

PROPOSAL TO MODIFY THE TOLLS AND THE RULES OF ADMEASUREMENT OF THE PANAMA CANAL AUTHORITY

Further comments by the International Chamber of Shipping (ICS)

Following the announcement, earlier this month, of an additional consultation period for the Panama Canal toll proposals, the International Chamber of Shipping (ICS) would like to take the opportunity to submit some further comments. As with our initial submission, which is attached again for reference, our comments also reflect the views of our partners in the Round Table of international shipping associations, Intercargo, Intertanko and BIMCO.

ICS welcomes the ACP's decision to postpone the initial implementation date for some sectors from 1 May to 1 July, which takes some account of industry concerns about the extremely short notice period for the first set of toll increases. However, while this amelioration is of course most welcome, those shipping companies who currently have fixed contracts (often of at least twelve months) will still have to absorb a significant cost burden, and we would have hoped that the ACP would also have deferred the implementation date for subsequent years.

Moreover, the key elements of the initial proposals have remained unchanged and we are disappointed that the main industry concerns regarding the quantum and timing of the proposed increases, as well as the direction of toll increases in the longer term, appear to have been ignored. The industry position is explained in detail in our original submission, but our concerns can be summarised as follows:

- As previously stated, we firmly oppose the quantum of the proposed tolls, which represent average increases of around 10% per annum for sectors charged according to tonnage, with increases for container carrying vessels and larger passenger ships considerably in excess of this. Not only are these changes substantially larger than the 3.5% p.a. discussed in the formal Expansion Proposals, but also the sheer size of these adjustments would, in any industry, be regarded as excessive.
- We oppose the timing of the increases. The proposals cover far too short a period for ship operators to absorb such substantial increases in costs, and we would like to reiterate our view that increases should be spread over a longer period, say six years, rather than three.
- The industry also opposes the concept of front-loading the increases. We have consistently underlined the importance of an equitable distribution of costs between current and future users. As a matter of principle, existing users should not be expected to bear an unfair proportion of the costs, especially as the quality of the service provided by the Canal is expected to deteriorate in the immediate future, as the Canal continues to operate increasingly close to capacity. Theoretical projections of increases in value are not sufficient justification for these substantial changes in tolls and, at the very least, any recommendation to front-load tolls would need to incorporate some mechanism to compensate existing users for this up-front contribution to financing. We therefore

recommend the ACP considers further the extent to which external financing can be used to spread the costs over a more realistic period of time.

- The current proposals also create considerable uncertainty for the future. In order to avoid undermining industry confidence, and to enable ship operators to plan ahead, there needs to be greater transparency regarding the ACP's general intention for toll adjustments for the remaining years of the plan period. The industry does not expect specific commitments to actual toll increases beyond those currently planned, but ship operators can not be expected to make the financial commitments necessary to take advantage of the projected increased capacity and dimensions of the Canal without any indication of the ACP's longer term plans. Given the ACP's stated intention to double tolls over the next twenty years (which would equate to a 3.5% increase per annum), the Authority will also need to provide a commitment that the overall result of present and future increases will not exceed the expected annual average of 3.5%.

For good order, please refer to our full comments (attached), which were submitted in March as part of the initial consultation period.

Once again, ICS and its Round Table partners (BIMCO, Intercargo and Intertanko) respectfully request a reconsideration of the current proposals and, in particular, we would urge the ACP to review the size and timing of these increases, and to provide a clearer picture of what the future will hold. Over the years, the ACP has made much of its willingness to listen to the needs of its customers, and we would therefore strongly urge the Authority to consider more fully the industry concerns, in order to devise a more pragmatic and sustainable funding solution.

International Chamber of Shipping
April 2007