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Can Panama's President Juan Carlos Varela Tackle Panama’s Energy Crisis?

by Louisa Reynolds
Category/Department: Panama
Published: 2014-07-24

Panama’s newly elected President Juan Carlos Varela, who took office on July 1, comes to power amid a drought-sparked energy crisis that has highlighted the perils of depending heavily on hydroelectric power at a time when rain patterns have become increasingly erratic as a result of climate change.

The energy crisis has become so serious that, in May last year, outgoing President Ricardo Martinelli (2009-2014) was forced to close high schools and universities for three days in a desperate attempt to reduce power usage. Since April, use of air conditioning, which accounts for 60% of the country’s energy consumption, as well as neon signs has been restricted.

The US Energy Information Administration (EIA) says that 53% of the country’s net electricity generation comes from hydroelectric plants, 46% comes from burning fossil fuels, and the remaining 1% comes from renewable sources such as biomass and solar power.

In early June, President-elect Varela announced that he would restart progress on the Colombia-Panama Interconnection, a proposed high-voltage transmission line that would provide Panama with access to Colombia's excess hydropower. The program had been scuttled by Martinelli’s administration but could be a much faster solution than building new capacity domestically.

Panama’s new government has also stated that it wishes to review the contract awarded by the Martinelli administration to Brazilian company Norberto Odebrecht for construction of the Chan II hydroelectric dam on the Río Changuinola, in the northern province of Bocas del Toro. Odebrecht won the bid by default as it was the only company that took part, leading critics to speculate that it was rigged. "This [bid] is very dubious and ought to be investigated," said the director of Panama’s Chamber of Commerce, Industry and Agriculture Iván Barría in May.

Meanwhile, representatives of the Ngöbe indigenous group have reiterated their opposition to the project and have complained that Varela has not met with them to discuss his plans for Chan II.

Political analyst Alberto Mora Román, research coordinator of the Estado de la Región report, said the real challenge for Varela’s new administration as well as for future governments is to improve Panama’s energy-efficiency ratings and steer investors toward the renewable-energy sector. "Energy should be a key issue on his [Varela’s] agenda because of its implications for the day-to-day operation of the Panama Canal and also because of its impact on Panamanians’ day-to-day activities. Panama City’s new underground system is also a major drain on the country’s energy resources. The issue here is how to meet this growing demand when the resources available are nonrenewable," says Mora.

Will Varela allow oil drilling in Darién province?
Meanwhile, the discovery in July 2011 of deposits containing an estimated 900 million barrels of oil in Darién province bordering Colombia might reduce Panama’s dependency on fuel imports.
In August 2013, the Panamanian government paved the way for investment in the country’s burgeoning oil sector by amending a 1987 Hydrocarbon Extraction Law, thus establishing a clear legal and tax regime, and, in January this year, it announced talks with a group of Qatari business people interested in building a refinery in Puerto Armuelles, the first time Panama has looked to the Middle East as an investment partner.

"Arabs, in accordance with their culture, usually take their time to do things. With us it was different. We opened an embassy [in Qatar] and in less than a year they had opened an embassy in Panama," said the new Panamanian Ambassador to Qatar Javier Arias. Qatar, says the Panamanian diplomat, regards Panama as an attractive place to invest because of its geographical location and world-class logistics infrastructure.

However, oil extraction could reignite tensions between the government and indigenous groups, which have been fiercely opposed to hydroelectric dams, on the grounds that they can have severe flooding effects on their communities, as well as mining projects. Companies have been unable to woo indigenous communities with the promise that these projects will come hand in hand with social-development initiatives. In February 2012, anti-mining protests left three people dead and brought the Inter-American Highway to a standstill (NotiCen, Feb. 23, 2012).

So far, Varela has focused on hydropower, and he has not publicly announced what his plans are regarding the Darién oil deposits. Given his pro-investment stance, though, and Panama’s pressing need to reduce its dependency on fuel imports, it is possible that the new government could put the Darién deposits up for tender, leading to a fresh confrontation with indigenous groups.

"Panama will continue to follow the same course and will continue to search for solid foreign investment in the medium and long term. I don’t think there will be many changes vis-à-vis the Martinelli administration," says political analyst Roberto Wagner, a professor at Guatemala’s Universidad Francisco Marroquín.

The former director of El Salvador’s central bank, Mauricio Choussy, agrees with Wagner and foresees continuity rather than change on the horizon, even though the outgoing administration was marked by continuous political bickering between Varela and Martinelli.

"We won’t see any major changes in Panama. The new president served as vice president under the previous administration even if he didn’t belong to the same party and distanced himself from Martinelli in recent years. Regarding energy, the opportunities are there, they’re laid out on the table, and this is a pro-investment administration," says Choussy.

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