

June 26, 2016 11:06 am

# Panama Canal banks on \$5.3bn locks

Robert Wright in New York



Conditions in the global shipping industry have changed markedly since work started on the new locks

The container ship Cosco Shipping Panama will make maritime history late on Sunday when it edges out into the Pacific Ocean.

The vessel, 300 metres long and 48.2 metres wide, will be the first to use a big set of locks built at a cost of at least \$5.3bn to navigate the [Panama Canal](#). The ship, formerly the Andronikos, has been renamed to reflect the honour.

The opening will transform access between the Atlantic and Pacific oceans, long restricted by 102-year-old locks that could take vessels up to 294 metres long and 33 metres wide. Clarkson, the London-based shipbroker, says vessels accounting for 79 per cent of the world's cargo-carrying capacity will fit inside the new locks, taking ships up to 366 metres by 49 metres. For the old waterway, the figure was 45 per cent.

The Panama will sail under an economic cloud that has grown steadily darker over the nine years in which the locks have been under construction. Trade growth for container shipping lines, the canal's biggest customers, has [nearly halted](#) after years of breakneck expansion. Many shipping sectors are struggling with a surfeit of vessels.

While the expansion will change global trade patterns, most observers believe economic conditions will mute the upheaval. Jeffrey Heller, a senior executive for [Norfolk Southern](#), one of two big railway operators in the eastern US, says it will continue a gradual shift in trade flows over 10 to 15 years to the US east coast from the US west coast.

“Now that the bigger ships can come through the Panama Canal, growth can be a few points higher,” Mr Heller says.

Nevertheless, Silvia Marucci, executive manager of the Panama Canal Authority’s economic analysis division, says the expansion was a “survival decision”.

“We knew we were going to reach our maximum sometime in 2012 or 2013 and after we reach our maximum capacity then there would be lines, there would be angry customers,” Ms Marucci says. “Expanding the canal is a move to remain a major marine seaborne trade route.”

Piero Salini, chief executive of Salini Impregilo, the Italian construction group that is part of the consortium and was instrumental in bringing the Panama Canal project to completion, says: “It is like having a Coca-Cola brand inside our reputation.

“Maybe you don’t make money out of it but reputation wise it is very important. In a matter of years, this project will be worth 10 times more than the \$5bn that it cost to build.”

The decisive factor will be whether cash-strapped shipowners are prepared to pay the \$600,000 to \$800,000 passage fee the authority will typically charge for a big, modern ship.

Those calculations look different now from when the new canal was being planned, says Anders Boenaes, head of network planning for Maersk Line, the world’s biggest container line by capacity. Then, container trade volumes were booming, oil prices were high and ships were in short supply.

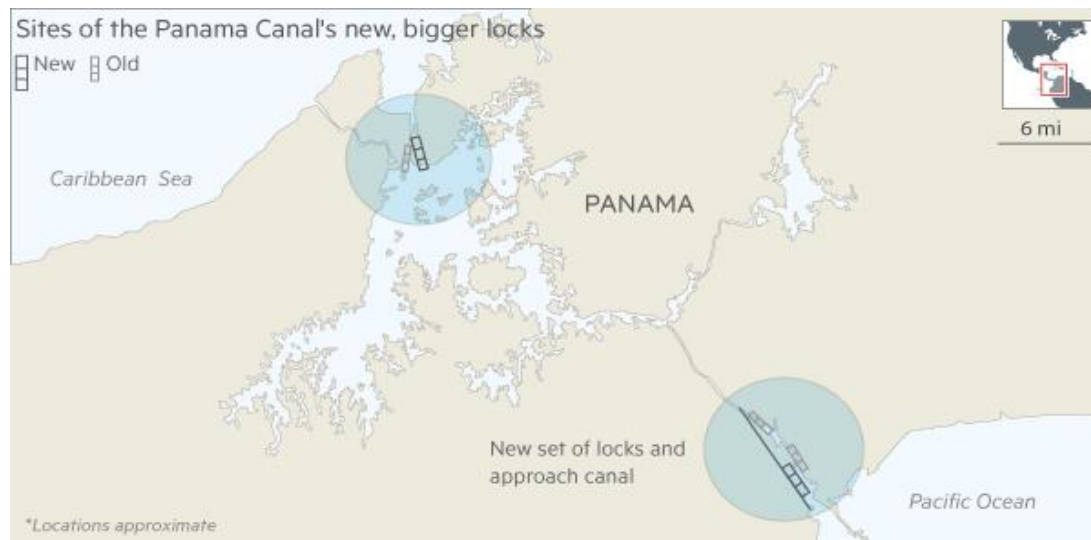
“At the time when vessels were more scarce and therefore more expensive, there would be a much bigger incentive to take the shorter and therefore faster route,” Mr Boenaes says. The new route is opening amid a glut of container ships, at a time of low prices for bunker, as ships’ fuel is known. That has prompted shipping lines to switch about 30 per cent of movements to the US east coast from Asia to a longer, westbound route using the cheaper Suez Canal. Suez can handle all sizes of container ships.

The Panama Canal Authority has estimated it can lure back [at least four to five weekly services](#) from Suez. While it has yet to announce its plans, Maersk looks likely to switch some of its Suez services to Panama after expansion for the time-critical Asia to US leg. But it is likely still to return via Suez to save on tolls.

“With very expensive ships and very expensive bunker, whether you paid \$1,000 more or less for a passage, it didn’t make much difference,” Mr Boenaes says. “Today it’s a totally different calculation.”

Calculations are further complicated by the [patchy preparedness](#) of US east coast ports. Since work to raise the critical [Bayonne Bridge](#) in the port of New York & New Jersey remains incomplete, shipping lines look unlikely immediately to deploy the biggest ships the new canal can handle.

The waterway can take vessels carrying up to 13,000 20-foot equivalent units (TEUs) of containers but the bridge can handle vessels of only around 8,500 TEUs. The canal’s old locks were restricted to vessels of around 4,500 TEUs.



In addition, [railroads](#) in the western US may cut prices, according to Neil Davidson, ports analyst for London-based Drewry Shipping Consultants. The western railroads will want to maintain the market share of the fastest — but most expensive — traditional import route, via west coast ports then eastward by rail.

"[It's] still to be seen how they defend their share through the west coast," Mr Davidson says of the railroads. "But we can be sure they will defend it."

Yet the biggest question is whether the new locks risk obsolescence even before the first passage. In the past five years, owners have sought economies of scale by investing in a new generation of [far bigger ships](#), up to 395 metres long and 59 metres wide.

Ms Marucci defends the size of the new locks, insisting it reflects the optimum balance between cost and benefit. "For the time being, we think that perhaps large is not necessarily optimal size," she says.

Yet she accepts that yet another expansion may be needed. "We will analyse the developments in the new locks and see whether or not we need to further expand for the next 30 years," Ms Marucci adds.

*Additional reporting by Rachel Sanderson in Milan*

[Copyright](#) The Financial Times Limited 2016.