



Nicaragua's interoceanic canal: will the benefits outweigh the risks?

On 13 June 2013, the Nicaragua National Assembly approved a law to grant the Hong Kong Nicaragua Development Company (HKND) a 50-year concession, renewable for a further 50 years, to build and operate a 173-mile (278 km) interoceanic canal across Nicaragua. If this project goes ahead it will be one of the largest infrastructure projects ever undertaken in Latin American history. The Nicaraguan government argues that such a project is the only way to lift the country out of centuries of under-development and high levels of poverty, but also that it will protect the environment nationally and globally. Critics argue that the associated social, economic and environmental risks are too high a price to pay. In this briefing we look at the arguments for and against this controversial megaproject.

If the canal project goes ahead it will be one of the largest infrastructure projects ever undertaken in Latin American history.

Facts and Figures

- After the first year of operations, Nicaragua will receive a 1% stake in the canal consortium with its share increasing by 10% each decade. In addition, Nicaragua will also receive \$100 million in ten annual payments for the concession.
- The 173-mile canal, costing an estimated \$50 billion, could handle the world's new generation of cargo ships including those already too large to navigate the Panama Canal, which it would therefore complement rather than compete with. The project would include two deep-water ports, a railway, two new cities, tourist resorts, free trade zones and an international airport.
- On 7 July 2014, the Advisory Commission for the Development of the Grand Canal announced that the route would begin at the mouth of the Brito River south of Rivas, pass through Lake Nicaragua and end at the mouth of the Punta Gorda River in the South Caribbean Autonomous Region. According to HKND and the UK company Environmental Management Services, the route has been chosen to minimise the impact on protected areas and wildlife of the Mesoamerican corridor, the area's water resources and indigenous territories, and to minimise the displacement of communities.
- Work on the canal is due to start at the end of 2014 and would take an estimated five years.



Why Nicaragua? Why Now? According to information presented in London in May 2014 by Paul Oquist, Minister-Secretary for National Policies of the Nicaraguan Presidency, there are three key factors that have led to the canal proposal: the country's favourable geographical position; its abundance of underused water resources, and the fact that since 2007 the government has demonstrated its capacity to successfully formulate and implement human development plans. These include annual increases in GDP of 4-5%, single-digit inflation, doubling of exports, creation of one million jobs, reductions in inequality and attracting high levels of Foreign Direct Investment (increased 4.7 times since 2006). Over this period poverty has decreased from 48% to 42%, and extreme poverty from 17.2% to 7.5%. By 2020, Nicaragua aims to generate 94% renewable energy - which will mean significant reductions in its CO₂ imprint - and will have the capacity to export energy to other Central America countries.

Haven't there been plans for an interoceanic canal across Nicaragua before? Ideas to build an interoceanic canal date back to Spanish colonial times. Napoleon III contributed by writing an article about the feasibility of a canal in the early 19th century. The remains of one past failure can be found a mile inland from the Caribbean Coast in south-east Nicaragua, where the mast of Cornelius Vanderbilt's dredge rises out of the water. The US railroad tycoon abandoned it along with his dream of building an interoceanic canal in the 1850s. In 1889 the US Congress approved legislation to set up a Nicaragua Canal Company, and feasibility studies were completed in 1895. Discussions around options for a water canal or a 'dry canal' have featured constantly in Nicaraguan politics particularly in the last two decades.

Where will the money for canal construction come from? HKND will provide the estimated \$900 million for feasibility studies. According to Paul Oquist, the funds for the construction of the canal and the associated infrastructure are likely to come from the following sources: HKND, Bank of ALBA, private equity funds, private investment banks and other private investors. However, it will be a challenge to raise the long-term financing required for a project that would not generate income for at least six years during construction. The key question is whether Chinese government-backed entities – state-owned banks and enterprises – will be willing to invest funds.

What is the geopolitical significance of the canal? According to the Brookings Institute, a US non-profit research organisation, '*precisely one century after President Theodore Roosevelt proudly opened the Panama Canal, a Chinese grand canal in the middle of the Americas would graphically symbolise the accelerating shifts in geopolitics.*' Another indication of shifting geopolitics were the visits of President Putin and Chinese President Xi to Latin America in July 2014. Both attended a meeting of BRICS (Brazil, Russia, India, China and South Africa) leaders, who agreed to set up a new bank with initial financing of \$50 billion.

...a Chinese built canal in the middle of the Americas would graphically symbolise the accelerating shifts in geopolitics.' Brookings Institute

What control will Nicaragua have and how will it exert this control? The government has set up a Canal Commission with ten sub-commissions to oversee the environmental, financial and execution aspects of canal construction, including the issuing of contracts relating to construction. The Commission will be headed by Paul Oquist.

Will the canal be economically viable? What about the Panama Canal? The canal would be able to accommodate the world's largest ships which are too big to use the expanded Panama Canal, including Maersk Line's new Triple-E ships. It is estimated that 5-10% of current global shipping is

unable to pass through the Panama Canal. Globally, the canal would save the largest ships 5,000-7,000 miles on each journey from Asia to ports on the eastern seaboard of the US, the Caribbean and Latin America, because they would not have to travel around Cape Horn. On 4 June, Keith Svendsen of Maersk, the world's largest shipping line, stated in *ShippingWatch* that the company was backing the project. He pointed out that there is currently a waiting list to sail through the Panama Canal, and its expansion will enable it to handle ships of up to only 336 m in length, while Maersk Line's new series will be 400 m. According to the HKND Company presentation of 7 July, on completion about 5% of global trade will pass through the Nicaraguan Canal. HKND CEO Wang Jing stated: *'Central America is at the centre of North-South and East-West global trade flows, and we believe that Nicaragua provides the perfect location for a new international shipping and logistics hub. We believe this project will serve that still unmet need.'* However, critics point out that summer shipping lanes through the Bering Strait that will open up for longer periods as the Arctic ice melts may significantly reduce the demand for the canal, thus affecting its economic viability.

What is the background of HKND CEO Wang Jing? Wang Jing is the lead Chinese investor, a billionaire entrepreneur with more than 20 mining, infrastructure and telecommunications enterprises in 35 countries, including the Beijing Xinwei Telecom Technology company.

Which companies are conducting feasibility and impact studies, who is commissioning the studies and when will they be reported? The studies have all been commissioned by the HKND. According to Morten Nyatt of Global 2020, the organisation responsible for involving European companies in the project, the following studies should be presented in October: the British firm ERM (environment), New York-based McKinsey & Company (finance), MEC Mining of Australia (excavation), SBE Belgium (locks) and US-based Kirkland Ellis, LLP (legal). ERM produced an interim report on 7 July and is due to present their final report in October after extensive consultation with communities in the areas affected.

What economic benefits will Nicaragua gain from the canal? According to Paul Oquist, the overall objective of encouraging Foreign Direct Investment is to eradicate poverty, in particular extreme poverty. To do this an annual growth rate of 8-10% is necessary: *'We need a way out of poverty; the canal will provide this.'* Oquist states that the canal would mean reductions in dependence on foreign aid, and an increase in GDP of 10% in 2015 and 15% in 2016. Nicaragua suffers from severe unemployment and underemployment; currently only 700,000 of Nicaragua's working population is formally employed. According to an HKND statement of 7 July, the canal would employ 50,000 workers on the construction and once the canal is in operation 200,000 jobs would be created. The trade unions affiliated to the National Workers Front (FNT) support the canal because of the jobs that will be created directly and indirectly. They see the canal as a way to reduce unemployment and eliminate poverty, and argue that without the canal Nicaragua will be consigned to decades of further poverty.

'We need a way out of poverty; the canal will provide this.' Paul Oquist Minister-Secretary for National Policies of the Nicaraguan Presidency,

However, Nicaraguan economist Adolfo Acevedo Vogl argues that construction work will only temporarily increase economic activity, but when the canal is completed it could become a self-sufficient, private enclave that will not increase productivity. He queries what kind of jobs will be created, how labour rights will be protected, how many of these jobs will benefit Nicaraguans and argues that what Nicaragua needs is a sustainable development strategy, not megaprojects.

What about the environmental impact? Proponents and opponents of the canal agree that the key area of major concern is the environmental impact of such a vast project, particularly on Lake Cocibolca (Nicaragua), the largest reservoir of water in the region. However, there is disagreement about whether the canal would contribute to protecting the environment globally and nationally or whether the potential environmental risks are too high a price to pay.

In *'El Canal Interoceanico por Nicaragua: Aportes al debate'* published by the Nicaraguan Academy of Science, Jaime Incer Barquero (former environmental advisor to the presidency) and other environmentalists, engineers and academics express strong concerns about the ecological degradation of eco and aquatic systems, especially dredging and maintaining a channel across Lake Cocibolca 103 km long, 27 m deep and 270-500 m wide. Barquero points out that *'extensive studies would be needed to fully evaluate and minimise risks; these studies would take years to prepare.'* Jorge Huete, president of the Nicaraguan Academy of Science, claims that 400,000 acres of forest would be destroyed during the construction, and criticises the lack of scientific impact studies.

'...extensive studies would be needed to fully evaluate and minimise risks; these studies would take years to prepare.' Jaime Incer Barquero, former environmental advisor to the presidency, commenting on the time scale for feasibility studies and construction

Other key points raised in the publication are: high levels of vulnerability to erosion; threats of seismic activity; climate change and the maintenance of water levels in the lake in periods of drought; habitat destruction of aquatic species in the lake and on the coasts; contamination of the lake, which is a critical water source for drinking and irrigation, salt water entering the lake; the interruption of the passage of animals in the Mesoamerican corridor; the threat of foreign organisms; and threats to the rights of indigenous peoples on the Caribbean Coast.

Other criticisms include the apparent absence from the Concession Agreement Framework of guarantees related to the protection of human rights, labour rights and the rights of indigenous peoples, and the amount of power and control that HKND would have over the project.



According to Maura Paladino of Nicaraguan NGO the Humboldt Center, along the proposed canal route more than a dozen animals from the Red List of Threatened Species of the International Union for Conservation of Nature (IUCN) will be impacted. Among these are sea turtles, the green macaw, the tapir, the spider monkey, and several species of frogs.

While acknowledging the risks, the Nicaraguan government and HKND argue that the environmental impact would be strongly positive at a global and national level. There will be far fewer but larger ships – a reduction of 35% is predicted, which would have a positive impact on emission reduction.

Despite major advances since 2007 in reducing poverty, Nicaragua remains the second poorest country in the Americas after Haiti. The fundamental question is how Nicaragua can break the cycle of environmental depredation that derives directly and overwhelmingly from entrenched poverty that has already had an extremely damaging effect on Nicaragua's natural environment, biodiversity and wildlife.

How can Nicaragua break the cycle of environmental depredation that derives directly from entrenched poverty that has already had an extremely damaging effect on the environment, biodiversity and wildlife?

Paul Oquist argues that Nicaragua is not an ecological paradise; deforestation is 70,000 hectares annually and the land reforested is 15,000 hectares. Tax revenues from the canal would be used to mitigate deforestation and the impact of climate change. Thus the canal could play a significant role in reforesting Nicaragua. Camilo Lara (Nicaragua Recycling Forum) warns that without the canal the environment will deteriorate dramatically as the population rises. The very viability of the canal depends on vigorously proactive environmental recovery and conservation policies to ensure sufficient water and guarantee its efficient use. HKND CEO Wang Jing stated: *'I take all responsibility for any environmental damage. I have told my employees that if we make a mistake on this front, we will be dishonoured in the history textbooks of Nicaragua,'* acknowledging the devastating consequences of past foreign interventions.

Published by Nicaragua Solidarity Campaign, July 2014

www.nicaraguasc.org.uk

nsc@nicaraguasc.org.uk

FB Nicaragua-Solidarity

Twitter NSCAG_UK