

Panama Canal Authority's Aleman at the Helm of New Wave
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The expansion of the Panama Canal, due to be completed in 2014, is one of the world's most ambitious engineering projects in decades, an audacious plan that is sending waves of change across the maritime world. The Journal of Commerce in its Cover Story today profiles the leader behind the expansion, Alberto Aleman Zubieta, Panama Canal Authority CEO and administrator. Comprehensive coverage by Senior Editor Peter T. Leach complements an exclusive interview with video and podcast features on www.joc.com.

Aleman has been the driving force of change for the Panama Canal authority since the canal moved from United States jurisdiction in 1999, leading a change in the local as well as international perception of the canal while expanding profits and traffic to make the \$5.25 billion expansion project a reality. "We were not an island in the world. We were part of a world transportation system, and we needed to make that system work," Aleman said. He aims to make Panama the transshipment hub for the hemisphere, with ports on both oceans transshipping cargo up and down the east and west coasts of North and South America as well as the Caribbean.

The completion of a new, third, set of locks along the canal -- which will be able to accommodate ships twice the size of the existing locks and with up to three times as many containers - is the key to the anticipated capacity increase. Viewed from the construction site, it resembles the makings of an entirely new canal alongside the old one, said JOC Senior Editor Peter T. Leach on a recent tour of the soon-to-be opened locks. "That the work is being done while the canal continues to operate ... is all the more remarkable," he said.

Shipping's Master Builder
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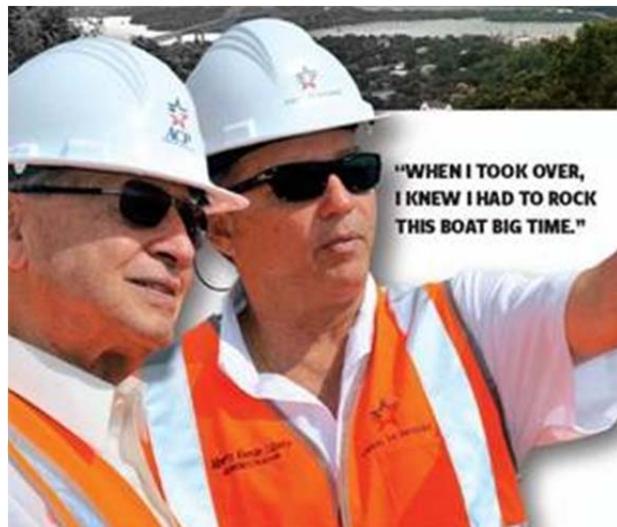
Alberto Aleman Zubieta had no illusions about what he was facing when he presided over the Panama Canal's transition from U.S. jurisdiction to Panamanian control at the end of 1999. "When I took over, I knew I had to rock this boat big time," the CEO and administrator of the Panama Canal Authority said. "We had to change it 180 degrees from what we were doing before."

He certainly has rocked the boat.

Aleman undertook one of the world's most ambitious engineering projects in decades, an audacious plan that is sending waves of change across the maritime world and rivals in scope the construction of the Panama Canal itself more than a century ago. He calls the expansion of that initial bold creation a "game changer" for world trade. Viewed from the construction site, the sprawling work looks a lot like the makings of an entirely new canal alongside the old one.

That the work is being done while the canal continues to operate, carrying ships along the narrow Panamanian isthmus between the Atlantic and Pacific oceans, is all the more remarkable.

From his wood-paneled offices in the magnificent building atop Balboa's Ancon Hill, which the U.S. built in 1913 to house the canal's headquarters, Aleman is only the most visible part of the project. "First, I needed to change the culture," he said.



Aleman said he knew upon taking over as administrator on the U.S. handover that the canal probably would run out of capacity to handle more ship transits. He had been working for the U.S.-run Panama Canal Commission since 1995 and spearheaded the Canal Capacity Study that would lead to a new Master Plan for Expansion in 2000.

The U.S. had run the canal along military lines since President Theodore Roosevelt named Col. George Goethals of the U.S. Army Corps of Engineers to take over construction of the original canal in 1907. That discipline helped builders cut the canal through the Central American rainforest in the last century, but a larger canal would have to be built in a different world.

"It had been a very military organization, just like the U.S. Army," Aleman said. "It worked very efficiently under the old system, but we had a lot of young people who wanted to change things, and we needed to change from managing a budget to managing change."

He started by simplifying procedures and empowering his employees to make decisions and become more creative. "Change had to be the norm," he said.

Aleman, who earned his degree in civil and industrial engineering at Texas A&M, now runs a business enterprise with some 10,000 employees that generates \$2 billion in annual revenue.

That revenue comes from the tolls on some 14,000 transits through the 50-mile canal by ships ranging from Panamax-size container ships with capacities of almost 5,000 20-foot equivalent container units to yachts and sailboats.

Those smaller commercial vessels would have no trouble transiting the locks Goethals built, but as shipping lines built post-Panamax vessels too large to transit the old canal, Aleman knew he would lose more Asian business to other routes. The operating efficiencies of ships capable of carrying more than 10,000 TEUs would render the canal irrelevant for many container ship operators, driving business either to the U.S. West Coast for connections inland through the rail landbridge or through the larger Suez Canal to the U.S. East Coast.

Finding a way to pay for the canal expansion became as large a test for the Panamanian-run canal as the engineering work, and that's where Aleman needed organizing and political skills that made the engineering look simple.

The only source of canal revenue was tolls. But under the old U.S. system, every ship was charged the same way, whether it was a bulkier, a tanker or a container ship — on the basis of its tonnage.

Aleman didn't tackle the toll structure right after taking over, because the canal had "bad relations" with the agents of shipping lines. Instead, he tried to prove the canal could provide much better service under Panamanian ownership and improve relations with shipping lines.

The authority kicked off this effort by modifying the reservation system to better serve shipping lines, but the day it planned to test the new system, a tugboat sank in one of the locks, closing one of the two passages of the Miraflores Locks. Many suggested the test be postponed. Aleman went ahead, saying, "Let's test it under stress." That showed the industry the authority could stick to its scheduled reservations even under trying circumstances.

The reliability of the new system drew more container services, which are more dependent on schedules than the tankers or bulkers that accounted for greater canal traffic at the time.

At the same time, Aleman undertook a campaign to improve the canal's image in Panama, where it had long been viewed as a U.S. asset. "Even though it was in Panama, it was not regarded as Panamanian," he said. "We needed to teach the people the value of the asset and to have them feel ownership."

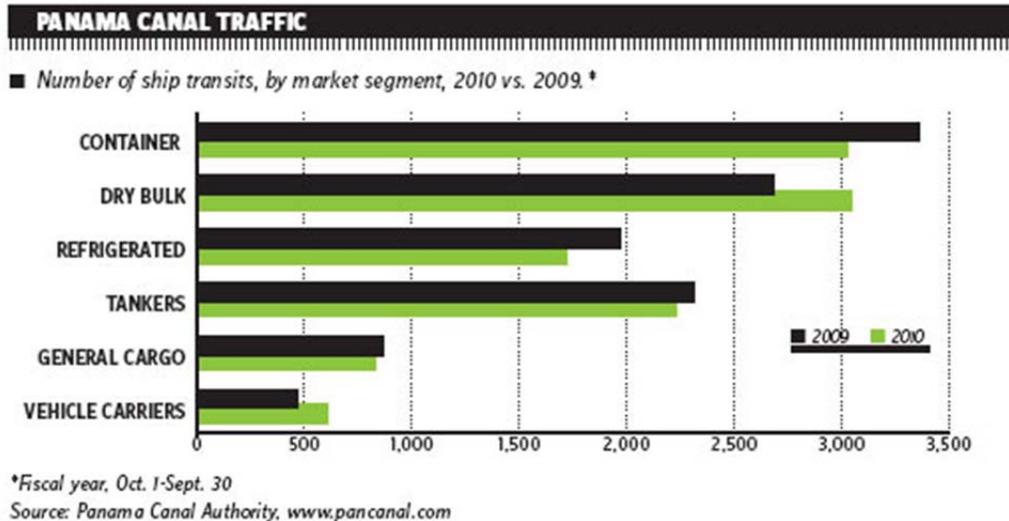
The education effort led up to a national referendum in 2006 to approve the massive project. "We had to explain to the people the benefit of the canal and what would be the cost if it were not expanded," Aleman said.

To answer environmental opponents, the canal authority redesigned the project, modifying the size of the watershed that would be set aside by incorporating water-saving basins next to each of the new locks that would use 27 percent less of the freshwater used to operate the existing locks. The project won approval in the referendum by 78 percent in October 2006.

Events on the other side of the world made the effort more pressing. China's trade with the U.S. ballooned after the Asian giant joined the World Trade Organization at the end of 2001. Then came the 2002 West Coast ports' lockout,

which shifted more Asian shipments to the East Coast through the Panama Canal. Even after the lockout ended, growing Chinese trade overwhelmed the West Coast ports, and cargo diverted to the East Coast through the canal began to back up.

"We were not an island in the world. We were part of a world transportation system, and we needed to make that system work," Aleman said.



The canal adapted to the growing traffic by changing the reservation system and improving the existing canal with lighting that allowed night transits. The ACP, as the authority is known, stepped up dredging of channels in its lakes and increasingly bought new, more efficient electric locomotives to guide the ships through the locks.

In 2004, the canal authority proposed a new way of assessing tolls. In the case of container ships, it wanted to assess tolls on the capacity of the ship and the number of loaded containers being carried.

"I was told I was killing the cow, but I said the law of supply and demand would prevail and that the day Panama sets the tolls too high is the day we start losing business," Aleman said.

When in 2006 the canal authority put forward its plan to expand the canal's capacity by building a third set of locks that could accommodate ships twice the size of the existing locks and with up to three times as many containers, shipping executives understood the \$5.25 billion project would have to be financed through ever-higher tolls.

Many container executives warned the tolls would drive them to seek alternatives. "We are always looking at the cost of shipping via landbridge or through Suez as an alternative to the East Coast of the United States," Adolf Adrion, managing director of Hapag-Lloyd, said at the time the project was proposed. "If costs of tolls and services go too high, it will force us to ship elsewhere."

Scale, however, is changing the economics of shipping. The largest container ships entering fleets in the past two years are more than double the largest ships of just a few years ago. And the economics of scale that work for shipping lines have to work for the Panama Canal or the canal won't be a part of the shipping equation.

"Shipowners can move routes, but I can't move the canal," Aleman said. "But we needed to expand the existing infrastructure."

He insists the canal's tolls are worth the value of the shortcut and represent a fraction of shipping costs. When four ambassadors to Panama complained to him about the higher tolls their shippers would have to pay for the expansion, he said, "The tolls would add \$3 per TEU, but the carriers were raising rates by \$750 per TEU, so I asked, 'Where are the letters you are sending to these lines?'"

The results already have changed Panama's urban landscape.

Voter approval of the project in 2006 touched off a building boom that has transformed the Panama City skyline, with 60- to 70-story apartment buildings and office towers lining the Bay of Panama. The building is encouraged by tax incentives and by the expectation that completion of the canal will attract more international business to Panama. The skyscrapers aren't officially part of the canal, of course, but they're the result of the work Aleman and his team have undertaken. Aleman calls Panama "the only port in the world that has two oceans."

He said the 50-mile length of the canal connecting Balboa on the Pacific with Colon on the Caribbean is the same length as the Port of Antwerp from terminals at one end of the Scheldt River port to the other. He thinks the canal expansion will make Panama the transshipment hub for the hemisphere, with ports on both oceans transshipping cargo up and down the east and west coasts of North and South America as well as the Caribbean.

Aleman thinks the expansion will attract so much new business and talent the country will start exporting knowledge, much like Singapore does. "We need to invest heavily in education. At the end of the day, we are improving the labor forces in Panama. It prepares us for new progress," he said.

The 59-year-old Aleman will come to the end of his second seven-year term as administrator of the canal authority in August 2012, two years before the scheduled completion of the expansion project. He will have to step down because two seven-year terms are the limit.

Aleman plans to return to the private sector, where he was once president of the Panamanian construction company known as CUSA, before he started doing pro bono consulting work for the old U.S. Panama Canal Commission in 1995.

As administrator of the canal authority and the chief proponent of the new locks construction project that will put Panama at the nexus of many of the main east-west trade lanes, he is one of the most respected figures in his country and is said to have political ambitions.

But he shrugs off that idea. "All I want to do," he said, "is improve my golf game, which has been down to shambles, and spend more time fishing and maybe writing my memoirs."