



JAPANESE SHIPOWNERS' ASSOCIATION

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6 July 2012, Tokyo

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

Dear Mr Alemán

Re: JSA's further comments on the revised tolls proposal dated on June 27, 2012

The Japanese Shipowners' Association (JSA), which is a nationwide shipowners' association consisting of 100 Japanese shipping companies, hereby submits its further comments to the Panama Canal Authority (ACP) with regard to the revised tolls proposal published on 27 June 2012 (hereinafter referred to as "the revised proposal") that defers the implementation date of new Canal tolls to October 2012 and October 2013.

While appreciating establishment of an additional consultation period to 12 July 2012 for further comments in response to the proposed deferment, the JSA is deeply disappointed at the revised proposal itself as it regrettably does not respond at all to our requests made in our previous submission on 17 May 2012, in which we urged the ACP to (1) withdraw its proposal for toll increases in 2012 and 2013; (2) review the current consultation process in favour of a true consultative dialogue to discuss toll adjustment guidelines that are stable, reasonable and transparent over an agreed longer period of time; and (3) place the pricing policy under "Proposals for the Expansion of the Panama Canal", issued by the ACP in April, 2006 (hereinafter referred to as the "2006 Proposals") back onto the table for further consideration.

The JSA wishes to take this opportunity to reiterate how shipping companies have been beset with operating losses exceeding US\$ 6 billion¹ incurred in 2011 in an adverse environment in which, for instance, bunker prices remain high and the global economy is facing an intensifying headwind due to delayed US economic recovery, protracted fiscal and financial problems in Europe, and monetary tightening in China. Furthermore, the

¹ ALPHALINER Weekly newsletter Volume 2012 Issue 15

continued strong yen against the US dollar, partially due to sovereign risks, imposes further severe burdens on Japanese carriers.

Under such circumstances, you told us, in effect, at the JSA/ACP meeting in Tokyo in June 2012 that the ACP had not implemented toll increases at the rate of 3.5% per year until now. However, we need to clarify the fact that, as shown in Figure 1, for Containers, the toll increased by as much as 63.6% for 5 years from 2006, in other words 10.4% increase per year. Likewise, for Tanker 8.6%, for Dry Bulker and Car Carrier 7.9% respectively. Obviously the increases are much higher than the 3.5% annual toll increases planned in 2006, irrespective of the fact that we never accepted the original plan either. Constant toll increases resulted in the growth of transit revenues in 2011 to US\$ 1961 million* by 146% in only 5 years from 2006, such revenues excluding effects of PCUMS growth (see Figure 2).

Figure 1

Actual/proposed Increase against 2006		(USD/transit)					
Segment		2011		2012		2013	
		vs 2006	Annual Rate	vs 2006	Annual Rate	vs 2006	Annual Rate
Dry Bulker	Panamax	46.5%	7.9%	57.5%	7.9%	59.7%	6.9%
Tanker	MR	51.0%	8.6%	58.6%	8.0%	66.6%	7.6%
Car Carrier	6400RT	46.3%	7.9%	48.7%	6.8%	48.7%	5.8%
Container	4700TEU	63.6%	10.4%	63.6%	8.6%	63.6%	7.3%

Note: Average utilization rates of the full container segment are calculated at 77%.

Figure 2

Actual Growth of PCUMS, Canal Revenue during corresponding period

	2005	2006	2007	2008	2009	2010	2011	2012	2013
PCUMS Tons	279	296	312	309	299	301	322	-	-
Growth	94	100	105	104	101	102	109	-	-
Transit Revenue	1,117	1,344	1,538	1,745	1,817	1,758	2,131	-	-
Growth	83	100	114	130	135	131	159	-	-
Net Income	484	676	807	1,028	1,007	964	1,229	-	-
Growth	72	100	119	152	149	143	182	-	-
Growth @ 3.5% p.a	97	100	104	107	111	115	119	123	127

Unit; Million tons,
Million US\$
Growth; 2006=100

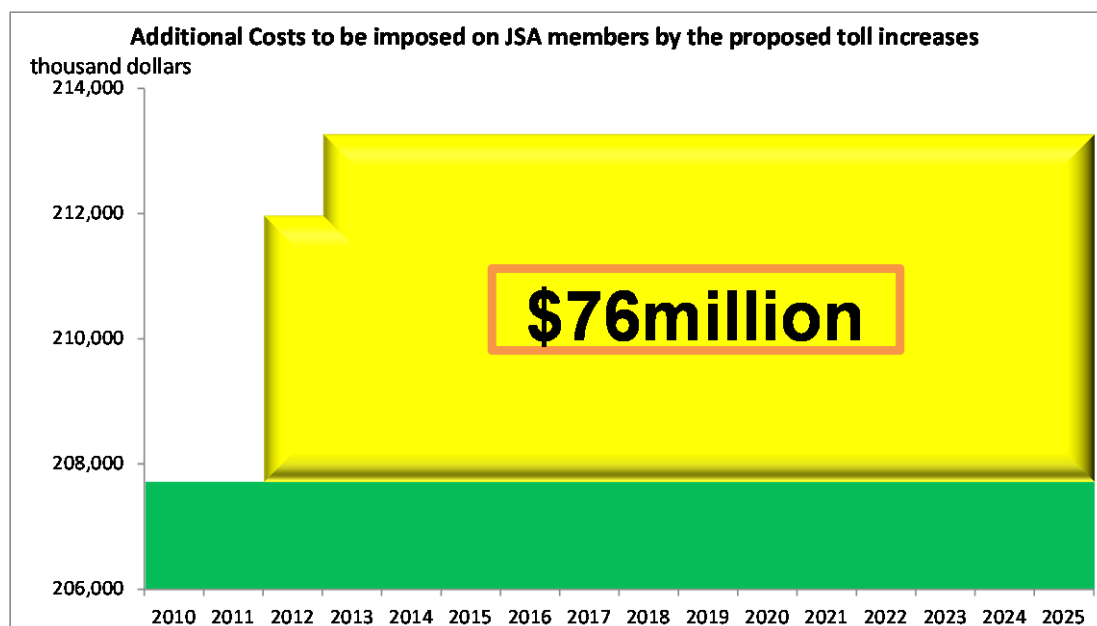
*US\$ 1344 million × 1.458 (transit revenue growth in 2011/ PCUMS Ton growth in 2011) = US\$1961 million

Source of Figure 1 and 2: ACP HP, Annual Report

Taking the case of JSA member companies as just an example, the potential impact of the proposed toll increases in 2012 and 2013 alone could be additional accumulative costs reaching approximately US\$76 million during the period from 2012 to 2025, subject to same ships types, sizes & the number of transits during the period (see Figure 3). This number, US\$76 million, will no doubt be resulted in much higher number, in other words, extra financial burdens on Japanese carriers, due to increased transits after the expansion work is

completed.

Figure 3



Source: Japanese Shipowners' Association

While JSA duly recognises that the Panama Canal is the most important national asset of Panama, we are afraid that ACP does not seem to take into consideration the essential role that the Canal plays in maintaining and fostering smooth global trade, and that such repeated and excessive toll increases adversely impact both the shipping industry and its end users. We will appreciate your fully evaluating necessity of stability of tolls to maintain and further increase cargo passage through Panama Canal for the mutual benefit of all concerned parties global-wide.

With the strong prospect of healthy increase of PCUMS, we are of the view that the construction costs for the Canal expansion could be fully recovered using current Panama canal toll from the increased revenues within several years after the expansion work is completed. It can therefore be said that the current ACP pricing policy to constantly increase tolls would unduly impose excessive burdens on Canal users, especially Asian shipowners, and would not be understood by shippers either.

Finally, the JSA would like to again urge the ACP to rescind the revised proposal immediately and to hold a consultative dialogue with maritime representatives for considered prior discussion on your draft long-term pricing guidelines with the aim of making them stable, reasonable and transparent. Under the guidelines, we also request you to have sufficient dialogue with a broad range of Canal users, including shippers, before every formal proposal involving toll structure changes and/or increases on any occasion. In this regard, additional

consultations with Asian representatives other than through current channels would also be highly appreciated.

We sincerely believe that such mutual and constructive consultations could establish a win-win relationship between the Panama Canal Authority and Canal users, resulting in an enhanced prestige for the Republic of Panama throughout the world. In response to your request regarding consultation in respect of the Canal's operation at several meetings with the maritime industry, we are ready to contribute with pleasure to action for enhancing a more efficient operation of the Canal through closer dialogue, which could lead to increasing the number of transiting vessels and consequently stabilise Canal tolls.

Mr Alemán, we would appreciate your sincere response in writing to our above requests.

Yours sincerely

A handwritten signature in black ink that reads "A. Ashida". The signature is written in a cursive, flowing style.

Akimitsu Ashida

President

The Japanese Shipowners' Association

CC: His Excellency Jorge Kosmas Sifaki, Ambassador of the Republic of Panama to Japan