International Chamber of Shipping
Shaping the Future of Shipping

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TO: **CANALS SUB COMMITTEE**

Copy: **MARINE COMMITTEE**
SHIPPING POLICY COMMITTEE
ALL FULL AND ASSOCIATE MEMBERS (FOR INFORMATION)

PANAMA CANAL – PROPOSAL TO ADJUST PANAMA CANAL TOLLS

Action required: ***Members are requested to urgently review and comment on the attached proposal to adjust the Panama Canal tolls for containerships, vehicle carriers, dry bulk carriers, tankers, chemical carriers, LPG and LNG vessels, passenger vessels and small vessels. The last toll changes were implemented in October 2017 (see circular CAN(17)04). Comments on these latest modifications are requested by Wednesday, 3 July.***

Members are advised that the Panama Canal Authority (ACP) has published a proposal to amend the Panama Canal Tolls system which has been in place since 1 October 2017. The full proposal, is attached at **Annex A** for review and comments from members. If passed, the proposals are expected to be implemented on 1 January 2020.

The public consultation period has now started and submissions must be made by 15 July 2019 (4:15PM, local time). In case of interest, a public hearing will also be held on 24 July 2019.

A final decision on the ACP proposals is expected at the end of August. On a positive note, the period between the publication of the proposal and implementation is over 6 months, in line with previous requests by ICS.

ACP-ICS meeting

During a recent meeting between ICS and the ACP, prior to the publishing of the proposed changes, the ACP advised that the changes were proposed to reflect the fact that the Panama Canal now has an increasing number of bigger ships using the canal. As well as informal discussions with ICS, it is understood that the ACP also held discussions directly with canal customers in Japan, the United States and in Europe.

The ACP further noted that while charges in some market segments would increase, the modifications also include some additional discounts for other segments, in order to maintain a balance and to mitigate the impact of the changes on the collective customers of the canal.

An extract of the presentation delivered by the ACP during the meeting is attached at **Annex B**.

Containerships

In the case of 'full/loaded' container vessels, the ACP is proposing some adjustments to the 'loyalty programme' and is retaining the 'TEU loaded' return rate set in place to incentivise return voyages.

The ACP further explained that the 'loyalty programme', which applies only to container vessels, had been introduced in 2015 to address the fact that after the new canal locks had been opened in June 2016, some ships opted to go through the canal loaded but on the return voyage (less loaded or with lower value cargo) they instead chose to go through the Cape of Good Hope or through the Suez Canal.

As an incentive to use the Panama Canal – for return voyages (within 28 days and subject to other requirements) – since 2017 ships which opt to go through the canal receive a discount, including a $10-$15 US dollars rebate per loaded TEU. Additional incentives are also included in this latest proposal by the ACP, e.g. new categories have been set in place:

- New Category 1A: Additional incentives for customers which have accumulated (within a 12 month period) over two million TEU in capacity, who would receive a $3.5 US dollars incentive on the full volume which they are transiting.

- New Category 'Loyalty Plus': Anything above three million TEU will now also be rewarded with a $5 US dollars rebate compared to the base rate.

TEU on deck (for non-container vessels)

The ACP is introducing a differentiated rate per container on board. Previously this rate was homogenous (around $90 US dollars per TEU) for all non-container vessels, but with the proposed modifications refrigerated containers will pay $110 US dollars, dry containers will pay $100 US dollars and empty containers will see a reduction from $90 to $60 US dollars.

Vehicle carriers

For vehicle carriers a slight change to the structure of the tolls has been proposed. The ACP advised that this is because a portion of transits through the canal include some roll-on/roll-off ships and vehicle carriers which – although they have a ramp – do not necessarily trade as vehicle carriers, operating more like general cargo carriers. The rates for these ships are therefore being adjusted for parity with the rate for general cargo.

The ACP further suggests that this modification is intended to clearly differentiate between roll-on/roll-off ships and vehicle carriers that would use the Panamax locks and those that would use the Neopanamax locks. According to the ACP some Panamax vehicle carriers have been paying more than Neopanamax vehicle carriers, so the adjustments have also been proposed to address that.

The proposed toll increase for the Neopanamax locks is 10%. For the Panamax locks there would be a 5% increase for larger vessels and a 15% increase for smaller tonnage, which the ACP has identified as operating more like general cargo carriers than roll-on/roll-off ships.

<u>Dry bulk carriers</u>

The rate for dry bulk carriers is also due to increase for some of the market sub segments within the dry bulk segment, as opposed to the entire segment. The suggested toll increase for the Neopanamax locks is 16% on iron ore and 18% on ballast. According to the ACP these represent a very small number of transits through the canal.

The ACP further suggests that currently the rate for iron ore is much lower than other rates within the dry bulk segment. The low rates were intended to attract additional iron ore volumes, which the ACP indicates never materialised, hence the suggested need to implement a similar rate to other commodities within the segment.

<u>Tanker and chemical vessels</u>

The ACP emphasised that changes to charges in these segments were the result of an analysis related to 'competitiveness'. This includes: (1) voyage cost comparisons; (2) the price of the commodities; and (3) destinations.

For oil tankers the proposed toll increase for the Panamax locks is 10%, while for the Neopanamax locks it is 8% in the cargo carrying capacity, plus an additional 12% for actual cargo on board the vessel (measured in metric tonnes). The ACP is further proposing a 12% increase in ballast transits.

For chemical tankers, most of which are Panamax vessels, the proposed toll increase is 8% (laden and ballast).

<u>LNG and LPG vessels</u>

The ACP has once again proposed a toll charge increase for these vessels, following the significant rise in 2017.

For LNG the proposed toll increase is 8% (laden and ballast). The ACP suggested that based on its competitive analysis, the charge could have been increased up to 10%, but opted against that in order to adjust some other maritime service charges including for escort tug boats.

For LPG the proposed toll increase for the Panamax locks is also 8% (laden and ballast), while for the Neopanamax locks it is 15% (laden and ballast).

Passenger vessels

The ACP is also proposing a change in the structure of toll charges for passenger vessels, reportedly based on discussions and requests from industry stakeholders (including cruise vessel associations and classification societies). Whereas previously the ACP had been charging passenger vessels by berth, it now intends to charge by passenger capacity.

The above notwithstanding, there will also be a toll increase of 10% for passenger vessels, which is reportedly due to the above mentioned structure adjustments to the ACP's measurement system.

During the meeting with ICS, the ACP explained that in accommodating the structure changes requested by the industry – reportedly in order to address some tax related issues in the United States – it also had to ensure that the canal would not lose any revenue.

Small vessels (including yachts)

The ACP is also proposing a 30% to 100% increase on small vessels, including yachts. Based on this proposed increase, a small 55 feet vessel for instance would pay between $1,500 and $2000 (US dollars). But the ACP argues that this doesn't cover pilot costs, which purportedly costs around $3,400 dollars US. The average toll charge for small vessels is expected to be between $3,200 and $4,500 US dollars.

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Members are kindly requested to send comments to the undersigned (helio.vicente@ics-shipping.org) by ***Wednesday, 3 July***. This will allow time to collate a coordinated industry response to the ACP as a submission to the public consultation.

Helio Vicente
Secretary, Canals Sub-Committee