

MESOAMERICA

Volume 25, Number 1, January 2006



PANAMA

Fund Created to Manage \$50 million Yearly in Public Infrastructure Projects

President Martin Torrijos signed a historic decree on 9 Jan that created an investment fund to finance public infrastructure projects that will utilize \$500 million in profits from the operation of the Panama Canal during the next decade, at the rate of \$50 million yearly.

For example, out of the \$268 million profit that the Panama Canal Authority (ACP) expects to generate during fiscal year '06, the Panama Canal Investment Fund will receive \$50 million that will be used to build schools, hospitals, aqueducts, sewers, roads, bridges and other community development projects throughout the county. Torrijos stated that local communities would take part in the approval process for the selection of these projects through their respective Consultative Community Councils.

According to official ACP reports, between '14 and '99, the Panamanian government only received a total of \$1.8 billion from the US-administered Panama Canal Company, whereas during the six years ('00-'05) that the ACP has administered the Panama Canal it has contributed \$1.7 billion to the national treasury, an average of \$279 million yearly.

Torrijos signed the decree at the Miraflores Locks on the Panama Canal accompanied by government ministers, congresspersons and members of the negotiating team that produced the '77 Torrijos-Carter Treaty, by which Panama gained sovereignty over the Panama Canal Zone (PCZ) and its inter-oceanic canal in Jan '00.

The 9 Jan date commemorates the Day of the Martyrs, when 21 Panamanian teenagers were shot to death by US soldiers in '64 as they attempted to raise the Panamanian flag on the flagpole of Balboa High School, located in the US-controlled PCZ that was off-limits to Panamanian citizens except by special permission. What the Panamanian teenagers did was an act of defiance of US authority, as well as an act of proclamation of Panamanian sovereignty over the PCZ. That event is one of great national pride for Panamanians who resented and opposed the US military occupation of their sovereign territory for almost 100 years.

Transparency of Panama Canal Investment Fund Usage Questioned

The decree creating the Panama Canal Investment Fund is the first one signed by President Torrijos using the “extraordinary powers” granted to him by the National Assembly on 30 Dec '05, by which the president is authorized to legislate by decree from 1 Jan to 28 Feb '06 while the legislature is in recess. The decrees signed by the president must be ratified or rejected by the National Assembly without modification after it reconvenes on 1 Mar '06. Since the president's Democratic Revolutionary Party (PRD) controls the majority of the legislative seats, the ratification of his decrees can be expected.

However, opposition party leaders have raised questions regarding the transparency of the process by which President Torrijos and a PRD-controlled congress will select and distribute monies from the Panama Canal Investment Fund. It is feared that the Torrijos administration will take advantage of the distribution of the community development funds for their own political advantage.

Ricardo Martinelli, president of the Democratic Change Party, argued that when he was the government minister in charge of Panama Canal operations under the Moscoso administration, it was PRD congresspersons who opposed these kinds of initiatives and who maintained that they could be used politically to reward followers of the ruling party. But now that the PRD controls the government and the legislature, “they have taken the opposite position,” said Martinelli.

Farfán Megaport Project Bidding Process Underway

The Panamanian Maritime Authority (PMA) has started the bidding process to build the \$600 million Farfán Megaport Project with the sale of pre-qualification documents to interested port operators.

Project director Rogelio Orillac stated: “We will have the pre-qualification documents on sale from [3 Jan to 3 Feb], when companies will have to deliver pre-qualification bids. According to Panamanian law, the bidding process is a very simple procedure so that companies that are really qualified can participate in the process.” The megaport container project includes dredging and earth filling works and building a container terminal in a 112-hectare area.

“After companies present pre-qualification bids we will take about two weeks to announce which companies pre-qualified, and these will be able to participate in the final bidding process,” Orillac said.

On 18 Nov '05, PMA and other government officials met with 12 international port operators to officially inform them about the megaport project. These included the UK's P&O Ports; China's Cosco; US' Evergreen, MPC and SSA Marine; Dubai's DPA; Japan's NYK; Singapore's PSA; Hong Kong's Hutchinson Port Holdings; Spain's Dragados; and the Netherlands' APM Terminals.

The terms and conditions for the future concession have not been defined yet because they will depend on the type of investment that interested operators would be willing to make, reported Panama's finance ministry in a press release.

The megaport terminal will be built on an artificial island located near the Pacific entrance of the Panama Canal, in the Palo Seco-Farfán area, close to the former Howard Air Force Base. The new port will have a 1.6 km-long, 750 meter-wide berth, host 18 post-Panamax cranes and be able to handle two post-Panamax ships simultaneously.

Ships classified as “Panamax” are of the maximum dimensions that will fit through the locks of the Panama Canal. This size is determined by the dimensions of the lock chambers and by the depth of the water in the canal. Panamax is a significant factor in the design of cargo ships, with many ships being built to exactly the maximum allowable size.

Following completion of the first stage, the planned megaport will allow a maximum draft of 15 meters and have the capacity to handle 2.4 million TEUs (20-foot cargo container units) annually. In '94, all Panamanian ports handled an estimated 286,000 TEUs, according to PMA.

By comparison, the Port of Long Beach (California), one of the world’s busiest seaports and a leading gateway for Pacific Rim, handled \$95 billion in trade in '03, including the equivalent of 4.4 million TEUs.

US-Panama Free Trade Talks End with No Deal

The ninth round of free trade talks between the government of Panama and the US’ Office of the Trade Representative (USTR) ended on 13 Jan in Washington, DC, with no agreement about sanitation regulations and animal health conditions. The free trade talks will now go to a tenth round of negotiations at a date yet to be determined.

From the beginning of the 10-13 Jan trade negotiations, the USTR team pressured Panama to accept US rules and regulations over Panamanian rules as a precondition for signing the free trade pact. The US team expressed its concern that Panama might use its existing laws and regulations to block some US imports and thereby circumvent the spirit and intent of the agreement.

This situation angered Panama’s Minister of Agriculture, Laurentino Cortizo, who resigned his post in protest during the first day of negotiations with the USTR on 10 Jan, stating that the proposed free trade deal with the US could expose his country to contagious disease because US sanitation standards are lower than those of Panama.

Cortizo told President Torrijos he feared Panama could be forced to ignore its own food health standards in a free trade deal with the US. “It worries me enormously that a relaxing of the sanitary measures could put the health and lives of Panamanians at risk,” he stated in his resignation letter. “Have you analyzed the cost to the country and its producers to recover from a disease such as ... foot and mouth disease, mad cow disease and bird flu?”

However, US agriculture officials denied that the trade agreement would expose Panama to increased animal diseases. “There are no grounds to the assertions made by the minister,” said Terri Teuber, a spokeswoman for the US Agriculture Department. “There’s nothing about a free trade agreement, and this free trade agreement in particular, that would weaken food safety standards.”

In Washington, the Panamanian Minister of Commerce and Industry, Alejandro Ferrer, preferred to conclude the ninth round of talks without reaching an agreement, then return to Panama and submit the controversial issues to an ample political debate before returning to the negotiating table for a tenth round of trade talks. Ferrer assured the USTR that Panama would be willing to continue trade negotiations in the foreseeable future.

Cortizo also argued that the pending trade deal could hurt the livelihoods of thousands of rural Panamanians who depend on agricultural jobs.

The free trade talks started in '03 but stalled last year on Panama's concerns that tariff-free access to its agricultural markets could damage the economic interests of Panamanian farmers—particularly pork, chicken and rice producers.

Panama exported \$433 million of goods to the US in '04, about half of its total exports. However, it imported around \$1.8 billion of US goods in the same year, which created a substantial trade imbalance.

—*Clifton L. Holland*