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Panama Canal Expansion Work Grinds to Halt

by Louisa Reynolds

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The expansion of the Panama Canal, which handles 5% of the world’s maritime trade, was suspended on Jan. 20 because of an acrimonious dispute between the Spanish-led building consortium Grupo Unidos por el Canal (GUPC) and the Autoridad del Canal de Panamá (ACP), the autonomous agency that manages the canal, regarding who should pay the US$1.6 billion needed to complete the ambitious project.

The expansion of the 80 km cargo route that connects the Atlantic and Pacific oceans included the construction of a third set of locks that would accommodate larger post-Panamax ships travelling from North America to Asia and was originally expected to cost about US$5.25 billion. However, the overruns could increase that to almost US$7 billion.

Whereas canal administrator Jorge Quijano says the overruns are unacceptable and insists that the GUPC should stick to the costs agreed upon when the contract was signed in 2009, the consortium argues that a project of this scale inevitably entails unforeseen conditions and additional costs. "We’re talking about technical issues, the type of concrete used, unexpected geological conditions, taxes, labor, and climate issues," said a spokesperson for Sacyr, the Spanish company that leads the GUPC.

"Without an immediate resolution," reads a statement by the GUPC, "Panama and the ACP face years of disputes before national and international tribunals over their steps that have pushed the project to the brink of failure." The GUPC says it has completed more than 70% of the project despite hardship and financial losses and has urged the ACP to "abandon its unjustifiably rigid stance."

The GUPC includes Sacyr Vallehermoso, which holds a 48% stake in the consortium, Milan-based Salini Impregilo, Belgian company Jan de Nul, and Panamanian construction company Cusacon.

Panamanian President Ricardo Martinelli has branded the GUPC as "irresponsible" and announced, on Jan. 3, that he intends to travel to Europe to demand that Spain and Italy meet "their moral obligation" to ensure the work is complete.

Quijano has also vowed to complete the project "with or without the GUPC" and claims he has received offers from other companies to take over the project, although experts say it is unlikely that the contract will be rescinded.

In the face of Sacyr’s plummeting share prices after the talks collapsed, the GUPC made a U-turn on its initially belligerent stance and announced on Feb. 10 that it had delivered a new proposal that takes the ACP’s concerns into account while providing the necessary funding to finish the third set of locks.

To make matters worse, during the bitter dispute between the GUPC and the ACP, tensions have surfaced between Sacyr and its Italian partner Salini Impregilo regarding how the negotiations should be handled.
Panamanian government could face heavy losses

The project was meant to be completed by August 2014 when the canal will celebrate its 100th anniversary. However, the GUPC fell behind schedule, and the deadline had to be extended to June 2015. Now, following the breakdown in talks between the consortium and the PCA, the project’s future remains uncertain.

Zurich Insurance, which is providing a US$600 million security bond for the project, estimates that the canal’s expansion will be delayed by three to five years without an agreement.

Given that the use of the canal brings US$960 million per year to government coffers, almost 10% of its revenue, the suspension of the project has put 10,000 local jobs at risk and could have a serious impact on the Panamanian economy.

The collapse of the negotiations between the GUPC and the ACP has also strained relations between Panama’s powerful construction workers’ union, (Sindicato Único Nacional de Trabajadores de la Industria de la Construcción y Similares, SUNTRACS), and the Cámara Panameña de Construcción. "The project and its workers face an uncertain future. We’ve got a crisis here that could blow up any minute," SUNTRACS’ general secretary Saúl Méndez told Agence France-Presse (AFP) news agency.

Since the project began, SUNTRACS has demanded higher wages for Panama’s construction workers arguing that "megaprojects should pay megasalaries," and, on Jan. 27, the union threatened the government with strike action if its demands were not heeded.

Panamanian government knew the project was "a failure"

Sacyr is a leading Spanish construction company and is part of the IBEX 35 market-value-weighted stock market index. In 2003, when Spain’s debt-fuelled construction boom was in full swing, Sacyr merged with Vallehermoso, a housing company whose assets mostly consisted of undeveloped land for residential use, to form Sacyr Vallehermoso SA.

Thus, the company became dangerously exposed to Spain’s housing market and was badly affected by falling land prices during the 2008 global financial crisis. As the Spanish economy suffered and the government slashed spending on public works, Sacyr and other major construction companies became increasingly reliant on Latin American projects with about 25% of Sacyr’s US$1.8 billion nine-month international revenue coming from Panama, according to the its latest earnings report.

In 2010, a year after the GUPC beat rival companies, including California-based Bechtel Group, to win the canal-expansion contract, a series of Wikileaks reports revealed that a consultancy firm hired by the US government to investigate the bidders had concluded that Sacyr’s offer was unfeasible both technically and financially and that Sacyr was "a company on the verge of bankruptcy that was being propped up by the Spanish government."

The reports also claim that Panama’s Vice President Juan Carlos Varela had expressed serious doubts about the GUPC’s ability to complete the project during a meeting with a visiting US congressional delegation in 2009, describing the companies leading the consortium as being "in deep financial trouble."
President Martinelli also allegedly said that he feared Quijano’s predecessor, Alberto Alemán Zubieta, had tipped the bid toward GUPC because it included Panamanian company Cusacon, which is run by his cousin Rogelio Alemán. However, Alemán Zubieta has repeatedly defended the ACP’s decision to award the contract to GUPC and insists that the bidding process was transparent and was audited by a number of international firms.

Adding to the controversy, Spain’s Tribunal de Cuentas (the country’s supreme financial-accounts body) recently ruled that, in its zeal to support Sacyr, the administration of former Prime Minister José Luis Rodríguez Zapatero overlooked irregularities in the company’s bid, urging majority state-owned insurer Cesce, set up to help the international expansion of Spanish companies, to provide a US$200 million bond that will guarantee compensation to the ACP if the project is not completed. The Tribunal de Cuentas fears that, if the GUPC does not reach an agreement with the ACP, the Spanish taxpayer could end up footing the bill.