



JAPANESE SHIPOWNERS' ASSOCIATION

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12 July 2019, Tokyo

Mr Jorge L Quijano
Administrator/CEO
Panama Canal Authority of the Republic of Panama

Dear Administrator Quijano

The Japanese Shipowners' Association (JSA), which is a nationwide maritime organisation consisting of 126 Japanese shipping companies, hereby submits its comments with respect to the proposal to modify the Panama Canal Tolls System published by the Panama Canal Authority (ACP) on 14th June 2019.

Before commenting on the proposal this time, on behalf of the Japanese shipping industry, in the year to commemorate the ACP's 20th anniversary, the JSA greatly appreciates the ACP's various and long-standing efforts to support global trade. In particular, the JSA appreciates the regular dialogue between the ACP and JSA since November 2017, which enables us to frankly discuss broad issues concerning the policy and the operation of the Canal.

With regards to the respective proposal, first of all, the JSA values that the ACP this time has published it little more than six months before the intended implementation date, which may allow our members to consult with their customers on the new tolls system to a certain extent. Having said that, as the JSA has urged at our previous dialogue meetings, a six-month prior notice period is an absolute minimum and we would like to request a twelve-month prior notice period as shipping companies usually conclude one-year or longer-term contracts. For example, if a shipping company has just concluded a one-year contract with its customer in May 2019, it may be difficult to renegotiate the existing term and the shipping company might have to bear the cost (difference between the existing tolls and the new tolls) until the end of the existing contract.

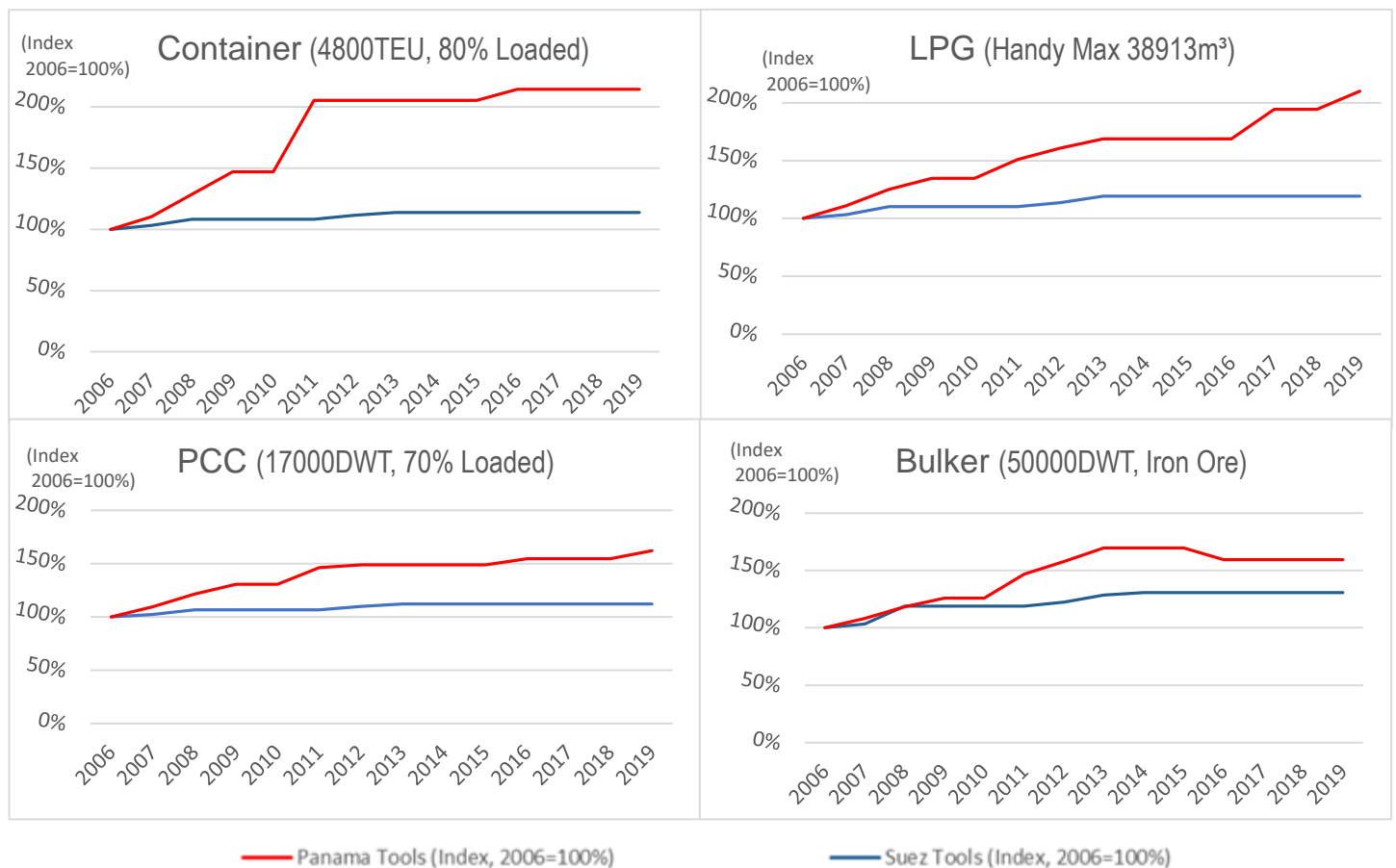
As for the timing of the tolls modification, as you may be aware, the International Maritime Organization (IMO) will implement the much tighter global SOx regulation on 1st January 2020, the exact same date as the proposed enforcement date of the ACP proposal. In order to comply with the new IMO regulation, the total cost is estimated to be approximately \$30 billion per year* and will be shared by the shipping industry, shipper industry and final customers around the globe. If the ACP were to implement the proposal

as scheduled in January 2020, it would be an additional burden on society on top of the unprecedented \$30 billion burden at the same time. We are concerned that such concurrent cost increases would have a very serious impact on world trade, especially when economic uncertainty is increasing due to a trade war between the world's biggest countries and the rising geopolitical instability.

**IMO MEPC 70/INF.34 Annex (Finland)*

In the meantime, we gratefully acknowledge that the ACP has achieved a new record in tonnage (442 Millions of PC/UMS Tons), revenue (\$3,108M) and profit (\$1,353M) in FY2018, because of the tireless efforts by the ACP, while the shipping industry is still in a difficult financial situation (e.g. the average final result of the three biggest Japanese lines was nearly a \$400m deficit in FY2018). Under such a situation, it is our regret that the ACP did not provide a clear and sufficient explanation for the users concerning the tolls revisions such as the necessity to accumulate additional reserves which enables future investment. We strongly believe that it is necessary for the ACP to present a long-term plan to the customers concerning the level of the tolls as long-term stability and foreseeability of the tolls pricing policy are indispensable for the Canal, a crucial key junction for efficient global trade and an indispensable public infrastructure for the world's economy.

As for the stability of the tolls, we would like to indicate that the tolls have been increased by 60-110% on average in 12 years, which represents a much steeper rate than for the Suez Canal, which has introduced many discount measures, up to 75% (dry bulk vessels and crude oil tankers in certain conditions).



While we, of course, deeply understand that financial sustainability is crucial for the ACP, Panama and the entire world which enjoys this indispensable public infrastructure for the world's economy, we would urge the ACP once again to seriously consider the sustainable levels of the tolls and the sustainable frequency of the toll revisions for the users.

From an environmental perspective, bigger ships are in general more environmentally friendly than smaller ones as they consume less fuel and exhaust less CO₂/SO_x/NO_x per cargo. In accordance with the ACP proposal this time, the percentage of the tolls increases for neopanamax vessels are, however, higher than panamax vessels, especially for PCC, dry bulker carrying iron ore, tanker, LPG vessels and cruise vessels. We believe that the ACP should promote the transit of bigger (neopanamax) vessels from an environmental perspective. For such sake, we believe that the increased rate for neopanamax vessels should be, at least, aligned with the one for panamax vessels.

With regard to the respective sectors, we are basically grateful to retain the current tolls for container vessels and general cargo vessels. However, as for container vessels, we are concerned that the introduction of the new Category 1a and Loyalty Plus may lead to too much of an incentive for the biggest lines, which have already been enjoying priority transit services based on the transit ranking system. As for other sectors such as dry bulk (iron ore), tankers, chemical tankers, LPG & LNG vessels, PCC & ROROs and cruise vessels, we understand that the tolls will be increased by 5-15%, which, we believe, may damage the future growth of the trade.

Considering the elements above, the JSA respectfully urge the ACP to reconsider the tolls modification this time including the postponement of the implementation for, at least, six months (i.e. until June 2020).

We would greatly appreciate your sincere consideration of our above comments.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tadaaki Naito', with a long horizontal flourish extending to the right.

Tadaaki Naito
President
The Japanese Shipowners' Association

CC: H.E. Rittter N. Diaz, Ambassador and Consul General of the Republic of Panama in Japan