STATE OF FREIGHT

The U.S. is not prepared to win an economic war against China-built containerships, farmers, ocean carriers warn

PUBLISHED MON, MAR 24 2025•1:37 PM EDT | UPDATED 33 MIN AGO

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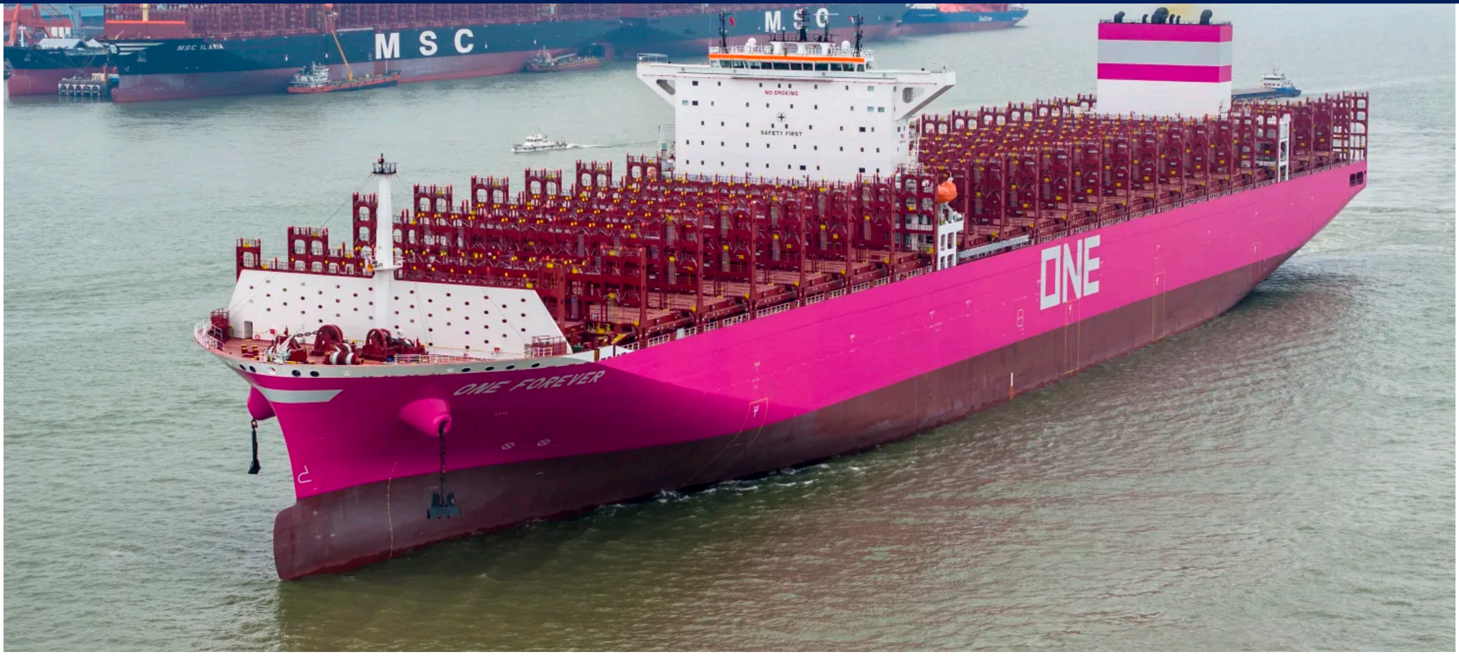
KEY POINTS

- The U.S. is considering steep fines on containerships made in China as a way to help revive domestic shipbuilding.
- From global ocean carriers to U.S. farmers, business interests are warning that the economic consequences will be devastating.
- The World Shipping Council estimates that the rules being considered by the U.S. Trade Representative would soon cover 98% of all liner vessels calling on U.S. ports.



SUZHOU, CHINA - MARCH 18: 'ONE FOREVER' container ship, with a length of 366 meters and width of 51 meters, is assisted by tugboats as it prepares to leave a dockyard of Jiangsu Yangzi-Mitsui Shipbuilding Co., Ltd. on March 18, 2024 in Suzhou, Jiangsu Province of China.

Vcg | Visual China Group | Getty Images

Business interests, from U.S. farmers to global ocean carriers, are warning of severe economic damage from proposals being considered by the U.S. government to hit containerships made in China with steep fines when they call on U.S. ports. The goal of bringing more shipbuilding back to the U.S. is at odds with reality in the global ocean trade market, they say, where virtually all container traffic will soon be carried on ships built in China.

An estimated 98% of the global fleet would be subjected to fees when calling on U.S. ports because the fee applies to both existing Chinese-built vessels or future vessels in the order book of carriers, and any carrier with at least one order on the books for a vessel made in China, according to the World Shipping Council, which represents the international ocean liner shipping industry. Currently, 90% of the world's vessels are subjected to the fee. According to Sea-Intelligence, the total number of port calls made

On Monday and Wednesday, hearings are being held by the U.S. Trade Representative to consider the implementation of penalties. The investigation, begun under President Joe Biden, culminated in a report released in January that concluded China's shipbuilding and maritime industry had an unfair advantage. Now, it is being continued by the Trump administration as part of the president's widening global economic and trade war, with Trump saying in his recent speech to Congress that he will create a new office of shipbuilding in the White House that would offer special tax incentives to bring more shipbuilding back to the U.S.

"The nation's agriculture exporters are united in concern and opposition to the proposal," Peter Friedmann, executive director of the Agriculture Transportation Coalition, said in prepared testimony ahead of the hearing. "We are not opposed to the objective, but we are not willing to sacrifice America's agriculture and the communities throughout the country that would be economically distressed or worse, by a plan such as the present, that would eliminate our ability to sell agriculture outside our own borders."

The AgTC says there are no U.S.-built vessels suitable for international commercial shipping that exist today that can move agricultural cargo, moved by container ships, bulk ships, and breakbulk ships, and across products that include corn, wheat, grains, and soybeans. "If they were available at a reasonable cost, U.S. exporters, including agriculture, would already be using this option," Friedmann said in his testimony.

The razor-thin margins that farmers face in the world economy, and the increased and intense competition for bulk commodities, have to be factored into vessel choices for transport of commodities, he said. Put another way by Friedmann in his testimony on Monday, To penalize ocean carriers using Chinese-made vessels to move trade, the U.S. government has proposed steep levies on Chinese-made ships arriving at U.S. ports. For Chinese-owned operators (such as COSCO), a service fee of up to $1 million could be charged on each vessel. For non-Chinese-owned ocean carriers with fleets containing Chinese-built vessels, the service fee would be up to $1.5 million for each U.S. port of call.

Share of Chinese-build container ships in carriers' fleets and orderbooks

	Fleet	Orderbook
CMA CGM	41%	54%
COSCO	64%	100%
Evergreen Marine	14%	17%
Hapag-Lloyd	21%	89%
HMM	6%	0%
Maersk	20%	79%
MSC	24%	92%
ONE	27%	56%
Yang Ming	8%	0%
ZIM	41%	0%

According to WSC data, a total of $1.5 trillion in U.S. trade is transported annually by the liner shipping industry directly or indirectly. The liner shipping industry supports over 6.4 million U.S. jobs and contributes over $1.1 trillion to U.S. gross domestic product. USTR's proposed port fees could add $600–$800 per container, which would double the cost of shipping U.S. exports and hit American farmers particularly hard, according to Joe Kramek, president of the WSC.

practices," Kramek said in his prepared testimony ahead of the USTR hearing.

Over 300 trade associations at the federal, state and local level, as well as hundreds of companies and individuals, filed comments protesting the fees.

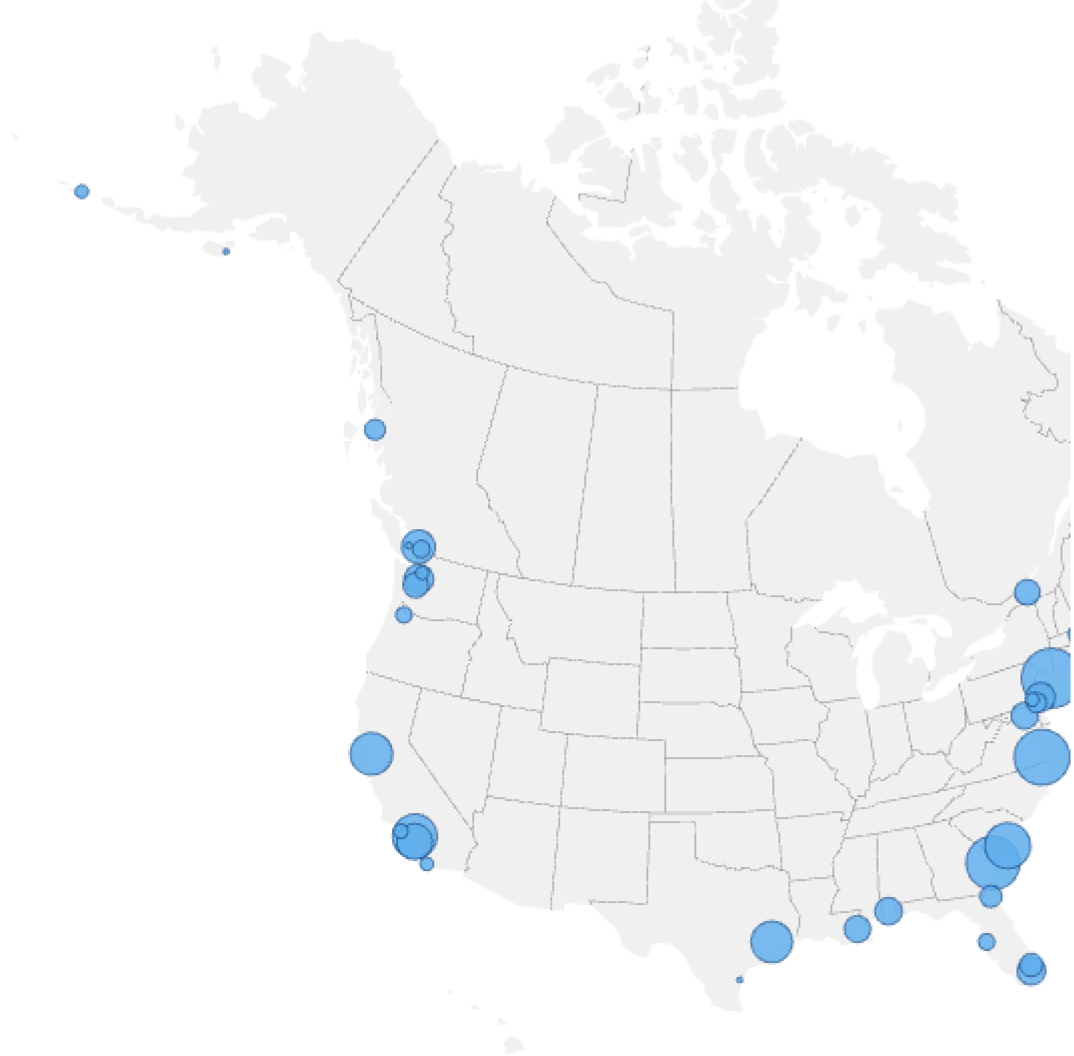
Fueling the USTR proposal and the wider U.S. government concern is a massive jump in Chinese ship orders.

Under USTR's proposals, an average-sized, 6,600 TEU containership could incur nearly $6,350 in fees per 40-foot container. That would be approximately double the combined inbound and outbound spot rates for shipping between New York and Rotterdam.

Container vessels servicing the U.S. typically call at 3-4 U.S. ports on each trip, according to the WSC. Kramek said call fees ranging from $1 million to as high as $3.5 million (if multiple layers of support these ports would be significantly impacted, as would businesses that rely on proximity to these ports.

"The fees would generate congestion at larger ports while reducing service at smaller ports as vessel operators minimize the number of U.S. port calls their vessels make on each route," Kramek said in his testimony.

Alan Murphy, CEO of Sea-Intelligence, told CNBC that ocean carriers will not only cancel sailings to secondary and tertiary ports and divert more containers to the major ports to avoid the charges, but they will also offload more containers in Canada. The total number of port calls to Canadian ports in 2024 was 1,692, according to Sea-Intelligence.



Source: Sea-Intelligence

"The ports of Halifax, Montreal, Prince Rupert, and Vancouver would be receiving more containers as ocean carriers reduce the number of U.S. port calls," said Murphy. "This would be at the detriment of smaller ports like Jacksonville, Tampa, Oakland, Boston, Philadelphia, Miami, and Baltimore that could be avoided. The larger ports will be faced with congestion with the additional containers being received. Vessel schedules around the world will also be disrupted. As a result, the cost of freight will go up," he said.

Soren Toft, CEO of the world's biggest ocean carrier, MSC, told CNBC at the recent TPM Conference in Long Beach, California, that at least one port, the Port of Oakland, could be eliminated, with

Port of Oakland maritime director Bryan Brandes told CNBC at this point the discussion is speculative.

"There are draft proposals still being developed, but we'd have to wait and see what — if any — surcharges are enacted to determine any impacts. Our major concern about the proposal are the unintended consequences that this fee could have on agricultural exporters and other American businesses that use Oakland as a gateway to reach markets around the world," Brandes said.

CANADA	
Halifax	509
Montreal	263
Saint John	128
Argentia	28
Vancouver	498
Prince Rupert	157
Fraser-Surrey Docks	105
Nanaimo	4

UNITED STATES	
New York	1,772
Norfolk	1,518
Savannah	1,414
Charleston	1,003
Houston	803
Philadelphia	363
Miami	338
Mobile	311
Baltimore	301
New Orleans	291
Port Everglades	209
Jacksonville	184
Boston	163
Wilmington	146
Tampa	90
Chester	53
Portland, Maine	50
Corpus Christi	2
Los Angeles	938
Oakland	842
Long Beach	575
Seattle	375
Tacoma	259
Portland	87

Dutch Harbor	49
Kodiak	2
Honolulu	107

Source: Sea-Intelligence

The state of U.S. shipbuilding

The existing U.S. law, known as the "Jones Act," requires certain vessel types, and vessels traveling only within domestic ports, to be built in the U.S. There are 30 U.S.-built containerships active today, with the average age at 24 years. The typical lifespan of a vessel is between 20-30 years.

"A revitalization of the U.S. maritime industry would be very positive," Kramek said in his testimony, but he added that curtailing current activity isn't the way to bring back domestic shipbuilding. "Instead of limiting which vessels can carry exports and imposing backward-looking, retroactive fees on shipping companies that help to drive the American economy, the Administration should work with Congress on a forward-looking strategy that is constructively designed to revitalize the U.S. maritime industry," he said.

But any attempt to achieve that goal with funding from the proposed fees would create too many economic losers, according to a study commissioned by many trade groups, including the AgTC and the American Apparel & Footwear Association. The report from Trade Partnership Worldwide said each proposed USTR remedy would subtract from U.S. output and the Trump administration's primary goal of 3% economic growth. In addition, U.S. exports would decline, potentially contributing to a worsening of the U.S. trade deficit. "While the U.S. shipbuilding industry (manufacturers and workers) would benefit from the remedy proposals, many other

In his written testimony, Nate Herman, senior vice president of policy at the American Apparel & Footwear Association, said U.S.-flagged, operated, and built ships are not available.

“Even when they are, they are not competitive, making them an unfeasible option for U.S. exporters and importers,” said Herman. “We are already in an inflationary economy. Americans cannot afford further price increases and product shortages. And American manufacturers and farmers cannot afford to lose more export markets. This is especially true when many of those export markets are already closing due to retaliatory tariffs.”

According to the most recent data from the U.S. Department of Transportation Maritime Administration, the U.S. had 182 flagged ships.

The World Shipping Council’s members operate 75% of the U.S. Maritime Administration’s Maritime Security Program Fleet (comprised of U.S. flag, commercially viable, militarily useful merchant ships active in international trade that are available to support U.S. Department of Defense sustainment sealift requirements during times of conflict or other national emergencies.) WSC members also operate two-thirds of the active U.S.-built liner vessels in operation and are responsible for all liner vessels currently on order in U.S. shipyards.

VIDEO 06:40

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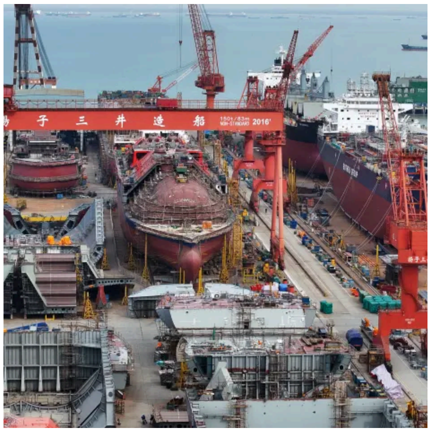

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