Trend Analysis: Nicaraguan Inter-Oceanic Canal

Trend Statement

Plans are underway for a construction of a new shipping passageway in Nicaragua that will rival the Panama Canal. The Nicaraguan government has granted a 100 year concession to HK Nicaragua Canal Development (HKND) Investment Company, a Chinese firm to explore development and construction of a 90 foot deep, 130 mile (to 180 mile[1]) long canal, through Nicaragua. While this canal is roughly three times longer than the Panama Canal, it is 500 miles further north and provides a shorter transit, potentially. Cost estimates for the project range from $40 billion to $60 billion. The project is estimated to take up to 11 years to finish. As well as the waterway, the draft agreement between Nicaragua and HKND includes provisions for two free trade zones, an airport and a freight railway, unrestrained and tax-free rights over vast tracts of land, and the right to operate and manage the canal for up to 100 years before turning it over to Nicaragua. Until that time, Nicaragua would have a controlling interest in the canal and receive income from it.

The one-hundred old Panama Canal (PC) is going through an expansion project adding two new sets of locks, one on the Pacific side and the other on the Atlantic side, to accommodate maximum vessel size of 13,000 twenty-foot equivalent units (TEUs). The new third lane of locks is scheduled to be completed in 2014. The new, bigger locks will help reduce locking time, thereby reducing traffic congestion and travel time for ships crossing the Atlantic into the Pacific Ocean and vice versa. The locks will not be able to accommodate the new, larger ships such as the Triple E[2] class of ships that have the capacity to handle 18,000 TEUs. The ships are too wide to get through the locks. However, the Panama Canal Authority has plans for expansion of the canal so that they can route the mega-ships through the passageway. The larger ships ability to move through restricted waterways, such as the current Panama Canal, makes it difficult for them to traverse the globe. Rather, they must stay within certain regions where they are able to maneuver and to be served by larger ports and infrastructure.

These larger vessels often referred to as Post-Panamax, will likely operate only in the Asia-Europe trade, since they are able to navigate the Suez Canal to the Mediterranean Sea. A new, larger canal such as the Nicaraguan Canal could gain an economic advantage by accommodating such vessels.

Background

The discussion of construction of a transoceanic canal had been previously proposed periodically in the 1500s (Spanish), 1800s (Napoleon III) and in the late 19th century to the 21st century (before the Panama Canal). Although initially supported by President McKinley, it never went beyond plans and studies. The project while costly will create

[1] Length of the Nicaraguan Canal differs from the mostly commonly reported as 180 miles or 130 miles.

[2] The name "Triple E" comes from the new class of ships design principle – "Economy of scale, energy efficient, and environmentally friendly."

additional revenue for the Panamanian economy and provide future economic prosperity, supporters say.

Some say there is enough trade to warrant a second canal on the continent. Jason Bittner, director of the Center for Urban Transportation Research at the University of Southern Florida, said the demand will probably be there by the time the Nicaragua project is finished. It is estimated to be 11 years. “I don’t anticipate there being any reduced demand in trade between the global trading partners, so East Asia and the eastern United States will continue to have significant trade,” Bittner said. “If you make this large public sector investment, it will be used, as long as it’s priced properly, as long as the Panama Canal isn’t significantly undercutting it.”

Bigger benefits are expected in the wider economy. Paul Oquist, Secretary of Public Policies of the Presidency of the Republic, said the great inter-oceanic canal will allow Nicaragua's Gross Domestic Product to double and employment to triple by 2018.

Freight System Implications

The implications to the existing freight systems in California are the possibility of reduced freight volumes, and fewer vessel callings when these ships are put into service globally, but more specifically, if they are not able to call at California ports. The ports will need to improve their infrastructure or lose out on serving these new, mega ships. However, since the Los Angeles region is one of the largest consumer markets in North America, there will still be significant freight moving to that region and the San Francisco Bay Area as well. It will most likely mean some freight diversion to the Gulf and East Coast ports, how much is unclear.

Planning Considerations

The planning considerations for a project of this scale are significant. The Nicaraguan government has pledged to expropriate all land along the chosen route. It is unlikely with a project of this size that land purchases will be at market rate. The chosen route along with the other considerations given to HDNK, is likely to displace indigenous groups, communities, land owners, and business owners. Details of the possible route have yet to be disclosed, though it is thought likely that it will run through Lake Nicaragua, the most important source of freshwater in the country and major source of drinking water and irrigation, and home to rare freshwater sharks and numerous other species, and through a tropical forest. The area also encompasses one of the largest coral reefs in the Americas and is home to endangered marine species. It is also an area of volcanic and seismic activity. The list of concerns is long: hurricanes, earthquakes, salt-filtration into Lake Nicaragua, volcanic and seismic activity, degradation of the environment, denude shorelines of rivers leading inland from the new ports, invasive species from container bilge water, and sedimentation.

The operator has hired one of the world's leading consultancies, Environmental Resources Management, to conduct impact assessments. According to HKND Group’s website, "HKND

Group has committed to develop the project in a manner that conforms with international best practices, delivers significant benefits to Nicaragua and its people, generates local job growth and economic development, honors the local population and heritage of the country, and serves the best interests of Central America and, indeed, the world." There is no public documentation about the project or impacts being shared with the public; therefore, it is difficult to ascertain the route and its associated environmental and socio-economic impacts.

It is also unknown how high the toll will be for the Nicaraguan Canal; but, it is likely that the tolls will be high for capital recovery. The Panama Canal can charge a lesser toll amount since there is less capital investment.

Nicaragua is pursuing this project because they believe the economic benefits and jobs outweigh the costs. Nicaragua is the second-poorest nation in the Americas (North, Central, and South America). In a February 20, 2014, article in the Daily Times, it was estimated that the gross domestic product will go up 11 percent per year and create "almost a million jobs during construction and the initial years of operation."

It remains unclear whether the funding is coming indirectly from China. (HDNK has never handled a project of this size.) For China, the canal would provide easier access to crude oil from Venezuela and would give them a foothold in the Western Hemisphere.

Resources

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