



Panama Canal Authority
PROPOSAL TO MODIFY THE PANAMA CANAL TOLLS SYSTEM AND THE
RULES OF ADMEASUREMENT OF VESSELS FOR THE USE OF THE PANAMA
CANAL

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**SUBMISSION BY THE GLOBAL SHIPPING INDUSTRY REGARDING THE
PANAMA CANAL AUTHORITY (ACP) PROPOSAL TO MODIFY CANAL TOLLS –
PUBLIC CONSULTATION, JULY 2019**

The International Chamber of Shipping (ICS), the Asian Shipowners' Association (ASA) and the European Community Shipowners' Associations (ECSA) are the principal global and regional trade associations for shipowners and operators, representing all sectors and trades including containership operators, tanker operators and dry bulk carriers, as well as specialised trades such as LPG/LNG carriers, chemical carriers, passenger vessels and vehicle carriers.

The membership of ICS, ASA and ECSA combined represents more than 90% of the world's merchant tonnage.

As regards the ongoing consultation to modify the Panama Canal tolls, the global shipping industry sincerely appreciates the opportunity to formally comment on the proposed toll changes with the following remarks:

Timing between proposal and implementation date

The global shipping industry notes that the period between the publication of the proposed modifications and their date of implementation is six months, which is in line with requests made by the industry during previous toll consultations.

The above notwithstanding, the global shipping industry considers the six-month prior notice period to be an absolute minimum and kindly requests that the ACP adopt a twelve-month prior notice period instead.

As a consequence of the shorter (six-month) notice, shipping companies might still have to bear any additional costs arising from new toll charges, until the expiry of existing contracts with their respective clients.

A longer (twelve-month) notice period would provide shipping companies and operators with sufficient time and room to manoeuvre in terms of negotiating any future contractual agreements, which are likely to be impacted by changes to future toll charges.

As customers of the Canal, shipowners and operators would also benefit considerably if the ACP were to provide a long term sustainability plan concerning any future modifications to Canal tolls. This would help the industry to factor in the proposed adjustments more effectively.

Timing for implementation of proposed new toll charges

The proposed timing for implementation of the new toll charges is also significant for the global shipping industry, noting that they are anticipated to enter into effect on the same day as the IMO 2020 'Global Sulphur Cap' regulation.

The legal framework of this important IMO regulation will require merchant ships worldwide to use fuel with a sulphur content of 0.50 percent or use alternative mitigation technologies, the collective compliance costs of which are expected to range between US \$30 billion per year and US \$50 billion per year.

Fuel is already by far shipping's greatest cost and the significant increase in bunker costs that is anticipated as a result of the switch to low sulphur fuels, as required by the IMO regulation, will have profound effects on the economics of shipping and the future structure of the industry.

This is compounded further by uncertainty surrounding worldwide availability of compliant fuels, meaning that ship operators have so far been unable to properly budget for the likely spike in fuel costs or inform their respective customers about the extent of potential increases. As a consequence of this uncertainty, an additional bunker price spike is also anticipated during the initial period of implementation.

The global shipping industry is therefore very concerned that the implementation of the new toll charges on 1 January 2020 – the same day that the IMO regulation takes effect – will have a negative impact not only on shipowners and operators, but also on world trade.

This is especially pertinent at a time of heightened concerns about several issues affecting the industry, including:

- Higher insurance premiums due to rising geopolitical instability in some key regions;
- Increasing economic uncertainty due to proliferation of protectionist trade measures worldwide; and
- Ongoing escalation of trade disputes and increase in trade tariffs between major trading nations.

These concerns are expected to continue to have a negative impact on the global shipping industry in 2020. For these reasons, ICS, ASA and ECSA request that the ACP at the very least postpone the timing for implementation of the proposed new toll increases by at least six months (June 2020).

This would allow shipping companies and operators to adequately plan and adjust their commercial activities accordingly.

Support for economic sustainability of the Panama Canal

The global shipping industry continues to be fully supportive of the need for economic sustainability of the Panama Canal, as one of the most important Canals in the world.

The above notwithstanding, it is equally important that the ACP fully consider and take account of the very challenging economic conditions under which the global shipping industry is currently operating, noting that the economic sustainability of the Panama Canal is inextricably linked to that of shipowners and operators that use the Canal.

While appreciating that charges for containerships and general cargo ships will remain unchanged, ICS, ASA and ECSA are concerned about some of the proposed toll increases for other sectors such as dry bulk (iron ore), tankers, chemical tankers, LPG & LNG carriers, PCC & ROROs and cruise ships.

It appears that the proposed new tolls for the above mentioned segments would be increased by 5-15%, which could significantly undermine future trade growth. In this respect, the global shipping industry suggests the following:

- There should be no further distinction in toll charges between Panamax and Neopanamax vessels.

- The specifications of vessel carriers using the Neopanamax and Panamax locks are very similar. A Neopanamax vessel could in some cases have a shorter Length overall (LOA) and shallower draft than a Panamax vessel.
- The market remains difficult for the segments facing proposed toll increases (e.g. dry bulk carriers) and any such increase would exacerbate the already volatile operating conditions.
- Due to the shortage of cargoes and the need to reposition ships, the global shipping industry would urge extra caution against toll increases for ships in ballast conditions.

Promoting environmental sustainability through the Panama Canal

In the case of pure car carriers (PCC), dry bulk carriers (transporting iron ore), tankers, LPG carriers and cruise ships, the ACP appears to be proposing significant increases to toll charges for use of the Neopanamax locks.

Noting that the environmental performance of bigger ships is higher than that of smaller ships – since they consume less fuel and emit less CO₂/SO_x/NO_x per tonne mile – the global shipping industry would suggest that from the standpoint of promoting environmental sustainability, any toll increases for bigger ships using the Neopanamax locks should be aligned with those for use of the Panamax locks.

Summary of global shipping industry requests and suggestions

In line with all the above comments, kindly find below a summary of the global shipping industry suggestions, requests and recommendations:

1. The ACP should seriously consider providing a twelve-month notice period to allow shipowners and operators to adjust to any future modifications to toll charges more effectively.
2. The ACP is requested to postpone any approved new toll increases by at least six months (June 2020), in light of the anticipated impact of the IMO 2020 'Global Sulphur Cap' regulation, which enters into effect on the same day as the proposed new tolls (1 January 2020).
3. Further consideration should also be given to other factors that are expected to continue to negatively impact the commercial performance of the industry in 2020, including rising geopolitical instability; increased economic uncertainty due to the rise of protectionist trade measures worldwide; and ongoing

escalation of trade disputes and increase in trade tariffs between major trading nations.

4. The economic sustainability of the Panama Canal is inextricably linked to that of shipowners and operators that use the Canal. In this respect, the proposed new toll increases could significantly undermine future trade growth.
5. There should be no distinction in the level of toll charges between Panamax vessels and Neopanamax vessels.
6. The market remains difficult for the segments facing proposed toll increases (e.g. dry bulk carriers), any such increase in charges would exacerbate the already volatile operating conditions.

On behalf of the global shipping industry, ICS, ASA and ECSA thank the ACP in advance for giving our comments, requests and suggestions their due consideration.

About ICS, ASA and ECSA



The **International Chamber of Shipping (ICS)** is the global trade association for merchant shipowners and operators, representing all sectors and trades. ICS membership comprises the world's national shipowner associations.



The **Asian Shipowners' Association** is the regional trade association for merchant shipowners and operators, whose membership comprises national shipowner associations in Asia.



The **European Community Shipowners' Associations (ECSA)** is the regional trade association for merchant shipowners and operators, whose membership comprises national shipowner associations in Europe.