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LADB Staff

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## **Private Entities to Manage Panama's Port Services; Telecommunications on Hold**

*by LADB Staff*

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Facing a budget deficit of US\$25 million, President Ernesto Perez Balladares's administration would like to bring the current phase of privatization to a successful close because it offers one important way to cut spending and increase income. Economy officials are looking forward to income from the sale of state properties and to the transfer of payroll costs to the private sector. The most profitable privatization to date is the sale of a concession to administer two major seaports.

On July 31, the government awarded a contract to run the Caribbean port of Cristobal and the Pacific port of Balboa to the Hong Kong- based firm of Hutchinson International Terminal. The bidding process was contentious. In June, it was reported that the Japanese-US consortium of Kawasaki-Cooper T. Smith had been awarded the concession. But two days later, the government denied the report. Soon after, the consortium threatened to pull out of the bidding alleging that there were unspecified irregularities in the privatization process.

According to Hugo Torrijos, director of the National Port Authority (Autoridad Portuaria Nacional, APN), the commission that evaluated the bids had indeed recommended that the award go to Kawasaki-Cooper T. Smith, but that the president had intervened to have the commission reconsider the Hutchinson proposal. Torrijos said the two firms and the third prequalified bidder, the US-based Bechtel, could submit revised bids on July 4. However, on July 2, the APN postponed new bidding.

An APN official explained that the bidders had complained that they needed more time to prepare revised proposals to respond to new conditions set by the government. These included a requirement that the bids be confined to the annual rent each company proposed to pay the government. All three bidders had prepared elaborate proposals that spelled out various types of payments and profit-sharing schemes with the government in addition to the rent they were willing to pay.

Kawasaki- Cooper T. Smith and Bechtel threatened to withdraw. Bechtel eventually pulled out of the running complaining that the annual rent should not have been the sole determining factor. On July 29, the APN announced that Hutchinson had won with a bid of US\$22.2 million in annual rent for the 25-year concession, which begins next year. Kawasaki-Cooper T. Smith had offered only US \$10 million. Under the terms of the concession, Hutchinson will also pay the government 10% of the gross receipts from port operations and give Panama 10% of the port company's shares.

The government will also have a seat on the company's board of directors. In addition, Hutchinson will be required to make certain guarantees to the ports' labor force, purchase all existing port equipment for US\$10 million, and invest at least US\$50 million in the ports during the first five years of the concession. Kawasaki-Cooper T. Smith agent Jose Rodriguez Montero complained that

the decision to base the evaluation entirely on annual rent ignored important considerations for workers. "We took the workers into account and our proposal of US\$10 million is based on...the number of containers that are being moved monthly," said Rodriguez Montero. "Any bid above that is unrealistic because you either will have to increase charges or lower wages." However, Gabriel Castro, a member of the evaluation commission, defended the decision, noting that over the life of the concession, the US\$22.2 million annual rent will add up to "almost billions of dollars that we would have lost if we had not made this decision."

After the announcement of the winning bid, the local newspaper La Prensa published accounts of improper intervention on behalf of Bechtel by US Commerce Secretary Mickey Kantor. US Ambassador in Panama William Hughes wrote to the newspaper denying the allegations that Kantor had telephoned Perez Balladares in support of the Bechtel bid. However, Hughes defended his own efforts to persuade the Panamanian government to select the company and called the port-privatization process "disappointing" and "contrary to the standards of world practice." Meanwhile, the government has had less success in its efforts to privatize the state telecommunications company (Instituto Nacional de Telecomunicaciones, INTEL). INTEL was supposed to be sold by the end of 1996, but the privatization has run into a serious setback.

A 1995 privatization law authorized the government to set up a privately controlled telecommunications corporation, with 49% of the shares sold to the private sector, 49% held by the government, and the remaining 2% held in trust for INTEL employees (see NotiSur , 03/28/96). Initially, the prequalified bidders were the US-based companies GTE and Southwestern Bell and the Spanish firm Telefonica Internacional. All three delivered bids on May 23. However, Telefonica Internacional was disqualified in July because the Spanish government is a majority stockholder in the company. Under Panamanian law, telecommunications may not come under the control of a foreign government.

Then in early August, Southwestern Bell announced that it had decided to invest elsewhere and dropped out of the competition. This left GTE as the sole bidder. Guillermo Chapman, minister of planning and political economy, said the process has to be completed soon, otherwise, because of the complexity of the situation, "we would have to start almost at zero." How soon the process of privatization can be completed, however, is unclear.

Some government officials interpret the law governing privatization as prohibiting the sale because only one company remains in the bidding. At the very least, the government must "reexamine the conditions and call for a new qualification process," according to the wording of the law. Government ministers have suggested various remedies. One is to open the bidding to new participants. Another, mentioned by Raul Montenegro, head of INTEL's board of directors and minister of government and justice, is to seek changes in the law to permit Telefonica Internacional to participate. The latter option appeared unlikely as Chapman denied reports that the INTEL board had voted to ask the National Assembly for changes in the law. INTEL and government officials still say privatization will take place before the end of the year.

Another major state company, the hydroelectric power system (Instituto Nacional de Recursos Hidraulicos y Electrificación, IRHE), is also undergoing restructuring, though the government

denies that it will be privatized. Nevertheless, IRHE's labor union leaders say the sale of the system is "imminent." They warn that under private control, workers would be laid off and important social services that IRHE now offers, such as providing electric power to sparsely populated areas, will be dropped because they are not profitable.

IRHE director general Ramon Argote says that IRHE will not be sold but simply opened to private-sector participation. Some 22 firms are participants in competition to invest in the future expansion of electric power generation. [Sources: La Prensa (Panama), 03/16/96, 03/19/96, 03/23/96; La Estrella de Panama, 05/12/96, 05/18/96, 05/24/96; Inforpress Centroamericana (Guatemala), 07/23/96; Agence France-Presse, 07/07/96, 08/09/96; Agencia Centroamericana de Noticias Spanish News Service, 08/10/96, 08/15/96]

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