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THOUGHT LEADERSHIP

LEGAL UPDATES

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Panama Canal Tightens Draft Restrictions as El Niño Intensifies—What Shippers Need to Do Now

The Panama Canal Authority (ACP) has reduced maximum vessel draft limits in response to rapidly developing El Niño conditions, and forecasts suggest the situation may worsen well into 2027. Shippers with Canal-dependent trade lanes should understand their exposure and take steps now before conditions deteriorate further.

NOAA currently projects an 81% chance that the developing El Niño event will reach “very strong” status by late 2026, and the ACP has already imposed five successive draft reductions as vessel backlogs continue to grow. Although the ACP has not yet reduced daily transit capacity, recent history shows how quickly conditions can deteriorate. During the 2023-2024 El Niño event, drought conditions forced the ACP to restrict vessel transits and cargo capacity, which created significant congestion, increased transportation costs, and disrupted supply chains across Canal-dependent trade lanes. Canal water levels already sit below historical averages, so shippers should not assume current restrictions represent the peak impact of this event.

What this means to you

Existing transportation contracts create the most immediate risk for many shippers. Draft restrictions reduce vessel capacity, and transit restrictions can create substantial delays. Many carrier bills of lading, tariffs, and NVOCC service arrangements let carriers reroute cargo, omit ports, adjust sailing schedules, or limit cargo quantities while limiting the carrier’s liability for resulting disruptions. If the ACP reduces daily transit slots as it did in 2023–2024, schedule delays could increase materially, and shipping contracts may allow carriers to reroute, omit ports, or reduce cargo quantities without triggering liability.

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Shippers with delivery obligations to their own customers should review downstream sales contracts and purchase orders for force majeure provisions and delay-liability clauses. Canal delays may leave a shipper with limited recourse against its carrier but significant exposure to buyers for late delivery. Companies that rely heavily on Panama Canal routings should identify alternative transportation options now, even if they do not need to reroute cargo yet. Once congestion develops and capacity tightens, alternatives will become more expensive and harder to secure.

Contact us

Our Transportation & Logistics team advises shippers, cargo owners, and carriers on maritime contract review, force majeure analysis, cargo claims, insurance coverage, and supply chain risk management. Because each client's contracts, trade lanes, and business operations require a tailored preparation strategy, affected shippers should review their individual contracts and contact us for a focused assessment. If you have questions about how El Niño-related Canal restrictions may affect your operations, please contact Julie Maurer, Benjamin Nashed, Serena Tang, or your Husch Blackwell attorney.