POLICY BRIEF

Addressing Operational Challenges in Ports and Shipping Arising from the Trade War Fallout and U.S. Tariffs

Executive Summary

This policy brief highlights emerging operational challenges in Sri Lanka's ports and shipping sector stemming from recent global trade disruptions and the fallout of U.S. Tariff measures. It identifies critical risks such as route realignments, rate volatility, and regulatory shifts impacting container flows and transshipment viability. It also outlines strategic opportunities and provides actionable policy recommendations to enhance Sri Lanka's competitiveness as a maritime hub.

The European Chamber of Commerce of Sri Lanka (ECCSL) urges public and private sector stakeholders to act collaboratively to safeguard the country's logistical resilience and regional trade relevance.

Context and Background

On 8 May 2025, the ECCSL convened a multi-stakeholder dialogue titled *"Trade War Fallout: Impact on Freight and Shipping"* in Colombo. The event gathered representatives from the freight and shipping sectors, exporters, logistics professionals, and policy stakeholders to examine the implications of the ongoing global trade tensions — particularly those linked to U.S. Tariffs — on Sri Lanka's maritime and logistics ecosystem.

The discussion underscored the increasing operational pressures facing shipping lines and port authorities due to shifting global trade patterns, regulatory developments, and geopolitical uncertainties. This brief consolidates insights and presents actionable recommendations for policymakers and industry bodies to support the resilience and competitiveness of Sri Lanka's shipping and logistics sectors.

EBO EUROPEAN BUSINESS ORGANISATION WORLDWIDE NETWORK

ECCSL The European Chamber of Commerce of Sri Lanka

Key Issues and Emerging Trends

1. **Tariff Driven Trade Route Shifts**
   Global trade tensions, especially between major economies like the U.S. and China are causing shipping lines to alter traditional routes to avoid high tariffs and reduce costs. These realignments may divert cargo away from Colombo, threatening Sri Lanka's strategic role as a transshipment hub if emerging ports offer better policy or cost advantages.

2. **Freight Rate Volatility**
   Volatility in global shipping rates may lead to higher costs for importers/exporters and reduced predictability in cargo movements.

3. **Introduction of Port Fees on Chinese Vessels by the U.S.**
   Effective 14 October 2025, these fees may reduce shipping volumes and prompt route changes, affecting Sri Lankan cargo flows.

4. **Container Repositioning and Blank Sailings**
   A 25–30% drop in demand from China to the U.S. is increasing blank sailings and container shortages, impacting mid-sized exporters.

5. **Projected Increases in U.S. Port Fees**
   The proposed escalation of U.S. port fees from USD 89 per container in 2025 to USD 163 by 2028 primarily targets vessels operating on Chinese shipping routes. This development could have indirect yet significant implications for Sri Lankan exporters. Increased freight costs may diminish the price competitiveness of Sri Lankan goods in U.S. markets and potentially lead to rerouting or scheduling disruptions for carriers operating in the region.

6. **Regional Port Competition and Transshipment Risks**
   India's Vizhinjam Port (opened May 2025) introduces new competition, underscoring the need for Sri Lanka to upgrade and promote its ports. Vizhinjam Port is expected to significantly impact Sri Lanka's Colombo Port by diverting transshipment cargo, impacting its revenue and dominance in the region. Vizhinjam's strategic location near

major shipping routes, coupled with its modern infrastructure, positions it as a strong competitor to Colombo.

7. **Geopolitical Instability in the Region**
   Tensions within South Asia could disrupt shipping, increase insurance premiums, and cause trade connectivity issues for Sri Lanka.

Key Data Snapshot (2025)

Indicator	Description
25–30%	Drop in freight demand from China to the U.S. (April 2025)
USD 89	Initial U.S. port fee on Chinese vessels (Oct 2025), rising to USD 163 by 2028
Blank Sailings	Increasing due to global Freight Imbalances
Vizhinjam Port	Opened in May 2025 – new regional transshipment competitor – *This port started its operation in H2 of 2024*
Global Rerouting	Rising due to cost and regulatory pressures

Policy Recommendations

1. **Strengthen Port Infrastructure and Efficiency**
   Modernize ports with digitalization and customs facilitation to reduce turnaround time and increase competitiveness.
2. **Establish Freight Volatility Monitoring Mechanisms**
   Develop early warning systems in collaboration with stakeholders to monitor freight rate changes.

3. **Reinforce Sri Lanka's Role as a Reliable Transshipment Hub**
   Promote the Port of Colombo as an efficient, neutral, and strategic transshipment hub amid ongoing global trade realignments, emphasizing its capacity, connectivity, and reliability in regional and international shipping networks.

4. **Engage in Strategic Dialogue with Global Shipping Lines**
   Form a public-private task force to maintain continuous communication with shipping lines.

5. **Promote Regional Cooperation and Maritime Diplomacy**
   Coordinate with regional players to mitigate geopolitical risks and foster joint port strategies.

6. **Support Value-Added Logistics and Supply Chain Resilience**
   Offer incentives for container services, warehousing, and multi-modal logistics to enhance economic resilience.

7. **Implement a Port Community System (PCS) for Colombo Port**

   Sri Lanka is working towards implementing a Port Community System (PCS) to streamline port operations and enhance trade facilitation, particularly at the Port of Colombo, a major regional hub. The initiative aims to improve efficiency, reduce costs, and improve overall competitiveness by digitizing information exchange and automating processes among various stakeholders. This initiative will also help the Port of Colombo to remain competitive in the region.

Examples of PCS Benefits:

1. **Port of Rotterdam (Netherlands):**
   - **Implementation**: The Port of Rotterdam implemented the "Port base" PCS to digitize and streamline communication among stakeholders.

- **Benefits**:
  - Reduced paperwork and manual errors through digital document exchange.
  - Improved efficiency in container tracking, reducing turnaround times for vessels and trucks.
  - Enhanced competitiveness by offering real-time data on cargo movements and port operations.

2. **Singapore Port (Singapore):**
   - **Implementation**: Singapore uses the "Maritime Single Window" PCS, integrating government and private sector stakeholders into one platform.
   - **Benefits**:
     - Enabled faster customs clearance and reduced dwell time for cargo.
     - Improved transparency and accountability, attracting more shipping lines and transshipment business.
     - Facilitated strategic planning by providing advanced analytics on trade flows.
3. **Port of Hamburg (Germany):**
   - **Implementation**: The port's "Dakosy" PCS connects terminal operators, shipping companies, and freight forwarders.
   - **Benefits**:
     - Reduced coordination time for multimodal logistics.
     - Optimized cargo flow management, decreasing congestion in the port area.

- Increased sustainability by reducing idle times and fuel consumption for waiting vessels and trucks.

ECCSL's Recommendation

- Colombo Port needs to enhance its efficiency, reduce costs, and potentially explore new strategies to remain competitive including fast tracking the new terminals.
- Developing complementary infrastructure and services could help Colombo adapt to the changing landscape of regional shipping.

Call to Action

The ECCSL urges policymakers, regulators, and industry leaders to engage in structured public–private dialogue and implement the recommendations outlined in this brief. Swift, coordinated action will be critical in safeguarding Sri Lanka's strategic role in global maritime trade and ensuring the long-term resilience of its shipping and logistics sector.

Annex – Glossary of Terms

- **Blank Sailing**: A scheduled sailing that is canceled, often due to low demand or global trade disruptions.
- **Transshipment**: The transfer of cargo from one vessel to another at an intermediate port.
- **Freight Imbalance**: Disproportionate cargo flow in one direction, leading to logistical inefficiencies.
- **Tariff**: A tax imposed on imported or exported goods.
- **Port Fees**: Charges by port authorities for use of their facilities and services.

About The European Chamber of Commerce of Sri Lanka (ECCSL)

The ECCSL, established in 1996, is dedicated to fostering trade, investment, and sustainable economic cooperation between Europe and Sri Lanka. Through policy engagement, advocacy, and knowledge exchange, the Chamber supports regulatory clarity, business transparency, and international best practices.

With a membership spanning diverse industries, ECCSL plays a vital role in strengthening Sri Lanka's economic prospects and enhancing bilateral ties with Europe.

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ECCSL welcomes ongoing engagement and dialogue with public sector partners and industry stakeholders.