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Panama Canal Expansion Plan Challenged: A Megaport Will Suffice

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A group of Panamanian experts has determined that enlarging the Panama Canal is a bad idea. What the country really needs, say the experts, is a megaport that would allow container ships too large to navigate the present canal to offload containers onto ships that could pass through the locks.

The argument is contained in a report, Acerca de Nuestro Canal y Nuestro Megapuerto, published in two of the nation's newspapers. The authors are all well-known Panamanians, ex-President Jorge Illueca (1982-1984), former minister of the presidency Fernando Manfredo, economist Julio Manduley, president of the Centro para el Desarrollo de la Productividad, (CEDEPRO), and Enrique Illueca, ex-president of the Comision de Asuntos Maritimos y del Canal. Enrique Illueca is also president of the Fundacion Panamena de Etica y Civismo. Jorge Illueca was president of the UN General Assembly from 1983-1984.

The report contests the assumptions of the 2004 Plan Maestro del Canal de Panama of the Autoridad del Canal de Panama (ACP). That plan was based on 140 studies that led to the conclusion that enlarging the canal to accommodate the larger post-Panamax ships was necessary for the canal to stay competitive (see NotiCen, 2004-04-22). Panamax ships are the largest ships that will go through the locks.

The authors of the new report recommend a different path, however, writing that "all the international experts agree" that, during the next few years, shipping will become consolidated in a few megaports, or load centers, and that "it is obvious that the 'natural' megaport to be developed in the Western Pacific is Panama." What ought to be done, they say, is to build a megaport of the Americas in the Farfan-Palo Seco area where the ACP has already done much preliminary designing and planning. This port would accommodate two post-Panamax vessels simultaneously, as well as a number of smaller ships. Post-Panamax ships are defined as being of more than 65,000 metric tons of displacement.

The project would take three or four years to complete at an estimated cost of US$800 million. The operative idea is that the larger ships would offload containers to the Panamax ships, which would then pass through the existing canal. Owning no ports, Panama foregoes profits Besides costing far less than the estimated US$6 billion for expanding the canal, the megaport would be wholly owned by the state and would provide profits for national development.

One major problem with the present situation is that Panama owns no ports. Port facilities now are operated by concessionaires and other operators who compete among themselves. Under these circumstances, say the authors, the country has not been able to translate Canal Zone wealth into development in the interior. Under a plan to expand the canal, the main beneficiaries would be the shipping companies, banks, large international construction companies, and the US government, which, among other things, would like to be able to send its aircraft carriers through the waterway.

Also opposing the expansion is an association of campesinos from the three provinces that form the Cuenca del Canal. They say the project that calls for constructing lakes and dams to provide water to the new locks would destroy their homelands and way of life. The report says the expansion would "require the excavation, transport, and disposal of 133 million cubic meters of earth, which almost represents the construction of a new canal, and it is not necessary now, there is no way to justify it."

The report takes sharp exception to the ACP's Plan Maestro, which assumes that the canal will reach its maximum capacity sometime between 2007 and 2013. The Plan assumes a cost for the expansion of US$3.2 billion and would reach a sustained growth in traffic of 36% by 2025. This would be accompanied by tariff increases as transit times are cut and a decrease in operating costs as a result of new efficiencies and increased volume. These estimates culminate in an assumption of an increase in profits of 208% by 2025 compared with no expansion. "Therefore, capturing an important volume of the future demand, and through a policy of consistent, predictable, and just prices, the canal will generate the cash flow necessary to recover the investment in 14 years without requiring contributions from the state," says the Plan.

ACP assumptions refuted

The new report says these assumptions and projections justifying expansion are neither rigorous, nor sufficient, nor valid beyond reasonable doubt. It says that the ACP's cost-benefit analysis lacks objective data on international shipping and that those patterns are not "unequivocally predictable" anyway. The report's contention is that the canal still accommodates 90% of the world fleet, that Panamax ships still do not account for even half the canal's transits, and that post-Panamax ships account for only 7% of the global flotilla. There are only 289 of these ships in existence, their routes clearly defined between Asia and the West Coast of the US and Canada. The large consortia organize their shipbuilding around trade routes as they really exist, and, for these routes, the Panamax vessels are sufficient, say the report's authors.

They also dismissed the projected cost of US$3.2 billion for the expansion. The ACP and the government acknowledge that the cost will be closer to US$6 billion. Where the ACP Plan asserts imminent obsolescence for the canal, the report counters, "It is not true the Panama Canal 'will reach its maximum capacity of operation in 2013 and that when it reaches this point it will have serious limitations and an important portion of the demand will be seized by others.' Nor is it true that, if the third set of locks is not built, the canal 'would cease to increase its contributions to the nation and the possibilities of increasing tolls will be reduced.' It is not true that, 'in case the canal is not widened, it is anticipated that much of the demand that cannot be accommodated will migrate to the Suez Canal and the US Intermodal System.'"

The report lashes out at the interests behind the impetus to dig the new ditch, finding it "perfectly understandable that the big shipping-company owners of the post-Panamax ships and many international exporters support with great enthusiasm the widening of the canal." As for the Junta Asesora Internacional of the ACP that worked on the project from 1996 to 2004, the report notes that

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"11 of its members are linked directly or indirectly to the great international consortia and shipping alliances (Grand Alliance, Maersk Sealand, New World Alliance, Cosco, MSC, CHKY, CSCL...).

Another member of the Junta Asesora, ex-secretary of the US Army Joe Reeder, answers to the interests of the Pentagon, which desires locks that permit the passage of its modern aircraft carriers." On the premise that Panama's money could be better spent, the report offers alternative uses for canal profits during the next ten years. It would cost, say the authors, just over a quarter, or US$1.6 billion, of the US$6 billion that expansion would cost, to build a thousand schools and 200 middle schools throughout the country and repair another 450 schools; 6,000 teachers could be paid and another 7,000 hired during the period. At least 80 rural aqueducts could be built and 100 irrigation systems installed; credit accounts of US$5,000 each could be extended to 50,000 small businesses. The salaries of 50 new judges and judicial personnel could be paid; the salaries of 50 new doctors and 100 new nurses could be paid. These measures, and the creation of the megaport, would mean new permanent or semi-permanent jobs for 175,000 Panamanians.

The authors of the report are not optimistic about their prospects. A decision to build the third set of locks must be submitted to a referendum, and few voters have known about the alternative plan. Polls have shown that 60% of voters would approve the ACP Plan. The authors say, "Until now, the project has not been explained, much less debated with all the time, seriousness, prudence, balanced access to the media, and calm that a national decision of this caliber demands." They agree things are not looking good for their side. "Those who are in favor of the [ACP] project possess a multiplicity of media resources and have promoted the idea with doubtful objectivity."

Mitchell Doens, director of the ruling Partido Revolucionario Democratico (PRD), says the canal issue has not even been discussed within the party. Doens admitted that deputies tend not to bring up issues until they have to. "The CEN [Comite Ejecutivo Nacional] of our party discussed the subject of the free-trade agreement when the ex-minister of agricultural development Nito Cortizo denounced a situation within the negotiations that swayed public opinion," Doens admitted when pressed by a reporter. In the case of the canal, however, the matter had not been discussed because deputies had not yet seen the proposal. Support within the party is not unconditional.

Deputy Rogelio Paredes, for instance, generally favors widening the canal, but has said he would not support a plan that is not completely self-financing. Deputy ACP administrator Manuel Benitez said the project would be self-financing, but he stressed increased tolls as the means, underplaying the foreign-investment aspect of the venture, the aspect criticized in Nuestro Canal as a giveaway of profits needed for national development. Revenue from tolls totaled US$1.209 billion in 2005; US $489 million of this amount went to the treasury. Benitez said that the expansion would not decrease the amounts flowing to the national treasury from the canal and that any debt incurred would be repaid over a period not to exceed eight years, rather than the 14 years reportedly in the Plan. He cited a provision of the Ley Organica del Canal, which specifies that any capital investment in canal improvement must come from tariff hikes.

Among the opposition, the deputies are growing restless. On April 18 they called for ACP administrator Aleman Zubieta to appear before them with an explanation of what exactly is contained in the project. Partido Panamenista (PP) Deputy Alcibiades Vasquez said the legislature is

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dependent on explanatory testimony because "the basic idea in public opinion is that we are totally scared, because we're talking about 55,000 pages and US$44 million invested to do these feasibility studies, but we want to know what the executive summary is that the ACP is going to give us." The statement reflects the report's analysis of the situation, that 60% of the population might support the idea of expansion, but they have no idea what is to be done, how, and with what resources.

Whether or not the expansion is approved, the megaport has wide support as a separate operation, but that does not imply that the proposal in Nuestro Canal will be implemented. The port could still be built as a private, rather than public, enterprise. A consortium composed of Japanese, British, and Danish companies indicated an intention to build it in November 2005, and they are in competition with others, including the US Stevedores of America SSA, and DPA of the United Arab Emirates. The consortium is composed of PO Ports of the UK, NYK of Japan, and APM of Denmark. Spokesperson Rogelio Orillac explained, "We are in the center of international maritime routes, and this is something very attractive for port operators and for international trade."

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