Tuesday, February 20, 2024 / The Panama Canal is going dry

[HALF SECOND OF SILENCE]

[BILLBOARD]

SCORING IN <Panama Canal>

NOEL KING (host): The global shipping industry handles about eighty percent of international trade. Eighty percent of the stuff you - and everyone else - buys from overseas gets put on a ship at some point to get to you.

*<CLIP> “I’M ON A BOAT”*

*THE LONELY ISLAND: Straight floatin’ on a boat on the deep blue seat!*

NOEL: So blockages are very serious—remember the Ever Given—the ship that got stuck in the Suez Canal a few years ago? Right now, the shipping industry is facing two crises: the first is at the Panama Canal where a drought is causing such long delays that authorities have started auctioning off spots to jump the line. And, the second of course is in The Red Sea where Houthi rebels are wilding international commercial ships to protest Israel’s offensive in Gaza.

Coming up on Today, Explained: The Shipping News.

*<CLIP> PANAMA CANAL:*

*CHK CHK CHK: Cut cut cut cut through like the Panama Canal Canal Canal, cut cut cut cut through like the Panama Canal Canal Canal, cut cut cut cut through like the Panama Canal Canal Canal, cut cut cut cut through like the Panama Canal Canal Canal…*

SCORING OUT <Panama Canal>

[THEME]

NOEL: It’s *Today, Explained*. I’m Noel King. The global shipping trade is facing two crises right now. The first is at the 50-mile long man-made canal that connects the Atlantic and Pacific oceans. Mie Dahl is a freelance reporter focusing on The Panama Canal. Mie writes for Foreign Policy and leading magazine The Economist and the canal is having problems this year because of weather.

MIE DAHL (freelance reporter): Right now we're seeing a really severe drought in Panama, there's this weather phenomena called El Niño that's been particularly strong this past year. And last October, we actually 41 percent less precipitation than usual. And that's only set to get worse as the country right now heads into the dry season. The Panama Canal Authority has actually had to slash the number of ships allowed through the canal from about 38, 36 ships a day before the crisis started to about half of that expected in February.

*<CLIP PANAMA ARC al Jazeera less cargo on ships> To make matters worse, each vessel is allowed to carry 40 percent less weight. This prompted some ships to unload their cargo and to move it by rail to the other side.*

NOEL: The Panama Canal is surrounded on one side by the Pacific Ocean and the other side by the Caribbean. Why does a drought affect it? Can't they just push water in from the ocean or from the Gulf in?

MIE: So that’s basically because of how the canal works.

*<CLIP ARC CANAL EXPLAINER> As a cargo ship nears the canal’s approach channels from the sea, the tugboats attach a towline to the cargo ship and move them into alignment with the canal locks’ narrow entrance.*

MIE: They come in from the fresh water side, so the water that provides these locks has to come from the three nearby lakes. You need to lift the ships up in an altitude of 85 feet above sea level water. Lifting them up to sea level and then they can, like, go out. It's simply a matter of the mechanics of the canal.

*<CLIP ARC CANAL EXPLAINER> Once a cargo ship is firmly within a lock, the lockgate behind it then shuts while the lock gate ahead gradually opens, displacing water at a steady pace thus raising the ship so that it can then enter the next lock.*

MIE: The canal has to use fresh water to transit the ships through, and that water then goes right out into the ocean. So we're actually wasting huge amounts of fresh water to make these operations work. It takes about 52 million gallons of water for every ship that you transit through the canal. And that's the equivalent to filling about 80 Olympic sized pools. Or, uh, as much as half a million Panamanians will consume in a day. The other thing is that Panama is a very rainy, humid country. Actually one of the rainiest countries in the world. So it's lived in an abundance of fresh water and people haven't really been that careful about water as a scarce resource. Actually Panamanians use 2.5 times more water than the world average and the most water of any Latin American country. But right now the situation suddenly looks different and Panamanians are starting to think about water as a more scarce resource.

NOEL: What kind of ships are going through the Panama Canal? What's being carried through it?

MIE: So there's quite a lot of different types of cargo going through the Panama Canal. There’s of course containers, which is a big part of the traffic through the canal. There’s also cruise ships, which have been hard hit by this.

*<CLIP PANAMA ARC cruise ship diverted from canal> The rhapsody of the sea is supposed to start making a Panama Canal cruise.// they decided they’re not gonna do that. They’re not gonna traverse the Panama Canal at all in 2023-2024 at all.*

And then there are some smaller ships as well. And what we see right now is really that this crisis hits the smaller customers much harder because of the way that the Panama Canal is structured, they have a customer booking system that clearly prioritizes the bigger customers.

NOEL: If you’re the captain of a ship showing up right now at the Panama Canal, what are your options?

MIE: The options are a bit more limited right now. Like when you have to go through the Panama Canal, you can either choose to wait in line, but right now that's just become a terrible option. The other option is then to pay to jump the line, which is something we've seen become much more common now. And recently we actually saw a ship pay 4 million U. S. dollars just to jump the line. And then the third option is for, for the ships to reroute.

*<CLIP> PANAMA REROUTING: Some ocean carriers had chosen to reroute through the Suez Canal, which connects the Mediterranean to the Red Sea before Houthi attacks on commercial vessels escalated.*

NOEL: If I'm doing my math right, those, those routes are like thousands of miles out of the way. How much of the global shipping trade is actually going through the Panama Canal in a good year?

MIE: About 5 percent of seaborne world trade goes through the Panama Canal and that's the equivalent of almost 300 billion US dollar worth of cargo. So it's, it's quite a lot in terms of value and volume. When you look regionally it’s about 40 percent of US container traffic. So regionally it’s like a really big bulk of traffic. And just to paint a picture of how this looks, the canal serves more than 180 maritime routes today, it connects 170 countries and it reaches approximately 2000 ports all over the world.

NOEL: I remember the last time we heard a lot about supply chain issues, it was during COVID, and we saw that things were getting more expensive, it was impossible to buy certain things, or if you, you know, you bought furniture, it would take six months to get there. What is this doing to American consumers? Anything yet?

MIE: This disruption means, like, disruption of supply chains. It means longer waiting times for consumers that in some special cases, they might not even get the products that they're waiting for because they're just stuck or rerouting and it takes for them to arrive. And then it might mean–experts say this is already happening, higher prices for consumers.

*​​<CLIP> J. P. Morgan warning that consumer price inflation might grow thanks to rising global shipping costs*

*<CLIP> PANAMA ARC: Brazilian meat, Chilean wines, and bananas from Ecuadors are regularly shipped across the canal.*

*<CLIP> PANAMA ARC: And by the way, how long can bananas sit there think about it? You think banana can sit there for three weeks? You ever had banana sit in the kitchen you leave it there for three weeks what happens to it?*

NOEL: So this is bad news for shippers. They're having to find new ways around or they're having to wait. This is bad news for consumers, including American consumers, because things are more expensive. What does this mean, though, for Panama?

MIE: I talked to Raisa Banfield who's a former vice mayor of Panama City, and who's now heading an environmental organization called Sustainable Panama. And she described how she was sometimes looking out the window from her apartment in Panama City and just seeing the ships waiting in line. And what that meant to her because the Panama Canal is really like a national pride and when it's not working, it hits the country really hard. For Panama, this is really a cornerstone of their economy. In 2022, it generated 4. 32 billion US dollars in revenue. And when this canal is disrupted, it creates huge uncertainty for the country. It means not only that the revenues from the canal are at risk, but it also means that the many side industries that serve the canal and serve the the customers that go through the canal are in danger.

NOEL: Is anyone in the Panamanian government talking about how to—in the event of a drought like we have now—how to just increase the amount of water going in? Are there any clever ideas?

MIE: I think the most viable option that everyone is talking about is the damming up of the Indio River, a nearby river. That would basically mean damming up the river, drilling tunnels through a nearby Mountain to then provide more water into the Lake Gatun, which is the main reserve providing water to the Panama Canal. But there's also some issues around this. We’re heading into general elections this spring in Panama and probably this kind of new project of damming up the Indio River could be unpopular amongst the communities that it will affect. Because it means basically flooding diverse communities of biodiverse jungle. It means that communities will be displaced. So while it does seem like the best solution to the current problem, it's not an easy one.

SCORING IN <We care - tense chords version>

NOEL: This has been a shipping route for generations. If it can be disrupted by climate change, if it can be disrupted by El Nino as it has been, what is the future of the Panama Canal here?

MIE: The climate change experts that I've talked to all agree that these kinds of weather phenomenons, extreme weather events, like, uh, the kind of drought that we've seen this past year are likely to become only more frequent and more severe. So the Panama Canal will need to resolve its water problem. And there's some solutions on the table for that, but they might not just be as fast or as easy as the country or everyone else would hope for. But I think there's no doubt that the Panama Canal will remain the most important shipping route in the region for any foreseeable future.

NOEL: Mie Dahl, freelance reporter, Panama Canal. Between conflict and climate change, we’re looking at some of the most expensive traffic jams in the world, but warm weather is also creating an opening.

SCORING OUT <We care - tense chords version>

[BREAK]

[BUMPER]

NOEL: Go ahead, give me your full name and tell me what you do.

SHARAT GANAPATO (assistant professor, Georgetown University): Hi, my name is Sharat Ganapati. I am an assistant professor of international economics at the Georgetown University School of Foreign Service.

NOEL: Okay, so in 2024, many of us who are alive and conscious, are very familiar with the idea that supply chains are important. And if they end up tangled, we see higher prices. We have more trouble getting things. First there was Covid 19. Then there was the Ever Given, that big ship that blocked the Suez Canal. You actually joined us on the show. Then there are attacks on container ships in the Red sea. And now we hear there's a drought and it's affecting the Panama Canal.

SHARAT: <chuckles>

NOEL: Is this like—you're giggling—is this, like a particularly bad time for global shipping?

SHARAT: To quote from Dickens it was the best of times, it was the worst of times. Shippers have both seen this as an opportunity as well as an existential threat. For some shippers, these demand spikes have been incredibly great for profits. They've jacked up shipping rates and companies are able to profit. But at the same time, we've got this new normal where you just keep these persistent shocks and that could affect long-run demand and create costs for both the shippers and us, the consumers.

NOEL: What are the biggest threats to global shipping at the moment?

SHARAT: I put it kind of twofold. One threat is the geopolitics of the world. Things are changing. Friendships are being realigned, and that's causing, kind of, differences all over the world. We see some of this in, kind of, the attacks off the, in the Red sea. But the second threat is a little different. It's a longer-run, more existential threat of climate change, which is going to reconfigure how the world looks and also reconfigure where ships can go.

NOEL: Who and where is being most affected by the chaos on The Red Sea?

SHARAT: It's really affecting one big trade route, and that's the connection between East Asia and Europe. So where you want to look at is consumer goods in Europe, basically these are consumer goods coming from China to Europe. You're going to see delays on them potentially. But you can also see small price increases. Now how big are those price increases? That's unclear. We saw during the Ever Given, it resolved itself relatively quickly. It's question is how long is this going to last and will it resolve itself in the near future?

NOEL: Are there other shipping routes in the world at present that are also threatened by conflicts that maybe are not as high-profile?

SHARAT: Well, there's something that may become high profile in the near future. And again, I'm not a political scientist, so I'm not going to specify, you know, is this going to happen today or tomorrow? But the South China Sea is a particularly hot flashpoint.

*<CLIP> AL JAZEERA:*

*BARNABY LO, CORRESPONDENT: Our ship weaves its way through, but from afar we see a Chinese Coast Guard vessel blasting water cannon onto a Philippine supply boat. Confrontations like this have become the norm.*

SHARAT: The South China Sea really connects, kind of, all our Asian kind of new emerging superpowers. You've got Taiwan, you've got China, you got Vietnam, you got Malaysia, and you got the Philippines. And right now there's lots and lots of trade and things such as electronic components, toy components, all these intermediate goods that get packaged together, creating these value chains. That produce our consumer goods in the West today. And we've seen, especially recently, there's been much more national sentiment by some of these countries defending and or constructing even naval bases in this area.

*<CLIP> CNA NEWS:*

*JILL NEUBRONNER, ANCHOR: The Philippines has identified the four new military bases that it will be giving U.S. troops access to. At least one of them will face the South China Sea, paving the way for a greater American presence in key locations in the region.*

SHARAT: Will this become a flashpoint? I don't know, but right now, a large amount of world trade flows through the South China Sea, and this could become another potential way where we may shut down trade.

NOEL: All right. So we've got conflict on one hand and we've got climate change on the other.

Are there other parts of the world? Are there other shipping routes that are threatened by climate change?

SHARAT: There's not just threatened by climate change, but there might be new routes open by climate change. And this is something that has been long speculated. If you go back to, you know, your AP U.S. history class, you'll remember the fabled Northwest Passage.

NOEL: Oh, yeah.

SHARAT: There's also the Northeast Passage.

*<CLIP> Howling wind SFX & Drone*

SHARAT: One connects the North Atlantic Sea with the North Pacific. One goes through Canada and the other past Russia.

*<CLIP> DISCOVERY UK: Crew prepare for expedition of a lifetime through North West Passage*

*SAILOR: We are going through the fabled North West Passage. More people have been in space than successfully transited the North West Passage by sailing boat.*

SCORING & SFX OUT

SHARAT: Now, historically, these routes are not traveled frequently because they're covered by ice. Now, climate change is making the Arctic recede extremely quickly. There's already trials, runs of commercial shipping taking these routes. The northeast passes past Russia will effectively reduce the time from Yokohama Bay in Tokyo to Rotterdam by about 30%. That's a huge savings, and you find similar routes from the west coast of the U.S. to Europe being reduced.

*<CLIP> CNBC: Why the US is falling behind in Arctic shipping*

*SPEAKER: China is also very interested in developing the Arctic region for shipping. Pledging to build a Polar Silk Road over a five year plan from 2021 to 2025.*

SHARAT: There could be this complete reconfiguring of the globe to connect kind of the West with the East in some sense. There's a lot of speculation when this is happening and these routes are also susceptible to geopolitics.

*<CLIP> DW NEWS: Russia, China and the United States are leading the charge to take control of the immense natural resources and new trade routes that are opening up even as a potential climate catastrophe takes hold.*

SHARAT: So it's unclear whether, you know, these are going to be substitutes or complements, but the world is reconfiguring, and the melting of these ice caps is doing quite a bit of a change in some of these routes.

NOEL: I want to, I want to be on the record here saying that I think climate change is bad. However, the idea that, like a whole new shipping route could open up that we've never had major transit through before, there is something incredible about that, even as climate change is creating chaos for our old routes.

SHARAT: Yeah. And I like to emphasize, you know, this…I'm not saying that climate change is good, but I'm trying to say it's, it's changing kind of the face of the globe, literally. I mean, we're seeing things that are covered in, you know, 20ft of ice now being open seas where you can potentially see large container ships plying their wares. Literally what explorers in 1450 thought might actually now become reality in some sense. It is interesting, and it's very clear that both firms and countries are actively planning for this new future.

NOEL: Alright. So all of this, all of this insecurity and shipping makes me wonder whether or not some of the newer technologies and ways of moving things that we have, like roads and planes, large trucks—do we really need, do we really need to save shipping if we've got our trains and planes and automobiles?

SHARAT: I don't know if you remember, there was that volcano explosion in Iceland, and I cannot pronounce the name of that volcano for the life of me.

SCORING IN <Sunken cruise ship>

*<CLIP> CBS EARLY SHOW: Six syllables. Eyjafjallajökull.*

SHARAT: But that's shut down air freight through Western Europe for a good month.

*<CLIP> NBC NEWS:*

*BRIAN WILLIAMS, ANCHOR: This is the plume from the air. A massive cloud of ash following the winds and weather patterns right across the Atlantic. The same route the planes fly.*

SHARAT: It's so it's, you know, we've got these technologies. Trucks are, have this one downside, which is right now, trucks cannot really scale to the level of global trade flows. A truck has a driver, and the driver really can drive more than 1 or 2 containers at a time. So they're really, really limited. Our roads are congested and there are limited now. Trains. Trains are great. Trains, are kind of how the US, you know…Manifest Destiny. It's kind of how China is modernizing. But freight railroads are not that big, really outside of the United States. It's actually quite remarkable how important freight railroads are to the U.S., but are not really used that frequently, for example, in parts of Europe. So it's not clear they can scale because many countries have prioritized passengers over freight on the rails, and then finally airfreight and truck shipping is incredibly expensive.

NOEL: Mm.

SHARAT: Putting stuff on a ship and shipping it around the world is dirt cheap, and we just simply have no substitute for that cheap shipping cost.

SCORING OUT <Sunken cruise ship>

NOEL: Do you think it's time for, like, an infrastructure renaissance? Everything's kind of breaking down, you know. And except for that, that beautiful Northwest Passage. But it sort of seems like, OK, everything's old now, we should just spit shine all of it.

SHARAT: Yeah. So, I mean, I live on the East Coast of the United States. I regularly ride rail tracks that are 100 years old using signaling that's falling apart. And, you know, just on a daily basis, the train I ride from, let's say, DC to New York, isn't that much faster than the same train in the Roosevelt administration 70 years ago. Right.

SCORING IN <Carousel waltz>

SHARAT: So a lot of our infrastructure, our roads or railroads or harbors around the world is maybe older. Some of it is also built for a world without climate change. So it's susceptible to flooding. Sea level rise, or it's built for a world where global conflict was not supposed to take the current form. But shipping and global value chains are incredibly important. And while there might be some backtracking, it's not as if we're going to completely go back to a world where everyone makes everything at home. And so this gives us incredible opportunities to build potential new infrastructure, new roads, new harbors to be both climate and conflict resilient.

NOEL: Sharat Ganapati, International Economics, Georgetown, School of Foreign Service. Today’s episode was produced by Jesse Alejandro Cotrell and Haleema Shah. Matthew Collette edited. Laura Bullard fact-checked and Patrick Boyd engineered.

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And I’m Noel King.

SCORING OUT <Carousel waltz>

[10 SECONDS OF SILENCE]