

**Statement of**  
**The Honorable Louis E. Sola**  
**Chairman, Federal Maritime Commission**  
**on**  
**“Fees and Foreign Influence: Examining the Panama Canal and Its Impact on U.S.**  
**Trade and National Security”**  
**Before the**  
**U.S. Senate Committee on Commerce, Science, and Transportation**  
**January 28, 2025**

Chairman Cruz, Ranking Member Cantwell, and distinguished members of the Committee: Thank you for the opportunity to appear before you today to address the vital role the Panama Canal plays in U.S. trade and the global economy. I understand many of the issues of interest to you from not only my perspective as a regulator, but as someone who is a “Zonian.”

Panama is a place I know well. I grew-up in Goodland, Indiana, but Panama has been a part of my life from when I first moved there in my very early twenties as a young Army Non-Commissioned-Officer. I launched my post-military career there, my children were born there, I have transited the Canal 110 times as a Captain, earning the distinction as “Honorary Lead Pilot.” I know the country, I speak the language at home, I have a genuine affinity for the people of Panama and for the country itself. Nonetheless, I am not blinded to issues which should command each of our attention.

Your interest in the Panama Canal is commendable. Despite the Canal being more than 100 years old, it remains a critical conduit for trade moving by vessel. The United States, more than any other nation, benefits from ships being able to transit the Panama Canal. In excess of 40% of U.S. container traffic, valued at roughly \$270 billion annually, transits this waterway. Nor is Canal traffic limited to container ships. Vessels of all sorts—container ships, passenger vessels, bulk and breakbulk vessels, and product tankers—use the waterway to carry cargoes to and from the United States.

For much of the more than 100-year history of the Canal, the United States was responsible for operating the facility, but that responsibility shifted in 1999 when control of the Canal was transferred to the Republic of Panama. For the past 25 years, the Canal has been very ably administered by the (Panama Canal Authority) a government entity that is separate from the government of Panama.

Drought conditions had consequential effects on Canal operations in 2024, forcing the Authority to cut the total number of transit slots available, bar some classes of vessels from transiting at all, and mandate vessels be more lightly loaded to allow for higher drafts. In some instances, available transit slots were auctioned off to the highest bidder. In response to the concerns expressed by many different sources about how the Canal was being operated, then-Chairman Maffei and I traveled to Panama last August to meet government, the Authority, and business executives to learn more about how the drought was impacting Canal operations and what measures the Authority was taking to make the Canal more drought resistant.

Panama Canal Authority executives appeared to be fully transparent in discussing the management of the Canal and options for making the waterway more resilient against drought conditions. These

improvements are absolutely critical. Without a solution, projections suggest that by 2050, the Canal's capacity could decline by as much as 50%, which would have devastating consequences for global trade and U.S. commerce. The Authority is working to create the additional volumes of water necessary to operate the Canal, but must do so within the constraints of laws and regulations administered by the Government of the Republic of Panama. That relationship has been frictional at times. The Republic of Panama is responsible for administering that nation's ports, water rights, and ship registry. The reality is one entity—the Panama Canal Authority—administers the Canal and is responsible for its continued viability, but many of the initiatives necessary to realize that goal are under the control of Panama's government.

Further complicating this split of authorities is the reputation the Government of Panama has for corruption and susceptibility to foreign influence. Transparency International places Panama at 108 out of 180 rated countries, and the U.S. Department of Commerce International Trade Administration notes that "Corruption is Panama's biggest challenge." Prevalent examples exist of the systemic corruption found in how the Panamanian government does business. Officials have been sanctioned. The Panamanian Registry included Iranian-owned vessels that were involved in sanctions busting. Presidential administrations that preceded that of now-President Mulino were particularly receptive to Chinese overtures and beginning in 2015, the People's Republic of China only had to push lightly on a cracked door in Panama. In subsequent years, Panama became a member of the Belt and Road Initiative and ended its diplomatic relations with the Republic of China (Taiwan). Chinese companies have been able to pursue billions of dollars in development contracts in Panama, many of which were physical infrastructure projects, some on or adjacent to the Panama Canal. No bid contracts were awarded, labor laws were waived, and the Panamanian people are still waiting to see how they benefitted.

The United States is not without options in addressing the growing presence of China and Chinese companies in Panama and throughout the Americas. Nor are we without options as they relate to the continued viability of the Canal.

First, we need to increase support for American companies seeking to do business in Panama and throughout the Americas. Chinese companies must not be the sole bidders on contracts. Improving the resiliency of the Panama Canal will require significant engineering and construction work. U.S. firms can and should be at the top of the list of bids considered. Further, the United States must address any conduct by foreign competitors that American companies are legally prohibited from engaging in. Commercial opportunities abound throughout the Americas and our foreign and commercial services must embrace their roles as champions of U.S. businesses in spite of a strong presence of anti-US and Chinese aligned local media outlets. The U.S. Embassy in Panama is a crucial part of these efforts. Having an ambassador confirmed, in place in Panama, and protecting our national interests must be a priority.

Second, we must protect the independence of the Panama Canal Authority. Any effort by other interests in Panama to diminish the independence or professionalism of the Authority must be stopped. Building or expanding relationships with the Panama Canal Authority can increase its capabilities and competencies even further. The United States should work with the Authority to identify opportunities for technical collaboration or expertise sharing. One example is the U.S. Army Corps of Engineers, which has unparalleled experience in managing large public works projects. The relationship between it and the Authority could be formalized. Another opportunity for growing relationships is to foster closer, more frequent consultations between users, or their

representatives, of the Canal and the Authority leadership. Such exchanges would be productive, particularly if they identified and alleviated concerning issues before they become problematic issues.

Third, the Federal Maritime Commission will continue its monitoring and review of the practices of the Panama Canal Authority with a particular eye toward the appropriateness of pricing structure for transits. The Commission will also consider expanding its ongoing examination of the Authority to include other maritime/supply chain businesses operating in Panama. The authorities the Commission possesses under section 19 of the Merchant Marine Act of 1920 to address conditions affecting shipping in foreign trade (46 U.S. Code Chapter 421) authorize the Commission to address foreign government laws or practices that are harmful to US shipping. More explicitly, should the Commission formally investigate the practices of the Panama Canal Authority and find them to be unfavorable, the Commission could act against the Republic of Panama broadly as opposed to the Authority specifically. The Commission can levy significant remedies under the law, including substantial daily fines and barring Panamanian-flagged vessels from calling at U.S. ports.

More than one-third of the U.S. economy is tied to goods, commodities, and inputs that move by sea, and the Panama Canal is an indispensable part of the ocean-linked supply chains on which we are reliant. Safeguarding the viability of the Panama Canal for the coming century and beyond must be a priority we meet if we want to remain economically competitive.

Thank you for your attention and interest. I am pleased to address any questions you might have.