

China Pays Owners to Scrap and Replace Old Ships



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As part of a wave of measures to stimulate demand, China's government has announced new subsidies to incentivize domestic shipowners to renew their fleets with more efficient, green-fueled tonnage. The policy echoes the "[scrap-and-build](#)" subsidy program of the 2008 financial crisis, which helped buoy Chinese shipyards during a severe downturn.

China's economy grew at a comparatively sluggish pace of five percent in the first half, meeting government targets but falling below historical patterns. A housing market downturn, weak consumer demand and reduced government spending are weighing on the pace of Chinese economic expansion. To stoke demand, Beijing has rolled out subsidies for consumers and businesses to replace older buses, cars, appliances, farm machinery and more. The incentive for swapping an old car with a new battery-electric model has doubled to nearly \$2,800 - about 15 percent of the purchase price for a typical EV in China.

Shipowners and shipyards need not feel left out. China's Ministry of Transport and the National Development and Reform Commission have released a new schedule of subsidies for the demolition and replacement of older domestic vessels. China's coastwise and inland fleet is vast, and replacing these small ships with newbuilds would create industrial-scale demand for steel and skilled labor.

The subsidies apply to domestic vessels of as little as 10 years of age, and vary depending on type (coastal, inland or passenger vessels). The starting-point value for the subsidy is \$140 per gross ton, ranging up to \$210 for qualifying passenger ships and tankers.

The subsidy applies when the newbuild replacement vessel is powered by LNG (at least 50 percent), or by methanol, hydrogen, ammonia or battery-electric propulsion.

The scrapping subsidy points to the possibility of a future for China's inland waterways that looks more like China's heavy-truck sector, which is already transitioning to LNG single-fuel power. Per unit of energy, LNG is now cheaper than diesel in China, and it has made rapid gains in the Chinese trucking market. Owners of older trucks who wish to make the switch may be eligible for subsidies of up to \$19,000, enough to cover up to 20 percent of the price of a new LNG-fueled tractor-trailer. Even before the subsidy, LNG-powered trucks accounted for a third of all Chinese new-truck sales as of the end of 2023 - and China's road diesel demand is dropping, according to Wood Mac.