadline for submission of requests to appear at the public hearing, along with a summary of the testimony
- 24 March 2025: Deadline for submission of written comments. USTR public hearing on proposed actions
- Seven days after the last day of the public hearing: Deadline for submission of post-hearing rebuttal comments.

It is currently unclear how long the public hearing will last and what is the timeframe for a final decision to be made on the Proposed Action.

Chinese Dominance in Global Shipbuilding

To assess the likely impact of the Proposed Action on the world fleet, it is important to appreciate the extent to which China has built up global dominance over the last 25 years. In 1999, vessels built in China accounted for 12 percent of global newbuilding tonnage. By 2023, that had grown to 53 percent.

China's shipbuilding dominance varies between sectors. For example, 36 percent of containerships, 46 percent of dry bulk vessels and 27 percent of tankers were built in China.

As the U.S. accounts for an estimated 8 – 10 percent of global trade, it is unsurprising that a significant percentage of vessels calling at U.S. ports were built in China. According to preliminary data, roughly 23 percent of containerships, 45 percent of dry bulk vessels and 22 percent of tankers calling at U.S. ports last year were built in China.

China's dominance of the current orderbook for newbuildings is even greater – 72 percent of containerships, 67 percent of dry bulk vessels and 69 percent of tankers are currently being built at Chinese yards.

Current Market Share of U.S.-Built Vessels

By contrast, in line with almost all high-cost countries, the percentage of the global fleet built in the U.S. is very low. U.S. yards currently only have one big customer – the U.S. navy. Hardly any commercial oceangoing vessels are constructed in the U.S.

The reason for this is illustrated by the cost of building a vessel in the U.S. compared to Asia. For example, the cost to build a medium range tanker at a South Korean yard is $49.5 million, and at a Chinese yard, it is $43.5 million. At a U.S. yard, it is $200 million.

The Likely Impact of the Proposed Action on the World Fleet

If implemented, the Proposed Action would cause a significant imbalance in the world fleet. Any vessel that is caught by the additional port fees, whether because it is Chinese-built, Chinese-operated or is part of a fleet that has sister vessels built in China, or on order in China, will be uncompetitive compared to a vessel that is not caught by the additional port fees.

The percentage of the world fleet that will be caught one way or another by the additional port fees is hard to estimate, but on the basis that 30 percent of the world fleet is Chinese-built and it's estimated that about 60 percent of owners have at least one Chinese vessel in their fleet, it will inevitably be substantial.

The impact will also vary between trades. For example, a container vessel which would normally dock at multiple ports in the U.S. on a voyage would, it would seem, incur the additional port fees at each U.S. port. It is estimated that there were over 10,000 U.S. port calls by Chinese-built containerships last year. Assuming additional fees of $1 million per port call, that is over $10 billion in additional fees – and that is just for the container market and does not take into account additional fees on other vessels, which are in fleets containing Chinese vessels or with orders for Chinese vessels.

The freight costs of U.S. exports such as grain and oil are likely to increase significantly overall, because the vessels will either be subject to the port fees or, if not, will likely charge a premium. This would make many U.S. exports uncompetitive.

Conversely, freight costs of exports from non-U.S. countries may fall, as there would likely be a glut of vessels that would be caught by the additional U.S. port fees, which would be diverted to non-U.S. routes.

This may well impact the asset values of newbuildings. Resale values of newbuildings on order in China may go down as owners seek to offload vessels that were intended for a U.S. trade, or which might “infect” associated vessels trading to the U.S.

Order values at Chinese yards may drop for the same reason. Conversely, the value of newbuildings at Korean and Japanese yards may go up. Given that capacity at the Korean and Japanese yards is already limited, there is little room for additional expansion at these yards. There may therefore be an overall further tightening in the global fleet at a time when vessel scrapping is already expected to accelerate, given the age of the world fleet and the impact of more stringent environmental requirements.

Possibly the most wide-ranging Proposed Action, the impact of which may be hardest to estimate, is in relation to non-Chinese-built vessels belonging to non-Chinese operators who have a vessel(s) on order in China. These vessels calling at a U.S. port would be liable for port fees ranging between $500,000 to $1 million, depending on the percentage of the operator’s vessel orders that have been placed in China. If the operator has any vessels on order at a Chinese yard, it will be liable for $500,000 port fees on any of its vessels calling at a U.S. port. Given that global shipping is currently going through a newbuilding phase, and roughly 2,600 vessels are currently on order at Chinese yards for non-Chinese owners, this is likely to catch a large number of owners.

Of course, operators may try to get round these fees by splitting their fleets into Chinese-built vessels and non-Chinese-built vessels, but the U.S. may impose anti- avoidance provisions (such as referring to common ownership or control, similar to the rules for associated ship arrests in certain jurisdictions).

However, ultimately, if the Proposed Action is to decrease Chinese dominance of the shipbuilding market, this will require more shipbuilding capacity outside China. Given that, as explained above, South Korea and Japan do not have much spare capacity, this will require an increase in shipbuilding capacity outside the big three shipbuilding nations.

It is not at all clear where that additional capacity will come from. To become a major shipbuilding nation, a country requires a number of essential ingredients. These include sufficient available and cost-effective labour, a government willing to make the required substantial up-front investment to build sufficiently sized dry docks and facilities to enable construction of large oceangoing vessels, and acceptable environment conditions to carry out heavy engineering projects. In reality, building a shipbuilding industry requires a centrally controlled economy with shipbuilding at the heart of its industrial strategy. We see no obvious candidate that meets these criteria, at least to the extent required to reduce significantly China's share of the newbuilding market. Even if this were the case, any such increase in capacity would take decades, not years, to implement.

Can U.S. Shipyards Provide Sufficient Vessels to Transport 5% of U.S. Goods Within 7 Years?

The short answer is no. In addition to the comparative cost discussed above, U.S. shipyards will not have sufficient capacity to build the required vessels in the next seven years. U.S. yards have almost no dry docks large enough to build the large oceangoing vessels that would be required. As far as we can see, there are only a handful of civilian U.S. yards capable of building vessels over 30,000DWT and none which could realistically build the Suezmaxes and VLCCs needed to export U.S. crude volumes. We estimate that U.S. tanker trades equate to somewhere in the region of 535 million tonnes a year. To meet the USTR proposals, this would require U.S. shipyards to potentially build over 100 tankers above 30,000DWT over the next 7 years. At the moment, we see no oceangoing commercial tankers being built in the U.S., so this level of contracting seems improbable.

As a consequence, whatever the impact on the dominance of China, it is highly unlikely that the Proposed Action, if implemented, will result in an increase in U.S. shipbuilding output for international trade anything like the extent currently envisaged.

While at this stage it is impossible to predict how the Proposed Action will be changed after the consultation phase, it seems unlikely it will be implemented in the form proposed. This is because it would have a significant detrimental effect on the global competitiveness of U.S. exporters and importers, and the increased import costs may lead to inflationary pressures in the U.S. economy. Not only that, but it seems unlikely that they would have the desired effect of materially supporting U.S. shipbuilders.

If, however, the Proposed Action were to be implemented in its current form, this would result in a period of significant disruption during a period of reorganisation of the global fleet as vessels that would not attract the increased U.S. port fees would be re-deployed to cover U.S. trades, and vessels that did attract higher U.S. port fees would be re-assigned to other trading routes. Some sectors will likely be more impacted than others – in the container market, for example, costs can be passed on more easily to consumers than in the tanker and bulker markets. Lower value commodities and smaller vessels would be impacted most.

However, ultimately, there would probably be enough vessels not caught by the increased U.S. port fees to carry out the U.S. trade routes. As set out above, the U.S. accounts for about 8 – 10% of global trade. The Chinese-built fleet is about 30% of the global fleet. Even allowing for the additional vessels that will be caught by association with Chinese-built sister vessels or orders with Chinese yards, there should still be enough vessels available to meet U.S. trade requirements, albeit likely at a premium freight cost.

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