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Panama Canal Faces Competition

by LADB Staff

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The Panama Canal has been doing record business of late, and plans for expansion are in the works. These plans, despite a US$5 billion price tag that could double before the job is done, are hugely popular with the citizenry. The people would vote for expansion in a heartbeat if the question were put to a referendum. But some doubts about the idea have surfaced. Global warming is swiftly creating an alternative for transcontinental shipping. And it is free.

Even with detailed plans for the renovation still unknown to the general public, and probably to anyone else, an October survey by PSM Sigma Dos for the newspaper Critica showed 62.3% of respondents would vote for the project. In the real world, the executive and the legislature would both have to approve a plan before a referendum could be held. Evidence is accumulating that this enthusiastic population is growing impatient with the process.

On Sept. 6 President Martin Torrijos responded to criticism that the government was being secretive about the plans, saying that studies were not yet complete and that he did not want to present a plan in stages. He said the options under consideration would not require the large dam construction and vast flooding long considered part of the deal. If that turns out to be true, it will go a long way toward quieting opposition from farming and environmental groups.

Business has been good for the canal as it is. Alberto Aleman, CEO of the Canal Authority (Autoridad del Canal de Panama, ACP), reported that fiscal 2005 has just concluded with a record 14,011 vessels, equivalent to 279.1 million tons, having transited. This is a 4.6% increase over the previous year. A record was also set in the number of transits of ships of 300 meters or more, 1,310, a 10% increase over last year. For the state, these increases have meant a surge in profits for the ACP to US$183.7 million, an increase from 2003 of 72%. The common wisdom underlying the expansion plan has been that increases in the size of ships to dimensions that do not fit through the locks will drive the route into semi-obsolescence (see NotiCen, 2004-04-15). Income would be lost as these ships took alternate routes, such as the Suez Canal and the Mediterranean, to reach the Atlantic seaboard.

Another existing alternative is transshipment across the US. Future alternatives could include any of several land bridges or dry canals planned for Central America. Shippers from Nippon Yusen KK, which ships cars, and Wal-Mart have been pressing Panama to enlarge the system.

Asaf Ashar of the National Ports and Waterways Institute (NPWI) in New Orleans has said that, if the work is not done, "people will still use it, but it will have secondary status." He estimated that, without the expansion, annual toll revenue would fall 21%, or US$210 million, based on fiscal 2004 figures. Ashar, speaking in early September, said that US ports are becoming glutted with increased trade that has seen traffic mushroom at an annual rate of 10% for the past few years. "US economic prosperity depends on upgrading the canal. Immediate expansion should be an immediate priority."
Last year, congestion at the California ports of Los Angeles and Long Beach, which handle about 40% of containerized US imports, diverted more than 115 ships to other Pacific harbors. In Panama, Hans Moeller of Maersk Sealand, a container-shipping company, said that his company already has 22 ships that are too big for the canal, and globally "58% of ships on order can't transit the canal." The shippers all agree that, even with the substantial increase in the price of a ticket through the canal put into effect last May and even with a large increase that will come to amortize the cost of expansion, the canal will still be cost effective compared to the alternatives.

Environmental destruction might provide solution

But now, recent observations suggest that global warming, greenhouse gasses, and polar meltdown might be providing a cheaper, better solution, one that Russia and Canada have taken great interest in. It appears that Churchill, Manitoba, a tiny town of 1,000 souls in the not-so-frozen north, could become the new Panama. The ongoing melting of the polar icecap, called in Canada the Big Thaw, has given rise to expectations that the fabled Northwest Passage is fast becoming reality. A northern route from the Atlantic to the Pacific Oceans would cut days off current routes and give China even better access to European markets.

Russia, meanwhile, has a fabled route of its own, the Northeast Passage, now called the Northern Sea Route. This route runs along the northern coast of Russia and links European and Asian ports. Russia has invested heavily in it, and it is already navigable four months of the year. A third alternative is the Arctic Bridge, as the Russia-to-North America passage is called. This is the one that holds so much hope for Churchill.

Rob Huebert, professor of political science at the University of Calgary and expert in these matters, said, "The Northeast Passage is more open and expected to open more quickly to international shipping, but that could change." He and Roger De Abreu, science project manager at the Canadian Ice Service, both expect the volume of shipping and the length of the season to increase in coming years. Russia is said to be farther along and better experienced in this kind of shipping, but that country and Canada have expressed strong interest in partnering with an eye toward full development of the potential of these routes. The US is also heavily involved.

Denver-based OmniTRAX, North America's largest private rail company, owns the port at Churchill. OmniTRAX bought it for US$10 in the 1970s after it had fallen into disuse as a joint US-Canada military base. The company also owns 1,300 km of railroad track terminating in Churchill and with access to Winnipeg. At present, Churchill exports wheat four months of the year and does not import anything, but analysts say that will change dramatically over the coming decade.

The most important change, they say, will occur over the next three years and see Russian refined petroleum products being imported and transported to other points. Churchill is already capable of handling and storing these products. Improving infrastructure will not be easy, but plans are for a test ship to make a demonstration delivery from Murmansk in 2006.

Meanwhile, scientists have come round to a view that will hearten investors in a northern alternative to Panama. They say global warming has put the prospect of accelerated shrinkage of the Arctic ice
past the point of no return. Computer simulations by several research institutions agree that almost all the summer ice will probably disappear by late in the century.

An advanced model at the National Center for Atmospheric Research (NCAR) in Boulder, Colorado, shows much of the ice disappearing by 2050. All the models produce an open polar sea. "There would definitely be shipping along the Eurasian coast, and the polar bears would have some serious issues," said Marika Holland of the center. Henk Brinkhuis, an expert on Arctic ecosystems at Utrecht University in the Netherlands, was equally decisive about the prospects. "Even if you would stop every engine right now," he said, "there is no escape unless you physically take the CO2 out of the air again." None of this is to say that Panama is necessarily doomed.

While the northern alternative is inevitable, its progress will be variable. There will be periods when ice grows and others when it recedes. The region of these passages has the most turbulent climate on earth. Nor, however, is it clear whether and to what extent these predictions will affect the financing of the Panama Canal's expansion. Absent a plan, the total cost is unknown, but Global Insight, a Massachusetts consulting company, has calculated the cost at US$10 billion, twice the cost mentioned in the past in Panama.

That cost, said Jose Isabel Blandon, a deputy of the opposition Partido Panamenista, could be too much for Panama to self-finance. "What concerns us," he said, "is that the country's debt would rise far beyond its capacity to pay." Panama currently has US$7.2 billion in foreign debt, rated at BB by Standard & Poor's. This is two notches below investment grade.

Claudia Calich, senior portfolio manager for Invesco Inc., manages emerging-market bonds including Panamanian debt. She said funding would probably come in the form of a mix of loans and bonds. "If the canal expansion offers value, we would absolutely look at the deal," she said. The Canal Authority has no debt of its own. Chris Koch, president of the World Shipping Council, acknowledged that the country has a big decision to make. "If the canal chooses not to expand, trade will continue to flow and go elsewhere." Perhaps north.

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