

# No easy fix on horizon for Panama Canal woes as shipping sector scrambles



*The number of daily vessel transits through the Panama Canal will be limited further to 18 as of February, less than half the normal amount. Photo credit: Jeff Whyte / Shutterstock.com.*

**Keith Wallis, Special Correspondent | Nov 17, 2023, 11:02 AM EST**

Carriers and shippers may not see a concerted respite to the Panama Canal's low-water crisis until the end of this decade when new facilities, including reservoirs and water supply pipelines, could be constructed and brought into operation.

Development of the new infrastructure, estimated to cost about \$2 billion, is hampered because it falls outside the Panama Canal Authority's existing land area, so approval of the Panamanian government is needed to either expand that area or scrap the land restrictions on new facilities.

That approval in itself is complicated because new government elections are scheduled in May 2024, meaning any decision about the canal's expansion strategy

may not be made until a new government has been elected, according to Ricuarte Vásquez, the canal authority's administrator.

Expansion plans include a new reservoir on the Indio River that would be linked to the canal's Gatun Lake by a five-mile-long pipeline. Another pipeline would draw water from the Bayano Lake into the canal system.

The canal authority had hoped construction of the Indio River reservoir could start this year, but studies showed the site was outside the authority's watershed area, requiring approval from the Panamanian government.

## Weighing water-saving measures

The Indio reservoir plan is on the table after studies carried out by the canal authority and the US Army Corps of Engineers (USACE) between 2019-2021 showed it and the pipelines were necessary to secure water supplies for both the canal and the local population.

"Ultimately, the canal's specialists, together with the Army Corps of Engineers, determined that a set of solutions would be necessary because projects within the Panama Canal's watershed area would not be sufficient to meet the growing demand," a canal authority spokesperson told the *Journal of Commerce*.

Those water-saving measures include a cross-lock water transfer scheme where water is transferred between adjacent locks when vessels arrive and depart the locks, rather than for the water to be lost when locks are opened. The water saved is equivalent to five transits a day.

Other measures include allowing two vessels to use one lock chamber simultaneously and using water-saving basins that have been built next to the locks to allow water to be reused rather than flow through the lock system.

"After reviewing a final analysis from the USACE earlier this year, the canal's board of directors developed the final recommendations and submitted its proposals to the government for review in September," the canal spokesperson said.

The proposals included modifying or expanding the canal's watershed limits to bring more land under its purview and eliminating the current restrictions on the canal authority from building new reservoirs.

Despite the possible election-related delays, the authority and USACE are hoping construction tenders can be awarded for work to start by the end of next year for completion in 2028.

## Transits will be cut further

In the meantime, Panama is continuing to suffer from a prolonged drought in what is supposed to be the height of the country's rainy season, which generally lasts between May and November. While transit restrictions have been implemented during periods of low rainfall since at least 2016, the drought has been especially severe this year due to the simultaneous warming of both the Pacific and Atlantic oceans, which has reduced rainfall.

The number of ship transits through the canal, reduced to 32 during the northern hemisphere summer, was cut again to 31 from Nov. 1. Under normal circumstances, about 40 transits per day would take place.

Things are on the verge of getting much worse. The canal authority said the number of transits will be limited further, gradually falling in the coming weeks to a maximum of 18 as of Feb. 1 if the low rainfall persists.

Still, the number of vessels waiting has fallen from a peak of 146 in August to an average of 92 in September and to 52 as of Friday, according to latest data from the canal authority.

The canal authority has also imposed draft restrictions on vessels, with a maximum depth of 44 feet through the neo-Panamax locks and 39 feet for the Panamax locks, causing carriers to offload cargo at terminals at either end of the canal.

Manzanillo International Terminal (MIT) said this extra cargo has increased utilization levels and caused some changes in trade patterns. While there has been no real change in service schedules since the transit restrictions were imposed, MIT spokesperson Juan Carlos Croxton expected that to change if the number of transits is limited further.

"The latest announcements of more severe restrictions in the number of transiting vessels to five using the neo-Panamax locks and 13 for the Panamax locks by Feb. 1 will very likely have an impact on service deployments and rotations," he told the *Journal of Commerce*.

## Revenue hit for canal finances

The canal authority is believed to have lost about \$200 million in revenue during the summer months due to the draft and transit restrictions, although total revenue is expected to be about \$5 billion in the current financial year, partly due to toll increases.

The canal spokesperson declined to give an updated figure on losses, but said financial details would be released in January during a quarterly results call.

The likelihood of no quick fix to the canal's vessel restrictions has led carrier and maritime executives to question the long-time viability of the canal, especially for all-water services between Asia and the US East Coast. The canal handles most of the containerized trade to the East Coast from China and North Asia.

“With severe drought causing such restrictions—now set to be in place for at least another 10 months—the critical question must be asked whether carriers operating neo-Panamax container ships through the canal have the patience or commercial fortitude to accept suboptimal load factors indefinitely,” James Caradonna, vice president at MCL-Multi Container Line, wrote in the company's most recent client alert.

Carriers are indeed watching closely.

“Obviously, we are monitoring the situation day after day and we will evaluate if there are decisions that need to be made in terms of potential rerouting or this type of alternative,” Xavier Destriau, CFO of Zim Integrated Shipping Services, said during the carrier's third-quarter earnings call, according to a transcript.

Limits on the neo-Panamax locks mean fully loaded ships above 14,000 to 15,000 TEUs are unable to use the canal. This is equivalent to about 25% to 30% of the global container fleet of vessels above 8,000 TEU, according to figures from British shipbroking house Clarkson.

Canal administrator Vásquez has previously estimated that building a third set of locks to accommodate post-Panamax vessels would cost close to \$11 billion, double the \$5.2 billion construction costs of the neo-Panamax locks in 2016.

## Protests affecting cargo flow

In the meantime, the drought conditions are causing knock-on problems affecting the region's wider shipping and logistics sectors. These include nationwide strikes in Panama that started on Oct. 26 to protest the lack of long-term government action to tackle the water shortages.

The strikes have resulted in “blockades, vandalism and unsafe conditions affecting terminal operations and the indefinite suspension of services by the trucking cargo union,” according to the latest customer advisory from Hapag-Lloyd.

“For the time being, terminals are open, with adjusted schedules to reduce disruptions,” the carrier added. “Some containers may experience delays due to inspections.”

MIT spokesperson Croxton said road closures due to the protests has led carriers to stop moving containers by rail or truck between terminals on the Pacific and Atlantic sides of the canal. Instead, it has “driven shipping lines to focus on transshipments within the terminal,” he said. “In addition, shipping lines are including a surcharge to all cargo transiting the canal.”

MIT has also seen an increase in both cargo dwell time for specific destinations and in yard utilization.

Croxton said the canal issues have been exacerbated by low water along the Amazon River, which led to the closure of Brazil’s Navegantes port in early October and curtailed services to Manaus. While Navegantes reopened in early November, cargo has continued to be diverted and held at other ports, including those in Panama, according to customer advisories from CMA CGM.

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