

Panama Canal Authority sees Rio Indio project as answer to future droughts

Agency's \$1.6 billion reservoir proposal could let 15 more ships transit canal daily

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Enough rain has returned to the Panama Canal for authorities to increase the number of daily transit slots for vessels back up to 36 beginning in September. (Photo: Panama Canal Authority)

After dealing with a historic drought for over a year, authorities for the Panama Canal are considering ways to prevent a repeat and say they need to be more customer-oriented.

Ricaurte Vasquez, administrator of the [Panama Canal Authority](#) (ACP) hosted a roundtable discussion Monday with the media and stakeholders to mark the 110th anniversary of the waterway and examine its future, as well as challenges and opportunities that lie ahead.

The Panama Canal currently connects 180 maritime routes that reach 1,920 ports in 170 countries around the world, through which nearly 3% of global maritime trade passes, according to the ACP.

“The Panama Canal has been resilient. Some of the issues that we have to address are not under our control, climate being the most important. We have addressed that with a lot of creativity, and the creativity was taken to its limit during this dry season,” Vasquez said during the roundtable.

Key trade routes connected by the Panama Canal include trips between the U.S. East Coast and Asia and between Europe and South America. The canal employs 8,549 people.

“We have to move away from the concept that was prevailing in the market for many years, that the canal dictated prices, policies and structures and procedures,” Vasquez said. “We have been very careful in addressing issues, bringing products and showing different alternatives. I think it is clear proof that we are here to listen. It has to be a win-win situation. We have to be a successful, profitable entity.”

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Last year, the canal experienced its worst drought since 1950, with water levels dropping to their lowest point in January, almost 6 feet lower than the same month in 2023.

To alleviate the impact of future droughts, the ACP has proposed the \$1.6 billion [Rio Indio Reservoir](#) project, which would dam the nearby Indio River. After damming the river, the project would drill a 5-mile mountain tunnel connecting the newly constructed reservoir to Gatun Lake, which supplies water to the canal.

The Rio Indio Reservoir project, which could take five years or more to complete, could allow up to 15 additional ship transits per day through the canal. But the project has faced criticism from local farmers and communities whose land risks being flooded by the construction of the reservoir.

On July 2, Panama's Supreme Court reinstated a previous law, which expands the boundaries of the ACP's watershed to include 1.4 million additional acres along the canal, compared to the 741,316 acres that were managed before the ruling.

"We are not sleeping on this issue. Now, we have a better legal framework to operate from, especially after the ruling from the Supreme Court," Vasquez said. "We are working in cooperation with the central government. The priority of some of the water projects associated with the Panama Canal were taking second place to other critical issues in the past. Now this is very much on the forefront of the new administration with President Jose Raul Molino and the work that the Panama Canal continues to do."

Vasquez said while the Rio Indio project is a major initiative for the ACP, the agency is also looking for other ways to handle future droughts.

"We are trying to avoid a one-line type of solution; we are trying to look into a portfolio of alternatives. Some of them are operational. Some of the operational options are not as large as other contributions, but they provide some sort of reliability and are within the confines of the Panama Canal property," Vasquez said. "We are addressing those that include dredging, moving water intakes to a different location, taking control of water salinity and Gatun Lake."

Due to the drought, the ACP slashed the number of movements in the waterway from its normal 36 daily transits and reduced its reservation slots to as few as 18 by Feb. 1.

In recent weeks, enough rain has returned to the region to allow the Panama Canal to increase the number of daily transit slots for vessels back up to 36 beginning in September.

"We have had some rain over the last few months, and that has helped us improve the operational situation of the canal," Vasquez said. "We have moved to 50 feet of draft. We have made announcements on regulating and going back to regular transit capacity of 36 ships per day. All of that has been the result of significant creativity and a lot of work from everyone at the organization in trying to make sure that we could assure reliability."

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The return to 50 feet of draft in the canal is significant because the deeper channel is needed for the larger Neopanamax container ships to travel through the waterway.

Neopanamax ships hauling commodities such as liquefied natural gas and grains were forced to forgo the canal during parts of 2023 and earlier this year because of the reduced draft. Vasquez said LNG and grain ships are expected to return eventually now that water levels are normalizing.

“From now to 2030, I think significant volumes of LNG have been committed to Europe because of the Ukraine conflict and some of the other distributions that are in Europe,” Vasquez said. “A large volume is going to be sourced from the United States to Europe. That’s one of the new authorizations that are going to use the Panama Canal. One of the customers that we are thinking more closely about as far as LNG is concerned with long-term slot assignments, is probably the LNG market. The LNG market has a very dramatic need for not only reliability, but certainty, making sure that they transit at the right time in order they get across the Panama Canal and go to the final destination.”

Even though the tonnage shipped through the canal fell 1.5% in fiscal year 2023, the ACP reported revenue of \$4.9 billion during the period, a 14.9% year-over-year increase from fiscal year 2022.

“In our first quarter, October to December, there was a congestion premium that was generated because of the expectation that there will be rains in October,” Vasquez said. “As people tendered for slots, the Panama Canal made a windfall revenue out of that in the first quarter. Now with less transit, yes, we have had less revenues, but it has been compensated by that windfall in the first quarter.”