



## JAPANESE SHIPOWNERS ASSOCIATION

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17 May 2012, Tokyo

Mr Alberto Alemán Zubieta  
Administrator/CEO  
Panama Canal Authority of the Republic of Panama

Dear Mr Alemán

Re: Proposal to Modify the Panama Canal Tolls

The Japanese Shipowners Association (JSA), which is a nationwide shipowners association consisting of 100 Japanese shipping companies, appreciates this opportunity to hereby submit to the Panama Canal Authority (ACP) the following comments with regard to the proposal to modify the Panama Canal tolls approved by the ACP Board of Directors on 20 April 2012 (hereinafter referred to as ~~the~~ the 2012 proposal).

Amid the current downturn the shipping industry is facing, mostly due to a slower global recovery, we are deeply disappointed at learning of your last-minute proposal to increase the Canal tolls effective from both July of 2012 and 2013 in a phased manner, for which any dialogue between the industry and the ACP was not made. The JSA therefore requests of the ACP to issue the withdrawal of the 2012 proposal on the basis of its presentation on such short notice and the introduction of a consultation process for a constructive discussion between us to produce a concrete proposal outlining the next 10 years toll increase plan in a timely manner, representing a 180-degree turn in the current bureaucratic process.

In addition to the above, we would also like to make comments in relation to ~~the~~ proposals for the expansion of the Panama Canal, issued by the ACP in April, 2006<sup>1</sup> (hereinafter referred to as ~~the~~ the 2006 proposal).

According to page 12 of the 2006 proposal, the financing of the third set of locks<sup>2</sup> comes

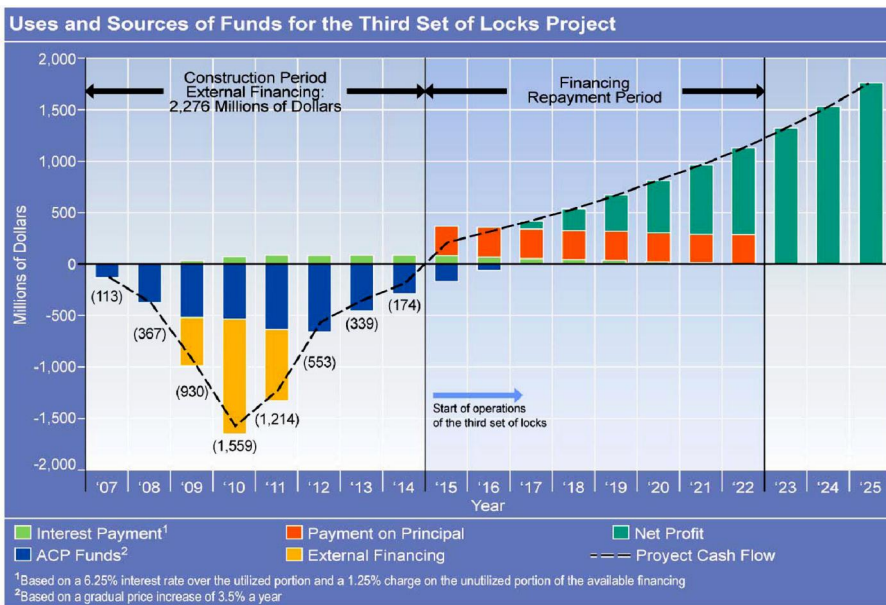
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<sup>1</sup> <http://www.acp.gob.pa/eng/plan/documentos/propuesta/acp-expansion-proposal.pdf>

<sup>2</sup> Total Investment Cost is USD 52.5 billion, including USD 23 billion to be financed from the market.

from a combination of the ACP's funds, resulting from toll increases at an annual 3.5% average rate for twenty years and external financial sources<sup>3</sup> to cover peaks during construction. Furthermore, page 13 of the 2006 proposal states that with the cash flows generated by the expanded Canal, investment costs will be recovered in less than ten years and financing could be repaid in approximately eight years+(See Figure1).

Figure1



Source: Page 61, Proposals for the expansion of the Panama Canal, issued by the ACP April, 2006

Also, when we look at the page 57 & 58 of the 2006 proposal, we find following statements that ;

- Tolls will be established at an appropriate level to maintain the competitiveness of Panama route at all times and to reach a profitability level in accordance with the risk levels, investment amounts and value added by the Canal to its users, so that the payments to the National Treasury<sup>4</sup> and the benefits to Panama are increased in a sustainable manner.+
- Tolls will be set at levels that allow the short term recovery of the investment required to build the third set of locks.
- In this sense, the ACP will raise tolls between 2007 and 2025 ÷ systems. The time and amount in which the tolls increase is applied will be determined by the project's financing requirements and disbursements program. Execution of this pricing policy will be subject to the consultation process ÷ carried out to date.+

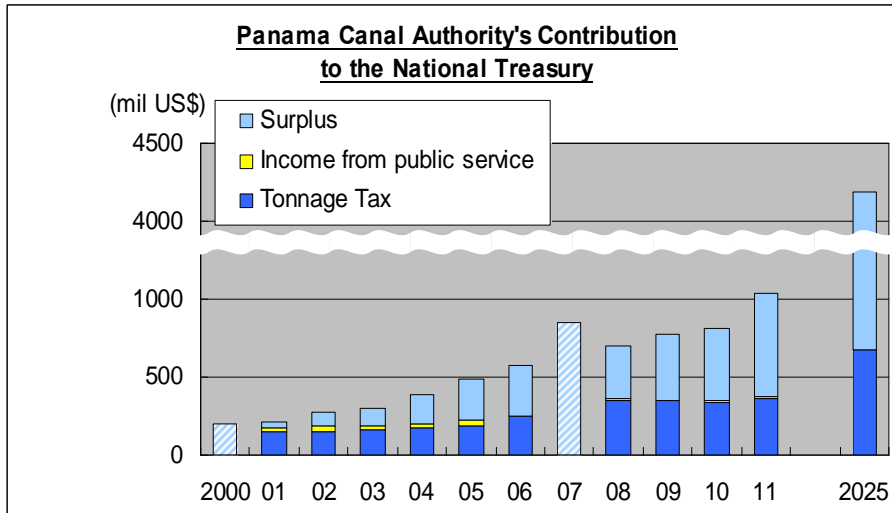
<sup>3</sup> The biggest lender is Japan Bank for International Cooperation (JBIC) at USD 8 billion.

<sup>4</sup> According to page 59, planned contribution in 2025 will be \$4,190m, which was \$489m in 2005. Growth by 757%, 8.6 times.

Combination of those statements tells us that even after the recovery of the investment costs and repayment of the loan in less than 10 years, the ACP would continue to increase the toll so that its contribution to the National Treasury of Panama is expected to grow to \$4.2 billion in 2025, almost 9 times that of 2005.

(See Figure 2).

Figure 2

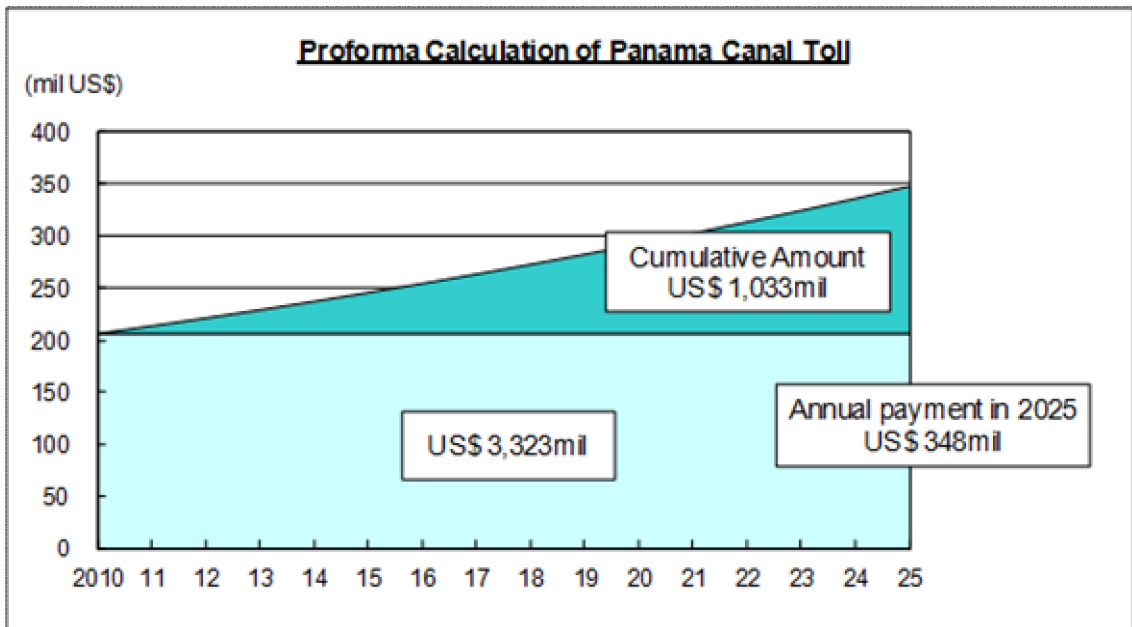
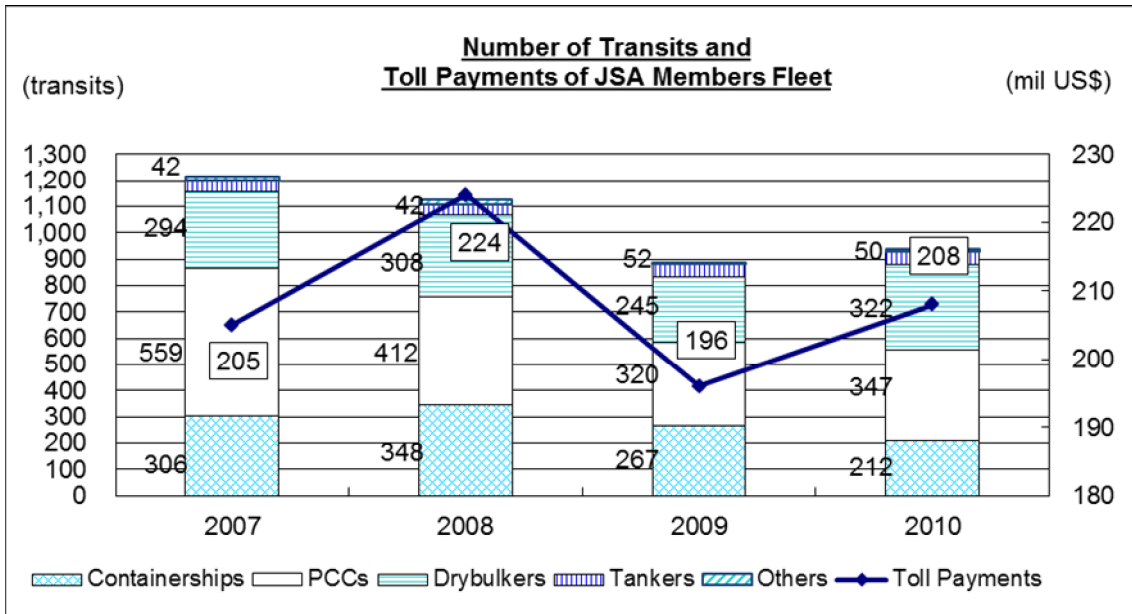


Source: Embassy of Japan in Panama website, Panama Canal Authority website

As explained herein, it is obvious that the financial aspect of the expansion plan was designed based on a unilateral and excessive toll increase. It will bring a significant cost increase to all Canal users, not only carriers, but also exporters, importers and consumers all over the world.

Taking the case of JSA member companies as just an example, the potential impact (additional cost) by the proposed toll increase in 2012 and 2013 is approximately \$8 million. More importantly, based on the ACP's future toll policy as stated in the 2006 proposal, the cumulative amount of additional payments forced by the series of toll increases may reach as much as \$1,033 million as a total for the JSA members during the period from 2011 to 2025 (not including the sum already increased up to 2010).

(See figures below)



Source: JSA

Remark:

This estimate is based on a toll increase of an average 3.5% per year mentioned in the 2006 proposal and same shipsqtype, size & number of transits between 2010 and 2025

1. Annual toll payments in 2025 will go up to USD 348 million, 1.7 times higher than that of 2010.
2. The planned toll increase shall force JSA member companies to bear the additional cost, of which the cumulative amount from 2011 till 2025 shall be as much as USD 1,033 million, in comparison with the assumed case if there is no increase and the toll tariff in 2010 will be maintained until 2025.

While the JSA duly recognises that the Panama Canal is the most important national asset of Panama, it is our view that the Canal also continues to play an essential role as an international public infrastructure for maintaining a smooth global supply chain.

From this viewpoint, the JSA regrettably finds that the ACP has failed to consider the public nature and important role of the Canal for the healthy development of the global economy, its pricing policy seems to have been set without a responsive consideration from this angle and the policy appears to be unilateral and inadequate to manage the global transport infrastructure.

Furthermore, we understand that the ACP recently made a presentation on the current status of the expansion project in front of the maritime authorities of the Consultative Shipping Group (CSG) at their meeting held in Singapore on 27 April 2012, where its member nations expressed their concern in respect of the ACP's toll setting policy and requested to ensure transparency with sufficient dialogue with the user industries in setting its toll policy.

Finally, the JSA would like to repeatedly express its strong objection to the proposed toll increase as well as the current pricing policy and request the ACP:

- To rescind the proposed increases in 2012 and 2013;
- To undertake an overall review of its long-term policy to set the toll;
- To outline its proposal for a concrete toll plan covering the next 10 years with an approximate level of toll and justification, which should not impose so much of an unduly cost increase to the user industries and hold a consultation process with sufficient time for consideration.

We would appreciate your serious consideration of our above comments.

Yours sincerely



Akimitsu Ashida

President

The Japanese Shipowners Association