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Work Resumes on Panama Canal Enlargement but Key Issues Remain Unresolved

by Louisa Reynolds
Category/Department: Panama
Published: 2014-04-10

The Spanish-led consortium Grupo Unidos por el Canal (GUPC) resumed work on the expansion of the Panama Canal on Feb. 20, after a bitter dispute with the Autoridad del Canal de Panamá (ACP), the autonomous agency that manages the canal, was finally resolved.

The expansion of the canal was originally expected to cost around US$5.25 billion but the GUPC argued that it had encountered unforeseen additional expenses that would increase the cost of the project to almost US$7 billion, setting off an acrimonious feud with the ACP, which insisted that the consortium should abide by the terms of the contract. After the two parties failed to reach an agreement, the project ground to a halt on Jan. 20 (NotiCen, Feb. 13, 2014).

After a war of words between the two parties and weeks of legal wrangling, the consortium and the ACP agreed that each side would pay US$100 million needed for the project to resume while insurer Zurich will convert a US$400 million deposit into a loan.

"No matter what happens, the work will get done, and we won’t accept any further delays. There’s too much at stake for Panama and too much at stake for world trade. The Panamanian government and the ACP, which, like it or not, is the rightful spokesperson on the issue, has been very clear about this," said Panamanian Foreign Minister Francisco Álvarez Soto. "We have been guided by one principle and that is that the two parties’ differences of opinion, rights, and duties must be resolved within the framework of the contract."

Álvarez said the governments of the countries involved in the dispute have merely "followed the process" as they fully understand that this is a conflict that must be resolved by the belligerent parts.

The US$1.6 billion in cost overruns at the core of the dispute will be evaluated by the three-step arbitration process laid out in the original contract. One of the GUPC’s main grievances is that the ACP allegedly failed to present the necessary information to evaluate the scheme’s concrete mix.

However, a number of key issues are yet to be resolved, including the delivery dates of huge lock gates being built in Europe that would accommodate larger post-Panamax ships travelling from North America to Asia.

As a result of the two-month standoff that began Dec. 30, the project has suffered further delays and will not be completed until at least December 2015, a delay that could cost the Panamanian economy millions of dollars in lost shipping tolls. The Panama Canal handles 5% of the world’s maritime trade, and revenue from canal tolls represents a significant portion of Panama’s GDP.

Despite the setbacks that the project has faced, the shipping industry is already gearing up for the wider canal by increasing its output of larger post-Panamax container vessels. Orders have already been placed for 214 of these ships, which are as long as four football fields and more than 160 feet high, according to Alphaliner, s shipping-industry trade publication.
A wider canal will also be important for US efforts to export liquefied natural gas (LNG) to Asia from the Gulf Coast. "LNG is not currently traded through the Panama Canal as most LNG vessels are too wide to fit through the locks," reads a recent report by consultant Wood Mackenzie. "The expansion project will allow all but the very largest LNG ships to use the Panama Canal."

**Spanish government will provide loan to GUPC**

The GUPC includes Spanish company Sacyr Vallehermoso, which holds a 48% stake in the consortium, Milan-based Salini Impregilo, Belgian company Jan de Nul, and Panamanian construction company CUSA. After news that an agreement had been reached, the price of shares in Sacyr rose nearly 5% while Impregilo shares also gained.

Spanish newspaper El Mundo reported that majority state-owned insurer Compañía Española de Seguros de Crédito de Exportación (CESCE) agreed to use a bond granted to Sacyr in 2009 in a guarantee that will allow a banking consortium to authorize a new set of loans to provide Sacyr with a US$420 million cash injection that will allow it to finish the project.

The Spanish government insists that this is its best alternative because, if Sacyr does not finish the project, the ACP would be entitled to keep the bond paid by the Spanish government through CESCE and would use it to hire a new contractor. "We’re trying to act in the Spanish taxpayer’s best interests but we’re dragging mistakes from the past," government sources told El Mundo.

However, if Sacyr were to face new financial difficulties and were unable to finish the project despite this fresh injection of resources, the Spanish taxpayer would inevitably end up footing the bill. Therefore, Sacyr’s new agreement with CESCE stipulates that Sacyr must use any compensation it receives from the arbitration process to pay off its debt with the state-owned insurer.

Sacyr is confident that it will win the arbitration process after the initial review carried out by the president of the arbitration board, British jurist Peter Chapman, appeared to favor the Spanish-led consortium.

Spanish newspaper La Vanguardia reports that the dispute between the Spanish-led consortium and the Panamanian authorities has given rise to an internal debate within the Spanish government. Whereas Minister for the Economy and Finance Luis de Guindos fears that the taxpayer will pay the price for the Spanish government’s efforts to bail out Sacyr, other government officials fear that Sacyr’s inability to complete the project would affect Spain’s image abroad.

The past few months have brought bad news for Spanish developers in Latin America. While Sacyr has been embroiled in its bitter dispute with the ACP, Spanish developer Azvi, which won a US$30 million contract to build a bridge over the Cau Cau River in Chile, became a laughing stock after it installed a traffic deck upside down.

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