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USTR port fee proposal would open a 'second front' in trade war

A proposal to charge Chinese tonnage with significant fees for each port call in the US was roundly denounced during recent hearings. Photo credit: Sheila Fitzgerald / Shutterstock.com.

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Somewhat — and maybe temporarily — sidelined amid the current tariff maelstrom was the recent announcement by the US Trade Representative (USTR) regarding Chinese-manufactured ocean vessels and its proposed remedy for container lines to pay over $1 million per US port call. Given that the plan was roundly denounced during recent hearings on the topic, the chances are fairly good that when the final plan rolls out, perhaps later this month, it will see some significant changes. But given the Trump administration's tariff posture and the current animosity versus China, things could easily go the other way.

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From an international supply chain perspective, the proposed charges could have impacts as profound as the current tariff controversies. Three main impacts are evident: (1) increased costs resulting from the pass-through of port fees to importers; (2) consolidation of port calls and elimination of calls at secondary ports; and (3) diversion of freight to adjacent non-US ports such as Vancouver/Prince Rupert and Halifax in Canada and Lazaro Cardenas in Mexico.

Item #1 is somewhat of a no-brainer, in that the additional costs will certainly be passed along. Even though potentially significant, they stand to be a rounding error given the scope of the tariffs, assuming they remain in place.

Item #2 betrays a certain lack of understanding of how things work on the part of the USTR. If the plan remains "as is," then the bypassing of secondary ports is a near-certainty, as many of these do not have the volume to justify the additional port fee expense. However, from an intermodal perspective, this does not represent a potential bonanza, as most of the resulting hauls would be relatively short-haul north-south moves for which the system is not particularly well-suited. Most likely, the moves would be long-haul drays — although the potential for transloading to feeder vessels would be another alternative.

From a structural perspective, this problem would be easily solved by a change in the way the rule is written, such that only the first US port of call incurs a fee. This might be a larger number than currently envisioned, but subsequent US ports of call by the same vessel on the same voyage would not incur a fee. This would eliminate the perverting effects of the fees on the network structure.

That leaves #3, the last item, which involves potential diversion of imports away from US ports of entry. The International Longshore and Warehouse Union (ILWU) has proposed a solution that involves a border fee on containers entering the US overland from Canada and Mexico to "level out" the playing field. However, even if such a fee is not included in the revisions, it's not clear how much volume will actually be diverted.

A back-of-the-envelope analysis would be to take the fee incurred in calling at Los Angeles, for instance, and divide the fee among all the containers being discharged. But there is no such requirement for the fee to be evenly spread among all the discharged boxes.

Innocent bystanders 'caught in the crossfire'

Another approach would be for the carrier to skew the fees more toward local traffic, for which no alternative to Los Angeles exists, and to hold down the fees on the ultracompetitive inland point intermodal traffic for which abundant alternatives are available. Once the decision is made to have a port call in LA to serve the large amount of local traffic, then the fee becomes, in effect, a "sunk cost." The discharge of additional inland volume doesn't change the fee one cent, and even if the inland volume picks up only a small slice of the pie, it will still help reduce the overall fee per box.

The same calculus applies up north. Over the last six months, about 55% of the TEUs landing in the US Pacific Northwest did not exit the region on rail. This works out to an average of about 65,000 TEUs per month. Add in the additional volume that would be generated by eliminating the call at Oakland and this would likely be enough volume to warrant a port call at Sea-Tac. Again, once that decision is made, then it makes sense to pull as much volume as possible into each call. This would incentivize carriers to price the inland volume competitively so that they can pick up at least some of the cost.

None of this should be interpreted to mean that the proposed changes, even if modified in a sensible manner, won't be hugely disruptive. The problem will be compounded by the continued uncertainty engendered by the administration's "ready, fire, aim" approach, with subsequent rollbacks, modifications and on-the-fly changes made on short notice. This is making a near-term recession more likely by the day, as investment and planning efforts are frozen, waiting for clarity that will most likely never arrive, because a deal is never final.

This will all eventually get sorted out. But in the meantime, huge damage will be done and many innocent bystanders, both in the US and overseas, will be caught in the crossfire.

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