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Drought forces Panama Canal draught restrictions and pushes up rates

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By [Ian Putzger](#) 14/05/2019

El Niño is having a major impact on container traffic through the Panama Canal this year.

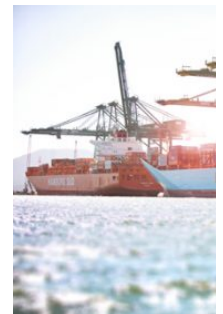
From May 28, the canal operator is going to reduce the draught at its Neopanamax locks to 43 feet, the latest in a series of depth reductions that have brought the permitted level down from 50ft at the beginning of the year.

The region is suffering from a protracted drought that has decimated the water in a lake that is used to top up water levels in the canal. According to ACP, the Panama Canal authority, after four to five months of almost no rain, the river flow to the reservoir is down 60%.

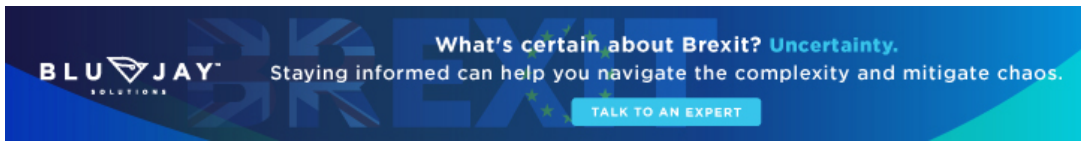
The draught restrictions at the canal are affecting cargo rates from Asia to the US east coast; while spot rates from Asia to the west coast are up 4.3%, they have climbed 14.7% to the east coast, according to one source.



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The Freightos Baltic Index (FBI) of May 9 shows China-USWC container rates up 1% on the previous week, but China-USEC rates were up 6%, a trade that has seen a 23% rise since the beginning of the year, according to the index.

Most customers look predominantly at prices, said Jon Slangerup, CEO and chairman of American Global Logistics (AGL). More than 50% of the forwarder's east coast traffic comes through the Panama Canal, he estimates.

For the most part, it is a balancing act between price and transit times, but if customers balk at higher east coast rates, AGL can shift its traffic to west coast gateways, he adds.

ACP claims congestion and labour resistance to automation on the west coast are pushing more shippers to use the canal to serve US markets on the east coast.

Mr Slangerup, a former CEO of Port of Long Beach, acknowledged that the west coast ports had struggled with high volumes, adding that merger and acquisition activities at their terminals have not helped. However, he added, there had been signs of improvement.

About five years ago, some 23% of the containers arriving at Long Beach were loaded on dock-to-rail, today the ratio is closer to 30% and is expected to continue towards the 50% mark, he said.

Recent numbers give no indication of a spillage of imports from the west coast to the canal. The ports of Long Beach and Los Angeles both posted record container numbers for April, while up the coast, the port of Oakland reported a 7% rise in import containers.

Mr Slangerup believes the meteoric rise in traffic through the canal after its re-opening in 2016, which has been attributed to a migration from

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west coast ports, is primarily the result of different dynamics. While the expansion work was going on, the canal lost about 30% of its market share – chiefly to Asian traffic moving via the Suez Canal. The subsequent surge in traffic was largely a matter of recovering lost ground, he said.

With or without draught limitations, the canal cannot handle vessels larger than 14,800 teu, they being too wide to pass through, Mr Slangerup noted. While this produces some constraints, the impact has been negligible, as the larger vessels have not featured to a large degree on the transpacific routes. Moreover, ports in the Gulf of Mexico area cannot accommodate these vessels either, and neither can some east coast ports, he pointed out.

Savannah, which can handle ships of 14,000 or more teu, is not showing any concern that growth momentum could be dented from draught limitations in the canal. Last month, Georgia Ports Authority placed an order for 20 rubber-tyred gantry cranes for the port.

The draught restrictions are estimated to lose the ACP some \$15m this year, which is minor next to last year's revenue of \$2.5 billion. However, the prospect of further restrictions in the event of the drought continuing is a different matter.

While the majority of vessels have no issues passing through the canal, Mr Slangerup believes the drought raises the question of whether it might affect the canal's potential.

"I'm not sure if, and when, it's going to get resolved," he said.

ACP has indicated it is looking at plans for a third water reservoir, and a decision on this will likely be made by the end of the year.

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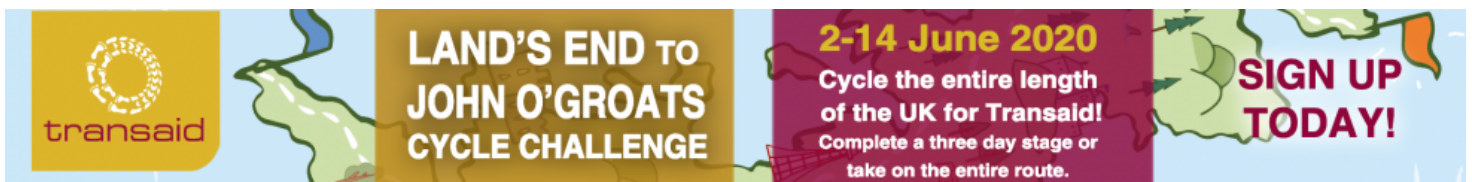
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