FEATUED Q&A

How Much Is the Drought in Panama Disrupting Trade?

Drought conditions have forced government authorities to limit ship crossings through the Panama Canal, potentially costing the Central American nation between $500 million and $700 million in 2024, according to the canal’s administrator. A U.N. official said Jan. 26 that traffic through the canal is down 62 percent as compared to two years ago, disrupting global trade and increasing prices. How significantly are the limitations on ship transits through the canal affecting global trade, and which industries are most affected? How are shippers adjusting to the restrictions? Less than a decade after Panama expanded the canal, is there more they now must do in order to avoid future disruptions caused by environmental factors?

Joaquín Jácome Diez, senior partner at Jácome & Jácome in Panama City and former trade minister of Panama: “At its full capacity, the Panama Canal can handle roughly 36 daily transits. Due to the existing weather challenges (which we expect to be temporarily), the Panama Canal Authority was forced to impose draft restrictions to vessels and limits on the number of daily transits for the first time ever. Last month, the number of transits was increased to 24 from 22 (seven Neo Panamax and 17 Panamax). Due to planning ahead, container cargo vessels are less likely to affect global trade than vessels carrying oil, grains or other cargo. Some canal customers are opting for using multimodal Panama logistic facilities (train and highways) in order to unload cargo on both sides of the canal prior and after transit, reloading part of the cargo or feeding to some liners. The Panama Canal Authority’s 2024 budget was based on 31 daily transits, so fewer than that..."
**Venezuela Accuses Guyana of Illegally Granting Oil Permits**

Venezuela’s government on Sunday accused neighboring Guyana of illegally granting oil concessions in an area that is under dispute and said it reserves the right to take diplomatic actions, the Associated Press reported. The Venezuelan government’s statement came a day after Guyana said it has satellite imagery showing military movements near the border of the Essequibo region, which makes up two thirds of Guyana but which Venezuela claims as its own. Venezuela did not deny that it has bolstered its military forces near the border and said that it has the right to do so. Last Friday, the Washington-based Center for Strategic and International Studies, or CSIS, think tank released satellite images showing that Venezuela positioned armored vehicles and what appear to be light tanks at Anacoco Island, just yards from the border, The Wall Street Journal reported. The military equipment was moved to the area late last year. Construction work is also happening in the area, suggesting the expansion of a military base. Venezuela also deployed at least three Iranian-made antiship guided-missile patrol boats to the Atlantic port of Güiria in late January. Last week, Exxon Mobil said the consortium it leads is pumping approximately 645,000 barrels per day of oil in Guyana, up from about 400,000 barrels per day late last year, Reuters reported. Exxon Mobil Guyana’s president also said Feb. 6 that the company plans to drill two new wells off Guyana’s coastline. Exxon said it is undaunted. “We are not going anywhere—our focus remains on developing the resources efficiently and responsibly, per our agreement with the Guyanese government,” said company spokeswoman Michelle Gray said, The Wall Street Journal reported Friday. [Editor’s note: See related Q&A in the Jan. 25 Advisor.]

**Brazilian Gov’t to Reappoint Members to Petrobras’ Board**

Brazil's government plans to reappoint representatives to sit on the board of state-owned oil company Petrobras, sources with knowledge of the matter told Reuters on Friday. The decision signals the intent of Brazil’s minister of energy and mines, Alexandre Silveira, to assert influence and direction over Petrobras. Silveira has publicly criticized the decisions of Petrobras CEO Jean Paul Prates over the last year. Government officials have said he has failed to properly invest in Petrobras’ future. The criticism may have spurred Prates to announce a massive investment plan of more than $100 billion last week. The plan outlines international expansion in the Americas, Europe and West Africa, concentrating on offshore oil exploration and production as well as positioning Petrobras to be a leader in a green energy transition away from fossil fuels, the Financial Times reported.

**U.S. Court Revives Case Against Mexico Bank Branches**

The Second U.S. Circuit Court of Appeals on Feb. 9 revived a class action lawsuit brought by investors accusing the Mexican branches of several major banks of manipulating the prices of Mexican government bonds in the United States, Reuters reported. The court, based in New York, ruled that the alleged price-fixing was tied to the city enough to keep the case in the United States, the wire service reported. The Mexican offices of the banks “chose to take advantage of New York’s market and laws … so they can’t complain,” said the three-judge panel. Banks named in the case include Banco Santander Mexico, HSBC Mexico, Bank of America Mexico and Deutsche Bank Mexico, Reuters reported.

**Oil Spill Affects at Least Nine Miles of Tobago’s Coastline**

An oil spill from a ship that capsized last week off the coast of Trinidad and Tobago is causing the nation’s government to consider declaring a national emergency, BBC News reported Sunday. At least nine miles of Tobago’s coastline have been affected by the spill, and roughly 1,000 volunteers have come to assist government clean-up efforts. The spill is currently classified as a Level 2 disaster, but the nation’s chief secretary said it may soon be designated a Level 3, indicating that international assistance is needed.
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would represent a loss, unless this income could be replaced by other measures. For many years, the Panama Canal Authority has conducted studies about the most viable project to secure hydric resources to operate the canal in the foreseeable future, taking into consideration financial, environmental and sociological aspects, concluding that the Río Indio project (roughly costing $900 million) is the best solution. The Panama Canal Authority recently sent to the executive branch a proposal requesting some changes on the legislation to proceed with the project."

Todd Martinez, senior director and co-head for the Americas at Fitch Ratings: "The drought-induced problems at the Panama Canal have coincided with geopolitical problems at the Suez Canal, posing a double headache for global trade. Global shippers have capacity to adapt via alternative trade routes and adjusting cargo to comply with draft restrictions, but this could mean longer shipping times and increased costs. It’s a serious issue for Panama. On the one hand, it’s not terrible news for Panama’s economy in the near term. Fewer canal transits will dent economic growth somewhat, but the canal’s significant pricing power and drought surcharges have enabled it to mitigate the impact on revenues. This episode highlights longer-term challenges facing the canal in terms of its reliability as a trade route and vulnerability to climate change. Panama is one of the world’s rainiest countries, but it has not harnessed this asset into a reliable backup water source due to a lack of proactive policy planning and investments. The Panama Canal Authority has done its part to shore up water supply, but a more holistic solution will require more proactive planning by the government as well, given the wide array of stakeholders, territories and economic sectors this issue involves. This will be one of several difficult issues Panama’s next government will inherit after elections this year, with obvious implications for global trade given the importance of the canal."

Dulcidio de la Guardia, director of Morgan & Morgan Group: “The canal has implemented a series of measures to conserve water including reducing the number of ships’ daily transits and limiting the draft of the ships. However, these measures have come with steep costs, and global trade has been disrupted by the drought, negatively affecting the canal’s reputation. The problem the canal is facing is compounded because the lakes that provide its water are the same ones used to supply drinking water to the country’s major cities. Water consumption has increased more rapidly than forecast due to population growth, along with poor management, waste, inefficiencies and corruption at state-owned water company IDAAN, reducing the water availability for ship transits. There are three alternatives that Panama can take to address the issue: Panama must carry out at least two out of the three in order to solve the issue long term. The state-owned model of IDAAN has failed and it must turn into a public-private partnership. Panama no longer has the luxury of losing 40 percent of the drinking water that IDAAN produces. There are two alternative sources to supply additional water to the canal, Bayano Lake and Río Indio. Bayano is the solution that the canal prefers because it is more expensive ($2.9 billion). It implies buying the lake and a hydropower plant from AES and building a complex pipeline of 100 kilometers to pump water to the canal. Río Indio is the solution the canal prefers, because it is the most efficient, with a smaller investment ($900 million). But two things need to happen before building a reservoir in the Río Indio. The legal restriction on the construction of new water reservoirs must be removed, and the limits of the hydrographic basin of the canal must be defined so that it has control over the reservoir in the river.”

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Gene Kuleta
Editor

Carl David Goette-Luciak
Reporter

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Reporter

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