

Panama unveils big canal upgrade

Tuesday, April 25, 2006

Panama plans an expansion that will double the canal's capacity.

PANAMA CITY, Panama (Reuters) -- Panama has unveiled an ambitious \$5.25 billion plan to expand its famous canal to handle a new generation of mammoth cargo ships and oil tankers.



Opened in 1914 at a cost of 25,000 lives, the Panama canal was considered a masterpiece of engineering. It makes a shortcut between the Pacific and Atlantic Oceans, saving ships the long trip around South America and the treacherous Cape Horn.

While much of the canal is made up of roomy lakes, modern large-bulk ships are too wide and too long to fit in its narrow lock systems, meaning Panama needs to expand it or risk losing business. President Martin Torrijos and Panama Canal Authority executives said the expansion centers on building a second lane and a new set of locks to double its capacity. Construction should be complete by 2014, exactly a century after the canal was opened.

"Without doubt, it is a formidable challenge and a gigantic project," Torrijos said as the plan was announced.

It calls for up to \$2.3 billion in loans or bond issues to be paid back with the revenues from higher tolls on the canal. There will be no increase in Panama's sovereign debt.

The expansion has been Torrijos' main goal since he took office in 2004, and he urged Congress and ordinary Panamanians to back it.

"If we do not confront the challenge of expanding the canal and improving its capacity to continue providing an efficient and competitive service, other routes will inevitably emerge to replace ours," Torrijos said.

About 38 to 40 ships pass through the 50-mile (80-km) canal every day.

Saturation level

Without an expansion, experts say the waterway could hit saturation point in as little as three years, forcing shippers to use different routes.

Mexico and some Central American nations have suggested they might dig their own canals.

The planned expansion must be approved by Panama's Congress, where Torrijos' party has a majority. A national referendum will follow, possibly before the end of this year, and polls show most Panamanians support it.

France's Ferdinand de Lesseps, builder of the Suez Canal, started the Panama Canal in 1880, but abandoned it nine years later amid bankruptcy and construction problems as well as malaria and yellow fever, which claimed most of the lost lives.

The U.S. government under President Theodore Roosevelt bought the canal in 1904 and 10 years later, after a Herculean effort by 75,000 workers from 50 countries, opened the inter-oceanic waterway dividing North and South America.

The United States, which saw the canal as key to naval supremacy, then ran the canal for most of last century.

In treaties signed in 1977 by U.S. President Jimmy Carter and Panama's populist dictator Gen. Omar Torrijos, father of the current elected president, the United States agreed to hand the canal over to Panama in 1999.

In 2005 the canal contributed \$489 million to Panama's government, its largest source of income.