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The Panama Canal, upon its opening, changed the face of shipping worldwide. The route through the Canal greatly reduced the time taken for ships to travel between the Pacific and Atlantic Oceans, avoiding as a result, the hazardous routes around the southernmost tip of the South American mainland. The Canal project, which began construction in 1869, is considered to be one of the greatest projects of the 20th century. Completed in 1914 after several false starts, running 80 kilometres across the Isthmus of Panama, and costing approximately US $400,000,000.00, the Canal reduced transit distance between the two oceans by over 20,000 kilometres.

Since the construction of the Canal, the volume and the size of ships handled have multiplied exponentially with annual traffic increasing from about 1,000 ships when the canal opened in 1914, to 13,660 in 2013. The demand for global shipping continues to increase apace due to continued growth in world trade with the United Nations Conference on Trade and Development (UNCTAD) reporting that in 2012 alone, there was an estimated 4.3 percent growth in international seaborne trade. This has been attributed in large part to an increasing domestic demand from China, as well as a rise in South-South trade. In addition to the number of ships seeking to traverse the canal, there are constraints on the type of vessel which can fit through the current locks. The largest class of container ship which can use the canal is known as Panamax, which is 294m long and 32m wide.

Almost a century after the Panama Canal was officially opened on August 15th 1914; the historic man-made waterway is undergoing a major transformation in recognition of this constraint in ship size. The Panama Canal Authority (ACP) has undertaken an expansion plan which will construct Post-Panamax locks on the Pacific and Atlantic sides and deepen and widen the existing navigational channels. In keeping with the 2007 construction plan at an estimated cost of US$ 5.25 billion, the Panama Canal Authority is planning to install a new set of locks which will allow for a third lane of traffic thereby doubling present capacity. When completed the new locks will accommodate New or Post Panamax ships which are 25 percent longer, 53 percent wider than, and whose draft is 23 percent deeper than the current Panamax class ships. This will result in a boost of the Canal’s vessel handling capacity from 4,400 twenty foot equivalent units (TEU) to 12,600 TEU, effectively facilitating the passage of even more cargo along this key shipping route of the Americas. The general consensus on the expansion is that it will lead to the biggest shift in freight business since the 1950’s when containerised shipping began.

While there is much uncertainty about the future after the expansion, one thing is certain, it will again change the way the world’s shipping lines operate their global networks once completed. The expansion will allow the transit of much larger vessels that are able to carry nearly three times as many containers and allow shippers to bring goods from Asia to the Americas at a lower cost. The project is also expected to boost Panama’s strategic position as a business centre and transhipment hub for central and South America. The Panamanian government has indicated that a principal reason for the expansion program is to increase the rate of trans-shipments and related logistics operations in Panama. Notwithstanding this intent, the expansion project will affect freight shipment throughout the Americas, causing the formation of logistics hubs, and new transportation routes and distributions patterns on the North and South American mainland.

Currently the fastest way for cargo to reach the eastern United States from Asia is via a combination of ship and rail, taking approximately 22 days; using the canal and avoiding rail transport on the mainland sees an increase in shipping time to 26 days. As a result, 75 percent of Asian imports use a west coast routing and only 19 percent use the canal. There is much debate on the scale of the diversion of traffic expected, with estimates ranging from 20-35 percent of the current west coast freight. At present, the charge levied on cargo ships is calculated per unit of container: loaded or empty. With the expansion, per unit shipping costs are expected to fall due to the increase in ship size, notwithstanding the expected increase in toll fees for use of the Canal. The magnitude of the shift is therefore expected to depend in part on the pricing strategy used by the ACP.

While the Canal Expansion Project seeks to maintain the dominance of the Panama Canal as the preferred route for freight shipping, its continued importance is not guaranteed. Already post-Panamax ships use the Suez Canal to make the Atlantic journey. This means that a strategy that creates incentives and offers pricing levels must be designed to attract the increase in the scale of shipping business to justify the expense of this project.

The expansion of the Panama Canal is a momentous development for the Greater Caribbean for several reasons. Firstly, despite the uncertainty regarding the changes that may come as a result of the expansion, there are the opportunities presented. Very few ports on the eastern seaboard of the United States of America stand ready to accommodate the new class of ship. Currently only two ports on the eastern seaboard, the ports of Norfolk and Baltimore are ready to accept these vessels. In a bid to benefit from the new traffic expected and to seize the opportunity presented, several regional ports are initiating projects to deepen harbours and expand capacity handling. Port expansion projects have begun in the Bahamas, Jamaica, Cuba, and the Dominican Republic although some may not be ready in time for the 2015 opening of the new locks. These countries are aiming to capitalise on the lack of infrastructure in the US, and serve as ports where trans-shipment onto smaller ships will occur. These massive investments in port infrastructure, however, may be a case of ‘too much investment chasing too little freight’.

More importantly, a key opportunity for Caribbean economies lies not in accepting ships and providing trans-shipment services however, but in the provision of backhaul opportunities for shipping lines. Much in the same way that a widened Canal improves the economics of shipping from Asia to the Americas, it will improve the economics of shipping from Latin America and the Caribbean to Asia. One consequence of the trade gap between Asia and the Americas is that ships move from Asia at full capacity and then back across the Pacific below full, resulting in a large number of empty shipping containers being left in the Americas. If these trade flows become more balanced, the cost of shipping by ocean would then be reduced. This presents an opportunity for export, to centres in Europe and Asia at significantly reduced cost, thus improving the competitiveness of products from the region.

In addition, global companies are seeing the expansion of the canal as an opportunity to add new elements into their network optimization process. The expansion brings a previously non-existent flexibility in terms of unlocking capacity and alleviating critical global logistics bottlenecks. Over the past decade, offshore business has focused on the labour cost differential between Asia and the Americas. This dynamic is changing as China’s wages grow in line with its economy. Manufacturers are now looking at total landed costs, and opportunities for near-sourcing that reduce warehousing and transportation expenses and boost speed to market. The possibility of holding inventory in the Caribbean for redistribution, or for other value-added manufacturing or contract logistics activity presents an opportunity waiting to be exploited. This dynamic will affect companies sourcing strategy and network alignment. As a result, Caribbean countries should expect to see an increase in third party logistics providers, carriers, brokers, financiers and technology providers as the trend toward transportation and logistics outsourcing will only grow, predicated by a need for demand responsiveness, redundancies in supply chains and market agility.

It is difficult to predict the benefits, or consequences, of the expansion of the Panama Canal. The project will lead to increased competition between regional ports and shipping lines and undoubtedly the shippers will be the clear winners. Opportunities lie dormant waiting to be tapped into by regional governments. Whether by luck, necessity or being possessed of clear vision, the expansion will further drive the port and economies of the Greater Caribbean into a more efficient global network.

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