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Panama Proposes \$4 Billion Canal Project

by LADB Staff

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The administration of Panamanian President Mireya Moscoso has decided to seek bids on preliminary work to modernize the canal. Opponents of the project say the canal authority (Autoridad del Canal de Panama, ACP) has not adequately consulted the public nor seriously considered alternatives that would have a less-negative effect on communities and the environment. The ACP's proposal has raised old fears that the government would turn the canal into a political-spoils system instead of using it to benefit the nation.

Before the US turned the canal over to Panama on Dec. 31, 1999 (see NotiCen, 2000-01-20), then President Ernesto Perez Balladares rejected the idea of privatizing the canal. However, he promised that it would not be administered like other government-owned public services but rather as a business free of excessive bureaucracy and corruption. Panama, he said, would not deprive its citizens by subsidizing the canal, which was expected to earn a profit and contribute to government revenues and economic development.

The Panama Canal Commission, which ceased to exist with the canal turnover, began a study of some 30 modernization proposals months before the US pullout. The canal can handle ships no larger than 294.1 meters in length and 32.1 meters in width. Vessels of that maximum size are called Panamax ships. The canal is therefore nearing obsolescence since 40% of the cargo ships now in use are of the New Panamax (NPX) class too large to make the transit. They account for nearly 40% of international maritime traffic. Demand for NPX vessels has risen sharply in recent years and the ACP says the modernization project has to be completed by 2015, the year by which the canal's present configuration would make it obsolete. If the project is not undertaken, the canal will soon lose its international stature and become a mere regional utility, says the ACP.

Government wants to build third set of locks

The favored modernization proposal building a third set of canal locks depends on greatly increasing the supply of fresh water used to raise ships in the locks. Currently, each lock operation uses 200 million liters of fresh water that is later dumped into the sea. Six months after Panama took over the canal, the ACP's board of directors decided to build a third set of locks costing upwards of US\$4 billion, and it submitted the decision to an international advisory group made up of representatives from major canal-using nations. The next step was to consult with civic organizations and put the issue to a popular referendum.

In October of this year, Economy Minister Norberto Delgado Duran said the administration had consulted with the International Monetary Fund (IMF), the Inter-American Development Bank (IDB), and ministers of the Central American and Caribbean countries. The IDB donated US\$1 million to underwrite feasibility studies. The referendum has yet to be held. Before a new set of locks

can be constructed, preliminary work to enlarge the waterway is necessary at an estimated cost of up to US\$500 million. Work is scheduled to begin in early 2002 to widen the Culebra Cut to allow two-way traffic. Lake Gatun has to be deepened by one meter to store sufficient water to operate the new locks. The Pacific entrance to the canal has to be deepened by 73.6 meters.

The cost of the project has become an issue. Panama already has a foreign debt of nearly US \$8 billion. While the ACP does not have the financing lined up, it intends to pay off the new indebtedness with canal toll revenues, which are expected to increase with the additional traffic. Despite the great cost of the modernization plan, Delgado Duran said Panama had comparative advantage because of its geographic location, an extensive banking system, a currency on par with the dollar, and a low inflation rate 0.5% this year. Furthermore, the plan is expected to help modernize the economy as well as the canal since 80% of Panama's GDP derives from the service sector. However, some economists say that, because of the immense cost of the project, the renovated canal would not show a profit for several decades.

Additional water is a major issue

Another critical part of the modernization project is providing vast quantities of additional fresh water to operate the new locks. A law on the books since 1999 (Law 44) allows the ACP to enlarge the canal basin from 330,000 hectares to 552,000 ha. This permits ACP to create new reservoirs by constructing dams on the Cocolé del Norte, Cano Sucio, and Indio rivers. Campesinos living in the area have formed organizations to oppose construction of the dams.

In June 2000, opponents belonging to the campesino organization Gran Asamblea General de Campesinos contra la Inundación said they would take their complaints to the OAS Inter-American Commission on Human Rights (IACHR). The Gran Asamblea represents 100,000 residents in communities threatened with inundation by the artificial lakes created by the dams. The organization also wants the government to establish a hydraulic reserve that would be out of bounds to private landowners and commercial development. Opposition groups complain that the ACP has not adequately informed the public about its plans and that the project has gone forward without public discussion of alternatives.

Last December, the Catholic organization Pastoral Social-Caritas Panama issued a statement accusing the ACP of having shown little respect for the campesino communities that would disappear under the lakes. Francisco Hernandez, director of the Coordinadora Campesina contra los Embalses (CCCE), said, "We are not willing to abandon our properties unless clear, prior conditions are established for the relocation." The CCCE sent President Moscoso, the ACP, and other government officials a petition portraying the organization's members as "the weak" and "the nobodies," fighting the powerful elites. The petition charged that the water plan was "an enormous neoliberal project, destructive of the environment and of the campesino communities that it plans to displace by force." The petition asked for repeal of Law 44, the suspension of feasibility studies, and consideration of alternatives for modernizing the canal. The CCCE says that the new reservoirs in the western end of the basin would flood 44,700 ha and force the relocation of at least 10,000 campesinos.

During a televised discussion of the plan in October, CCCE official Cecilio Guerra said that ACP studies showed that 157 of the 527 communities in the basin would be affected, requiring the removal of 10,000 people in the Cocolé del Norte region alone. The ACP counters that the area flooded would be only 13,400 ha affecting only 3,670 people. Hernandez said the CCCE does not oppose modernization but rather the lack of transparency in the ACP's handling of the project. "We are concerned that, after so many years of struggle, the canal has not brought benefits to Panamanians," said Hernandez. He claimed some studies indicate the canal could stay in business another 100 years without being enlarged. "But they don't reveal this because it would not benefit the political and business groups that control this country," he said.

ACP administrators say the project has been amply studied and that additional studies on its environmental impact will be done before construction starts. But Jorge Ritter, former foreign minister and former vice president of the Junta Directiva of the old Canal Commission, said in August that the planning was incomplete. He said that, when the Canal Commission ceased its labors as Panama took over the canal, the feasibility studies for a third set of locks were nowhere near completion. "It seems a little strange to me that [the studies] have already been completed," he said. Ritter said that the government's haste to begin the project was dangerous because it was politicizing the modernization effort. He said some opponents question whether Panama should go further into debt to carry out the project, while others argue that not to enlarge the canal would doom it to obsolescence. He called on the government to hold the national referendum on the project to help resolve the controversy.

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