



Panama Canal considers carbon pricing

by Andrew Thompson

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What happened?

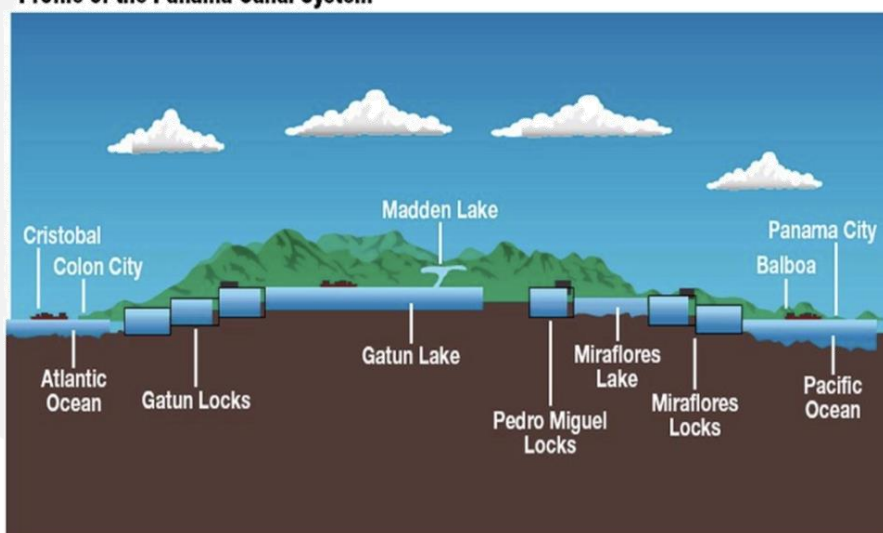
The Panama Canal will achieve “carbon neutral” status before the end of this decade, according to an announcement on 25 April by Ricaurte Vásquez, head of the Panama Canal Authority (ACP).

The details

Vásquez says carbon neutrality will be achieved in two ways. First, the operation of the canal itself will be transformed, with much greater use of renewable energy (such as solar farms) and a conversion to non-fossil fuel energy sources for the tug-boats and other vessels used to steer ships through the canal locks, as well as for the operation of the locks themselves. Second – and this will prick the interest of shipping companies – there will be a new focus on the carbon footprint of the ships that are transiting the Canal. The Canal will move away from the traditional way of charging tolls, based on the length, beam, and draft of each ship, moving instead to a carbon-based pricing system. As Vásquez put it, “the ship with a bigger carbon footprint is going to have to pay a higher toll fee”.

In reality, the Panama Canal already faces a complex set of environmental challenges. Unlike the Suez Canal which is built entirely at sea level, the 82kms Panama Canal is a multi-level system of man-made channels connecting natural and artificial lakes. A new set of wider locks built at a cost of over US\$6bn, was introduced in

Profile of the Panama Canal System



SOURCE: Panama Canal Commission

2016 allowing larger ships (known as Neopanamax vessels) to transit.

The current problem is that climate change is reducing rainfall and lowering freshwater supplies that feed into both the canal system and provide drinking water to Panama City. As a result emergency measures have been introduced, limiting transit slots, using cross-filling of locks, and applying a variable freshwater surcharge on top of existing transit tolls. The ACP is also working on a US\$2bn long-term investment programme which it says will cover freshwater needs for the next 50 years. The exact engineering solution is still under investigation but is expected to include enlarged freshwater reservoirs and the possible construction of an Atlantic coast desalination plant.

A lot more detail needs to be worked out in any transition to a carbon-pricing Panama Canal. In an effort to highlight the carbon savings it already delivers, the ACP has begun calculating the CO2 emissions saved by ships using the Canal, relative to other routes through the Suez Canal or around Cape Horn and Cape Good Hope. It says that last year it saved a total of 13mn tons of CO2.

What does it mean?

The Canal is clearly entering a new phase, where its entire business model will need to gradually incorporate carbon pricing, while at the same time trying to remain competitive with other waterways and transport systems.

About the Author

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As well as being a Canning House Associate Fellow, Andrew is a former foreign correspondent (Buenos Aires, Mexico City, Rio de Janeiro) and a broadcaster for the BBC's Latin American Service. Working through La Rambla Research Ltd., he writes about economics, political risk, and business in Latin America.



These stories are also available on Andrew's blog site, [La Rambla Research](#).