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As Panama Plans Canal Expansion, Neighboring Countries Eye Alternatives

By Larry Luxner

The 93-year-old Panama Canal is about to get a major facelift, as bidding begins this month for the initial stages of a mammoth public works project aimed at accommodating more and bigger ships.

There's a chance that the project, officially budgeted at $5.25 billion, may end up costing much more—some critics have predicted the final bill might run as high as $10 billion—although Panama's ambassador in Washington, Federico A. Humbert Arias, highly doubts that.

"We've been working with the most respectable companies, and we have no reason to believe that it will cost more than $5.25 billion," said Humbert. "The maritime industry has already been told that part of this will come from raising canal tolls [by a proposed average 4.5 percent a year over the next 20 years]. We should also be getting a bridge loan of about $2.3 billion from public financing."

Humbert said Panama would most likely not turn to the Inter-American Development Bank (IDB) for financing, but rather to the commercial markets instead, though he declined to elaborate other than to explain that "international financing will take place between 2009 and 2011. The Panama Canal Authority will assume the debt. I would not feel comfortable saying anything further at this point."

Panama's controversial canal expansion got the green light in a nationwide referendum last October, in which nearly 80 percent of voters approved the construction of a third set of locks that will double capacity along the 51-mile-long canal while allowing significantly more traffic.

On Feb. 7, the Panama Canal Authority announced it had named Japan's Mizuho Corporate Bank Ltd. as financial advisor to the expansion project, defeating 14 other companies for the contract.

"Right now, we are in the midst of defining the financial structure [of the expansion], so it is premature at this point to talk about how this is going to be structured," said Rodolfo Sabonge, director of corporate planning and marketing for the quasi-governmental Panama Canal Authority.

Sabonge added: "We feel very comfortable with the cost estimates, which included inflation and lots of contingencies. We're not going to be using new technology in any elements of the project. Everything is proven technology."

Highlights of the project, which should be finished by 2015, include the construction of two lock complexes—one on the Atlantic side and another on the Pacific side—each with three chambers, which feature three water-saving basins. In addition, the project foresees the excavation of new access channels to the new locks and the widening and deepening of existing navigational channels, as well as the elevation of the maximum operating level of Gatun Lake.

"The Panama Canal was supposed to run out of capacity between 2022 and 2025, but with the expansion of Asia's economies and trade with the U.S., it will now run up to capacity in 2014 or 2015," Humbert explained. "So rather than embarking on this project in 2015, we had to speed up the process. We should start digging by the end of 2008.

"The actual canal will remain open throughout this whole process," the ambassador added, explaining that the Panama Canal today moves 290 million tons of cargo annually, and the most the canal can handle is 330 million to 340 million tons a year. "Gatun Lake is only going to be dredged in some areas for bigger ships, but the main cost of the project and the most complicated part of it—the building of the locks—will be done on dry land. And the excavations to connect those locks to the lake will also be done on dry land."

Some 14,000 vessels transit the canal annually, accounting for 5 percent of all world trade. In addition, 15 percent of U.S. trade goes through the Panama Canal, and 69 percent of the vessels transiting the canal are either heading to, or coming from, a U.S. port.

Yet each year, a greater share of the world's cargo is being carried on post-Panamax (considered anything wider than 108 feet) vessels, which are too large to go through the canal's locks. It's estimated that by 2011, the post-Panamax fleet will represent 37 percent of the world's container transport fleet, meaning that nearly 670 ships won't be able to make use of the Panama Canal route as it's currently designed.

Yet Sabonge contends that "the size of the ships had nothing to do with this decision. What drove the expansion was the growth in tonnage. We analyzed the growth in demand and did studies to determine how and when we'd run out of capacity. That's what justified the expansion. We looked at the different alternatives and came up with a solution to build a third set of locks."

Meanwhile, some of Panama's neighbors are exploring their own alternatives to the 93-year-old waterway.
Nicaragua, long the poorest country in Central America, hopes to become the wealthiest through construction of a canal large enough to handle post-Panamax ships of up to 250,000 tons.

Last October, before handing power over to Daniel Ortega, outgoing Nicaraguan President Enrique Bolaños announced that the country had sincere intentions of going ahead with the project, whose $18 billion price tag is four times the country's annual gross domestic product of $4.5 billion. Nicaragua's canal would take 12 years to build and feature one of six possible routes utilizing Lake Nicaragua—any one of which would slash transit time from New York to California by one day and 800 kilometers. Construction alone would more than double Nicaragua's GDP, not to mention create some 40,000 jobs.

But it's unclear whether the leftist Ortega government supports the project, which has many critics both at home and abroad. Given the country's overwhelming poverty and serious environmental concerns associated with a trans-Nicaraguan canal, little beyond talk is likely to happen in the next few years.

Mexico is also in the fray, dusting off plans for a trade route across the 300-kilometer-wide Isthmus of Tehuantepec, the country's narrowest southern point. The so-called Trans-Isthmus Megaproject consists of ports on the Atlantic and Pacific linked by an extensive network of highways and railroads. The project also envisions assembly-for-export factories, shrimp farms and related agro-export industries. The whole idea has met with widespread resistance by the local indigenous population.

A far cheaper alternative is the “canal seco” or “dry canal” proposed by El Salvador, Honduras and Guatemala. The idea is fairly simple: Build a modern container terminal in El Salvador, on the Pacific Ocean, and link it via superhighway to two upgraded container terminals on the Atlantic: Puerto Cortés in Honduras and Puerto Barrios in Guatemala.

That way, shippers will be able to unload containers from ocean vessels on one side, truck those same containers across the skinniest part of Central America, and reload them back onto similar ships at the other end. That would negate the need for exporters to ship their merchandise through the Panama Canal or around the southern tip of South America.

The “canal seco” idea has been talked about for years, but now it’s actually being implemented. Construction has already started at the Port of Cutuco, on the Gulf of Fonseca along El Salvador’s Pacific coast.

Ana Carolina Sikaffy is an environmental consultant for the Central American Maritime Transport Commission in Honduras. She said that once the now-unpaved highway linking Puerto Cortés to Cutuco is finished, it will take only 10 hours for trucks to transport containers from one port to the other.

“The canal seco will definitely lower vessel traffic through the Panama Canal,” she said. “This is a very viable alternative to the canal. Over the next 10 years, Asia is going to send a lot of containers to the Americas, and Panama will probably not be able to handle the increased volume, even if they go ahead with their expansion.”

The $172 million port is being built with a loan from the Japan International Cooperation Agency. Dredging is now underway; when finished, ships with capacities as large as 6,000 or 7,000 TEUs (20-foot-equivalent units) will be able to call at Cutuco.

Land prices near Cutuco have already started to rise in anticipation of the coming business boom, according to El Salvador’s foreign minister, Francisco Lainéz, while several factories have already set up operations near the existing port. “This port will be one of the most modern in all of Latin America and with the capacity to handle the largest ships,” noted Lainéz.

“We don’t want to compete with the Panama Canal,” said René León, El Salvador’s ambassador to the United States. “Our vision is to be an alternative link between the Pacific and the Atlantic. The Panama Canal will still be the main gateway, but this could be an alternative route. Cutuco will be a deepest-water port between Mexico and Panama, and the dry canal will create a volume of cargo for maritime routes that now don’t even exist.”

There’s another consideration, too. “What if there’s a terrorist attack against the Panama Canal,” León asked. “Wouldn’t it be nice to have an alternative?”

Current plans call for the Port of Cutuco to be finished by late 2008 or early 2009. León said the project will foster economic integration with the region while transforming El Salvador into the logistics hub of Central America.

“We have now approved a 330-kilometer highway from La Unión to Anguiatú, on the border with Guatemala,” explained León. “Honduras, under the Millennium Challenge Account compact, is building its own road from Puerto Cortés to El Salvador. Eventually, their volume of trade will grow so large they’ll need to expand anyway. We’re looking for modern ports and modern infrastructure that can support large volumes of trade.”

The Salvadoran government claims the Cutuco port project will generate 400 construction jobs, 450 operational jobs and 2,250 jobs in related activities. A planned free zone at the port will eventually employ 10,000 people or more.

“I know of at least two U.S. electric utilities interested in investing in power plants at the Port of Cutuco,” León said, estimating the value of such a facility at $300 million. “And Taiwanese companies want to link Cutuco by rail to Honduras and Guatemala. What we’re building here is a vision where there is concrete action. A vision without concrete action is only a dream.”
Panama, however, doesn’t seem too concerned with the “canal seco” concept.

“None of these dry canals are economically viable alternatives to an all-water route,” said Sabonge of the Panama Canal Authority. “To unload a container in a port costs $75 to $100. To move it by rail costs another $150 to $200, and to load it back again, yet another $75 to $100.” By comparison, it currently costs an average of $49 to move a container through the Panama Canal, which rises to $54 per container effective May 1.

Added Humbert, the Panamanian ambassador: “Everybody has the right to pursue new proposals, but our decision to expand the canal is not based on what other countries are thinking about doing. We did it because we have a responsibility to the maritime industry to provide safe and affordable passage through our canal.”

Larry Luxner is a contributing writer for The Washington Diplomat. Reprinted from the March ’07 edition.