Section I:
A Profitable Growth Strategy for the PCC

Panama Canal Growth Strategy

I. A Profitable Growth Strategy for the PCC

The Panama Canal is at a moment of unprecedented opportunity and challenge. The passing of ownership from the United States to the Republic of Panama will fundamentally change the legal and political framework that has governed the Canal's operation for the last two decades. The Republic of Panama will gain new prominence in the world maritime community as it takes on full responsibility for the Canal's management. It is critical both for the Panamanian nation and for international commerce that the country succeed in this expanded role.

The Canal is a large, complex enterprise representing close to 10% of the nation's GDP. It requires significant ongoing investment in maintenance and capital improvements. The Canal historically has been able to fund its own capital requirements and to generate a comfortable surplus (payments to Panama's Treasury). However, the Canal's core customer base--the ocean freight companies--are part of a highly competitive and dynamic industry. These companies are on a never-ending quest for the most cost-effective means of moving cargo around the globe. Additionally, they are using and ordering larger post-Panama-size vessels and "land bridges" that reduce the number of Canal transits. The Canal's stewards can not afford to assume either the undying loyalty of their customer base, or that future operating costs and investment requirements can be covered by raising tolls.

This report defines the Canal's challenge first and foremost as a business challenge. Managing the Canal as a business will provide focus and discipline. These ingredients will help ensure that the Canal remains an economic asset for the Republic of Panama rather than a liability that requires public subsidy.

Successful businesses are managed with one overriding objective: profitable growth. Profitable growth is important in a financial sense because it increases the value of an enterprise to its owners. Profitable growth is important as a matter of managerial philosophy because it challenges the enterprise and everyone in it to do their best, to seek continuous improvement in everything they do, and to remain intensely engaged with the challenges and opportunities presented by the ever-changing business environment. To ensure the Canal's long-term viability, it is imperative for the PCC to see itself as a world-class business and to embrace the challenge of profitable growth.

This is a particularly favorable moment to take on this challenge. Since the Panama Canal Treaty of 1977, the PCC has maintained a tight focus on its core marine transit mission. By mutual agreement of the United States and Panama, it has withdrawn from past and prospective involvement in a host of non-core business activities--from repairing outside vessels to drawing on the Canal's power as a tourist attraction. With the change in ownership, the historical reasons for this limitation on the Canal's activities will disappear.

The Canal's positioning for profitable growth is truly extraordinary. Here is an organization with a one-of-a-kind core business asset; long-standing relationships with a large number of important customers; a variety of skills and facilities that are unique in Panama and Central America; and a sizable revenue base. Most important of all, the Canal has a large, capable and dedicated work force that has a deep tradition of accomplishment and professionalism. To realize its potential for profitable growth, the Canal needs only a vision of its own possibilities, a strategy, and commitment.

This report lays a foundation for a Panama Canal business strategy--specifically, a strategy for profitable growth. The strategy should be oriented first toward the long-term success of the Canal as a business entity. Moreover, it should recognize and embrace the Canal's potential as an economic asset for the Republic of Panama. It is clear that the Canal has much to contribute to Panama's economic development. A growth strategy must not overlook this fact or a unique opportunity for the people of Panama would be missed. Fortunately, the two aspects of the Canal's mission are not in fundamental conflict. The Canal can and should pursue a growth business mission in a way that also supports its role as an economic development catalyst.

This report has four goals:

- To present growth strategy concepts and their applicability to the Panama Canal ;
- To identify the Canal's most promising opportunities for profitable growth;
- To offer a process for choosing the best of these opportunities and developing a strategy around them; and
- Most critically, to frame a vision of the Canal's potential as a growing, successful business enterprise as well as engine of economic development.

1.1 Growth Strategy Concepts

A variety of expectations surround the Canal's mission. It is critical that the Canal be managed as a business. However, it is also critical that the Canal fulfill its potential as an economic development asset for the Republic of Panama. This circumstance necessitates the use of growth strategy concepts from two distinct frameworks: business strategy and economic development.

1.1.1 Business Strategy Growth Framework

- **Profitable Growth**

The goal of business strategy is to increase the value that an enterprise has to its owners. Growing revenues is one way of increasing enterprise value--as long as the revenues are grown faster than the investment needed to generate them. When this is the case, a business experiences profitable growth.

■ Strategic Competencies

A business is most likely to achieve profitable growth if it focuses in areas that draw on its strategic competencies. A strategic competence can be defined as a combination of human, physical and financial elements that allow an enterprise to participate effectively in a competitive business arena. Skills, know-how, business processes, capital assets, technologies, cash flow and borrowing capacity all contribute to strategic competencies.

A competence is typically created by the combination and interaction of multiple factors. Wal-Mart's procurement competence, for example, which is so critical to its dominance of the U.S. mass merchandising industry, is not simply a matter of having staff buyers with certain skills. Wal-Mart's investment in its network of stores, leading to its superior scale and greater buying power vs. its competitors is clearly a factor. Wal-Mart's vendor protocols, such as delivery within a narrow time window, also has something to do with it. And Wal-Mart's information systems, which link its vendors to consumer demand in real time, is another factor. Wal-Mart's procurement competence really does involve skills, policies, business processes, and capital assets and can not be understood without considering all of these elements and the way they fit together.

All businesses have limited resources. If the ultimate goal is to increase enterprise value, the imperative is to use those limited resources in as effective a manner as possible. If the path to this goal is growth, the imperative is to focus in areas where the business starts with at least some of the prerequisites for competitiveness. The PCC has competencies in a diverse range of areas, so it should be natural for it to take on the challenge of growth on a competence led basis. Figure I-1 shows the typical growth strategy concepts that are used in developing a business strategy. Figure I-2 shows the concepts that are applicable to the Panama Canal.

■ Core Business Growth

By definition, healthy enterprises have strategic competencies in their core businesses. Core businesses, therefore, are a logical starting point for a growth strategy. Core business growth can proceed down three potential avenues:

- Growth with the market
- Growth through acquisition of market share
- Growth through increased price realization or "yield management."

■ Growing with the Market

The first avenue, growing with the market, accounts for a great deal of the growth that businesses actually experience. However, most managers would not recognize passive reliance on market growth as a legitimate growth strategy. This is doubly true for the Canal, since market growth for

FIGURE I-1
GROWTH STRATEGY CONCEPTS

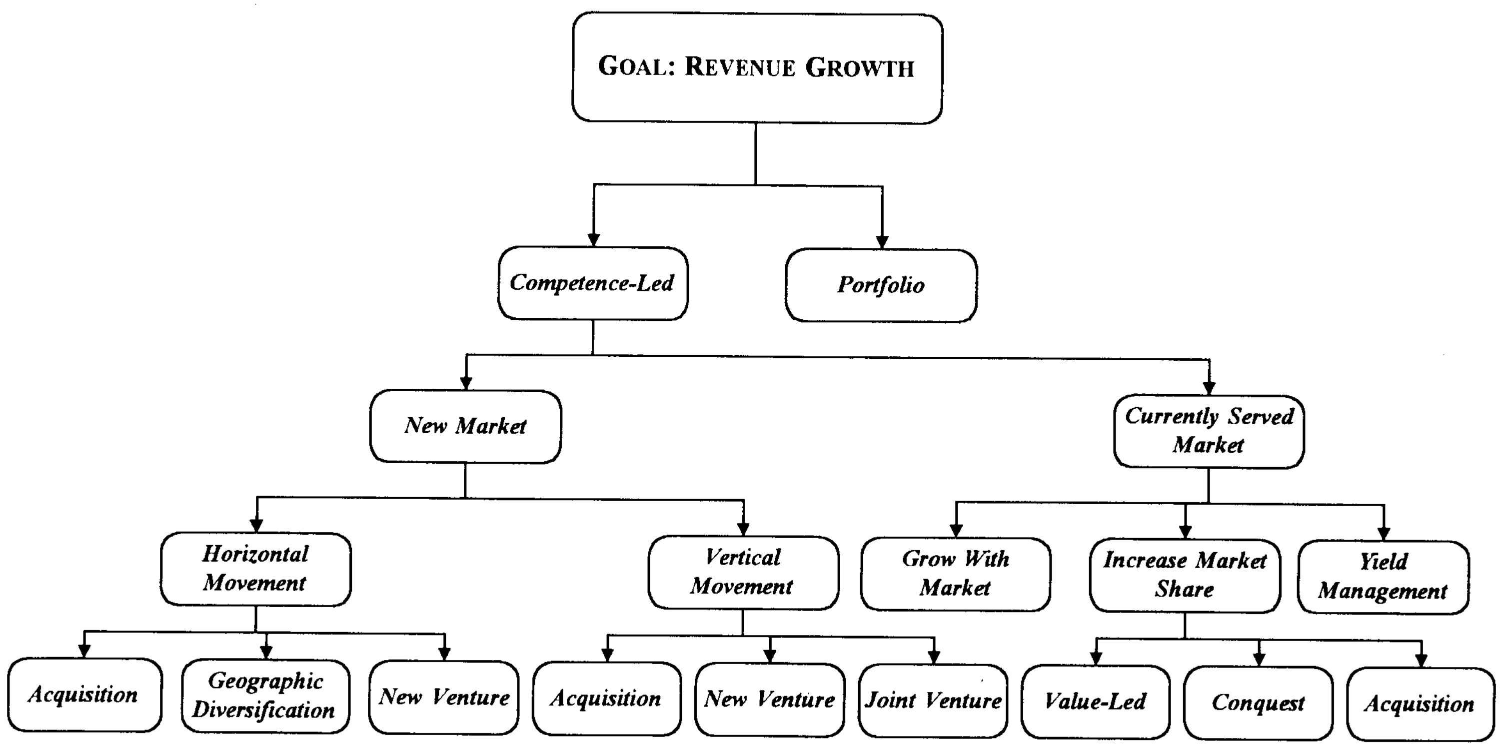
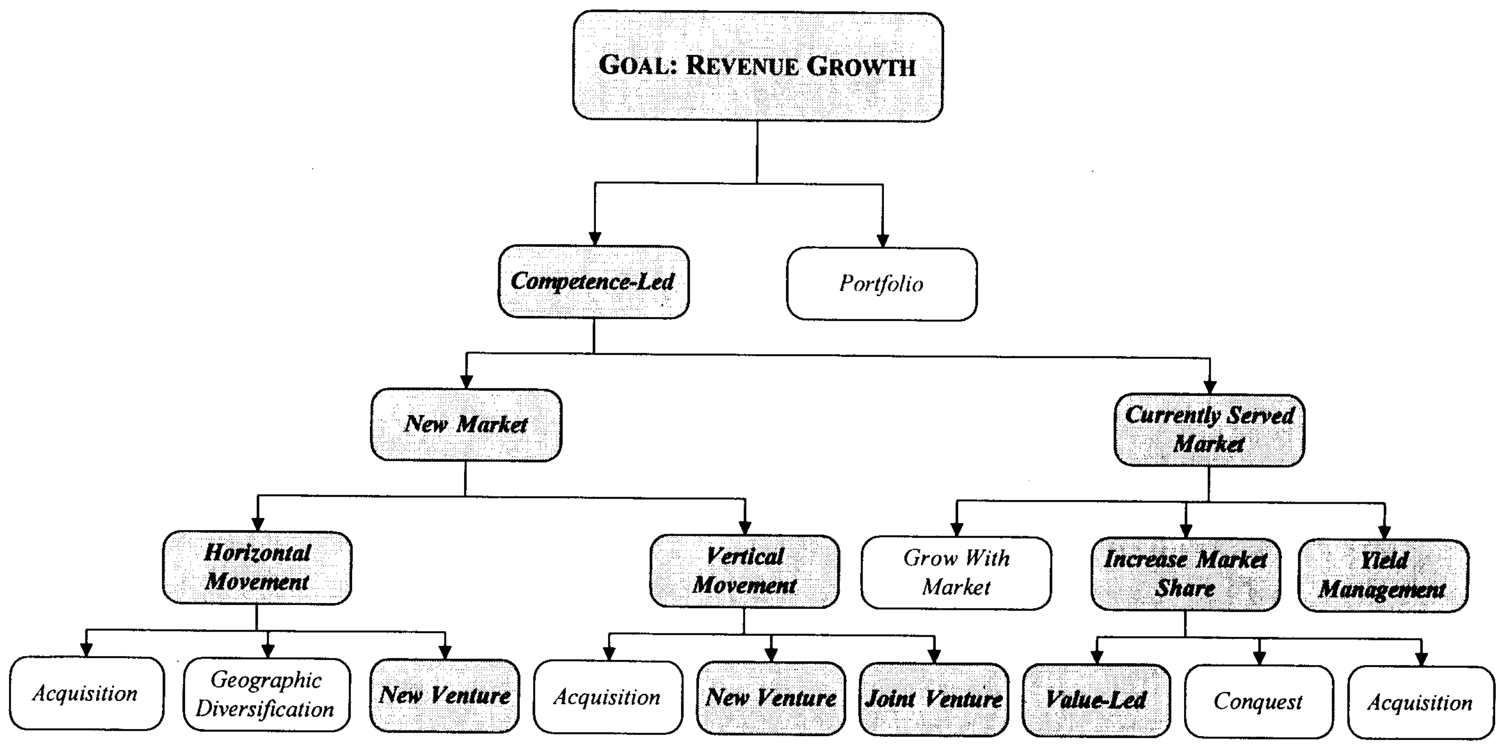


FIGURE I-2
GROWTH STRATEGY CONCEPTS
APPLICABLE TO PANAMA CANAL



its core vessel transit business did not grow significantly in the past 10 years (until 1995) and is projected at only 1-2 % per year.

- **Growth through Market Share Acquisition**

The second avenue, growing through acquisition of market share, consists of three major paths:

- Competitor acquisition
- Conquest
- Leading with Value

Competitor acquisition is clearly not a viable approach for the PCC. The PCC is unlikely to be able to acquire the Union Pacific Railroad for example. Conquest, meaning a drive to take share away from competitors regardless of the consequences for industry pricing, also does not seem to be a relevant alternative for the Canal, particularly since the Canal is operating at close to capacity. "Leading with value" is a process of gaining market share by adopting differentiated product/service features that create more value for the customer than the competitive alternatives. This strategy is a good fit with the Canal's current situation in its marketplace. Differentiation already exists vs. the land bridge, for example, in that the total origin-to-destination cost for the steamship lines on many routes is lower through the Canal, while the total time en route is higher. One possibility in this situation is that a small reduction in the time differential and/or its predictability (by refining the Canal's reservation booking system, for example) would lead to a relatively large change in value to the customer and a corresponding increase in the Canal's share in some market segments.

- **Growth through Yield Management**

The third avenue, growing through increased price realization, or "yield management," is often paired in a tradeoff relationship with market share growth (higher prices mean lower market share; lower prices mean higher market share). Over the last two decades, the Canal's management objectives, due to legal limitations, have not included optimizing either end of this tradeoff. This circumstance creates an opportunity going forward to realize growth from both market share and yield management initiatives.

A key tool for accomplishing this objective is pricing or yield management analysis. This analysis is directed internally, to understand the costs associated with serving different types of customers. Externally, it aims to understand the cost and price tradeoffs that the Canal's customers make in choosing a route between origin and destination. The internal analysis might show that the cost is much lower than the price for certain customer segments, for example. Tolls could be reduced for these customers without forcing profitability below an acceptable level. This in turn could lead to an increase in market share. Similarly, the external analysis might show that certain customer segments could afford to pay higher tolls without being forced to consider alternatives. Tolls could be increased for these customers without a corresponding significant loss of market share.

- **New Business Growth**

In considering growth into new business arenas, the question of strategic competence assumes critical importance. However, the make-up of an enterprise's list of strategic competencies is not always obvious. It is essential that an enterprise conduct a thorough and honest inventory of its competencies before going too far with new business diversification.

- **Market Attractiveness**

Growth initiatives all tend to require a certain minimum investment, both of cash and of senior management time. The return on that investment is contingent on what size the initiative ultimately attains. It is very important, therefore, to aim growth initiatives at markets whose size and growth can support a business of adequate scale to justify the investment to launch it. The PCC should keep this in mind particularly as it considers opportunities in the relatively small Panamanian market, compared to a $600 million business.

- **Vertical and Horizontal Diversification**

Enterprises can move in two directions as they use their strategic competencies to launch new business initiatives. Vertical movement involves diversification up or down the value chain from the core business. The PCC's decision to generate the electricity needed to run the Canal itself is an example of vertical diversification. Horizontal movement involves diversification into product/service areas that are related in some way to those of the core business. Offering vessel repair services to outside customers would be a horizontal diversification move for the Canal.

The Canal has several new business opportunities that involve expansion of activities that are the result of historical vertical integration initiatives, among them power generation, fresh water supply, and telecommunications. Typically, the PCC lacks some elements of the full competence that would be needed to manage these as externally oriented growth businesses . For example, the PCC's technology may be out of date, or its engineering capability may be too narrow. In these cases, the best alternative may be a joint venture with an outside business that has complementary expertise, assets, etc.

The Canal also has a number of horizontally oriented new business opportunities. For many enterprises, acquisition of outside businesses is the approach of choice for horizontal diversification. However, acquisition is not appropriate in the PCC environment, and in any case, it requires a particular competence which the PCC lacks. The likeliest approach for the PCC, at least for the near-term, is to launch new ventures that are related to its core business. Maritime statistics publishing and maritime services would both fit this pattern. Longer-term, development of an air cargo hub to serve a faster growing market segment of the international shipping industry would also be viewed as a horizontal diversification opportunity.

1.1.2 Economic Development Framework

The PCC is one of Panama's largest employers, a significant source of foreign exchange, and an important contributor to the country's treasury. While this makes the Canal a significant economic resource, its potential as an engine of economic development is even greater. The following four key concepts will help the PCC fufill this potential in a way that is compatible with its profitable growth strategy.

- **Economic Development Roles**

A country's business sector is the engine of its economy. Economic development success is created by the success of the individual businesses that make up an economy. While business must be in the lead, the role of government in economic development is no less important. It is government's job to create the conditions that will allow businesses to take advantage of the country's strengths and assets as they seek competitive advantage in their respective markets. Government has responsibility for factors such as business climate, infrastructure, and work force quality. Furthermore, it has responsibility for anticipating the forces of economic change and working with business to harness those forces for long-term economic success.

- **Importance of Traded Businesses**

Traded businesses are those that bring in foreign exchange and/or those that are exposed to international trade. Most businesses in the manufacturing, large-scale agriculture and tourism sectors are traded. Most businesses in the retail and personal services sectors are non-traded. The Canal's core vessel transit is traded since the great majority of its revenues come from non-Panamanian customers. Conversely, the PCC's fresh water supply business in the Colon area is non-traded. Its sales are to local customers who would buy from another Panamanian source if the PCC did not exist.

Both traded and non-traded businesses are important contributors to the national economy. However, traded businesses are the most effective focus for economic development efforts as the he traded sector is the major conduit through which wealth enters the economy. This is the wealth that fuels the non-traded sector. If a grocery store goes out of business, its customers will buy their food at the next closest store. That store will add employees to handle the additional business. Total revenues and total employment in the retail sector will be unchanged. If the Canal goes out of business, the flow of wealth into the economy will be reduced, as will the number of employed persons. An offsetting shift of revenues and jobs to another business will not happen automatically as was the case for the grocery store. The newly unemployed workers will not have any money to spend on groceries. A decline in the size of the retail sector will be another outcome.

The implication of this for the PCC's growth strategy is that extra priority should be given to new business opportunities in the traded sector. Every traded sector job that the Canal can create will add to national employment. Creating a job in a non-traded business is really just moving a job away from some other employer.

- **Adding to National Competencies**

Why does Switzerland, a small, mountainous, land-locked country, have a higher average standard of living than India, a large country with numerous topographical and geographical advantages? The complete answer is clearly complex, but one part of it relates to national competencies. The Swiss are legendary for their skill in engineering and precision manufacturing (Swiss watches) and their reliability in financial management (Swiss banking).

A fundamental economic development challenge is deepening and extending national competencies. Just in business, national competencies can reside in people, in physical factors (e.g. infrastructure), and in financial factors (e.g. the cost of capital). Even if they are pursued for entirely selfish ends, business activities that add to national competencies tend to have an important economic development effect. A PCC initiative in the information services area, for example, might be good business, but it also would increase the number of computer programmers and the amount of computing power in the country, and might lead to the installation of new capacity in broad band telecommunications.

We recommend that extra priority should be given in the PCC's growth strategy to new business opportunities that add to the depth and breadth of national competencies.

- **Encouraging Economic Clusters**

An economic cluster is a geographic concentration of businesses in a particular industry. New York's Wall Street district is an example of a financial services cluster. Hollywood, California is an example of an entertainment cluster. What makes a cluster different from a random collection of businesses is the inter-enterprise interactions that occur <u>because</u> of the geographic concentration. For example, geographic concentration tightens relationships between industrial suppliers and customers, enhancing everything from delivery time to the quality of supplier research and development.

Economic development authorities are well-advised to devote particular effort to clusters. Once a cluster is seeded, it tends to grow by itself. Once it is well-established, it tends to be hearty in the face of adversity. New York City, for example, is notorious for its quality of life and business climate issues, but Wall Street is bigger and more robust than ever.

Panama's national maritime strategy, of which PCC is a part, is intended to promote the growth of a marine transportation cluster. The PCC can contribute by giving extra priority to business initiatives, such as maritime training, that can add directly to the activity in the cluster, and strengthen the positions of other participants in it, such as businesses who need employees who are well-grounded in maritime safety procedures.

1.2 Canal's Present Mission, Competitive Position and Transition

The PCC faces a unique opportunity as it considers a growth strategy for the next decade. Presently, the PCC has a clear focus that has served it well. Its basic mission is the safe and efficient transit of vessels of all nations from the Atlantic to the Pacific oceans across the isthmus of Panama. For many years, it dominated its market without any significant competition. No alternative navigable crossing exists other than the Strait of Magellan at the southern end of the continent, requiring a substantial increase in distance and time (See Figure I-3).

The Canal has a long and successful tradition in carrying out that mission for more than 80 years. Canal vessel transits have increased historically from a few thousand in the first full year of operations to levels as high as 15,000 annual total transits during record years in the late 1960's and early 1980's (includes small vessel transits). Since the early 1980's, total Canal traffic fluctuated within a range 20% below from those record levels. Vessel tonnage capacity and cargo volume peaked in 1982 and not until 1995 were these records surpassed. PCC revenues depend mainly on traffic and toll rates. Revenues have increased over the past 20 years, reflecting six toll increases (See Figure I-4).

Long term, indications are that without an aggressive marketing initiative, the number of Canal transits are likely to continue to grow slowly. The intermodal or land-bridge alternative across the US has become a significant competitor in some market segments. These alternatives rely on the efficiencies of double stack rail and larger than Panama vessel technologies, as well as logistics cost savings due to shorter transit time. Globalization has shifted production to some areas that do not require a Panama Canal crossing for access to major world markets. The creation of multinational economic blocks is encouraging more intra-regional trade rather than movement of products along the long-distance trade routes that require a Canal transit.

On the other hand, Canal traffic grew rapidly in 1995 and has been at record levels during recent months. Canal traffic increases in grains and other cargoes over the past 18 months have exceeded even the most optimistic projections. Corn shipments to China from the US Gulf coast have increased as China's demand has exceeded its internal production capacity. With China no longer a grain exporter, the US has also been serving its previous export customers. Containerized services have also formed several major worldwide alliances that, faced with congestion and higher prices on the land bridge routes, have increased their use of the Canal. In recent years, Latin American trade has also experienced faster growth as these countries open their economies. Uncertainties remain as to future trade through the Canal. Clearly, Canal markets and customer needs are changing.

FIGURE I-3
THE STRATEGIC LOCATION OF THE PANAMA CANAL

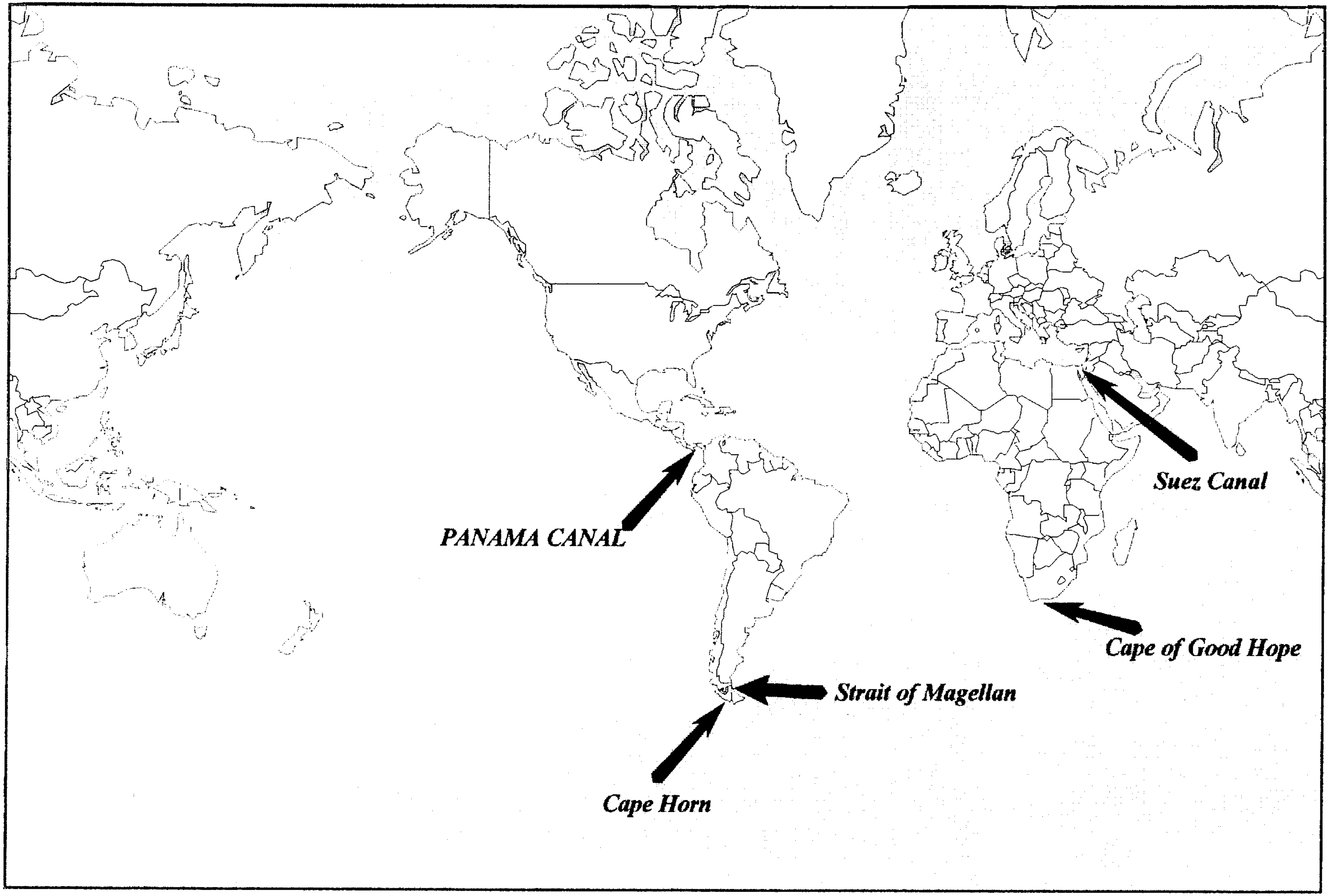
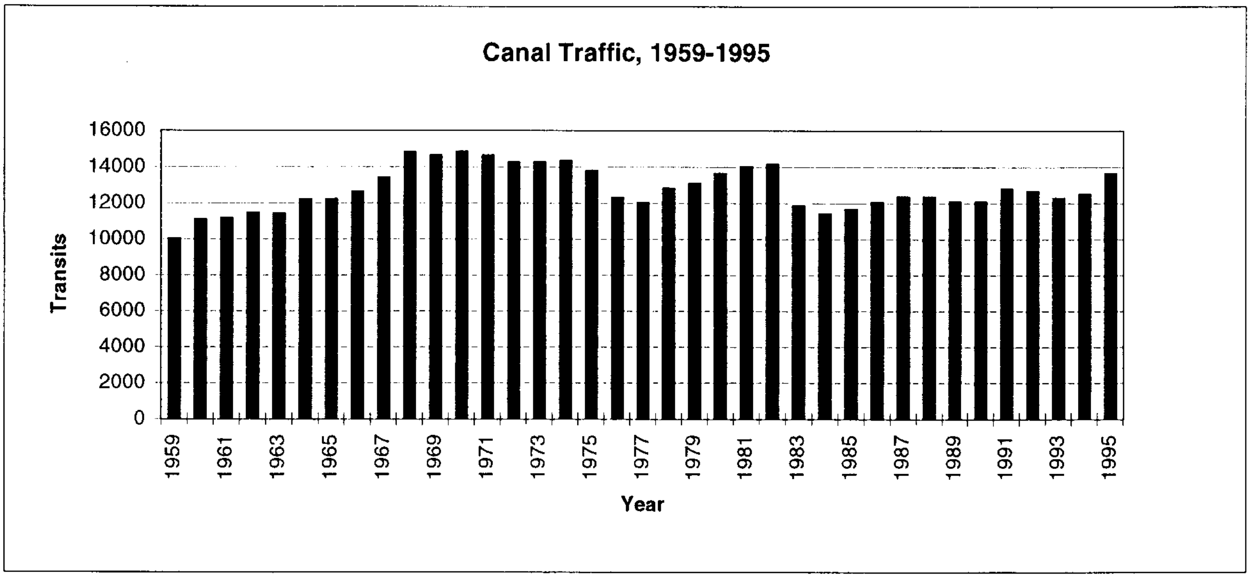
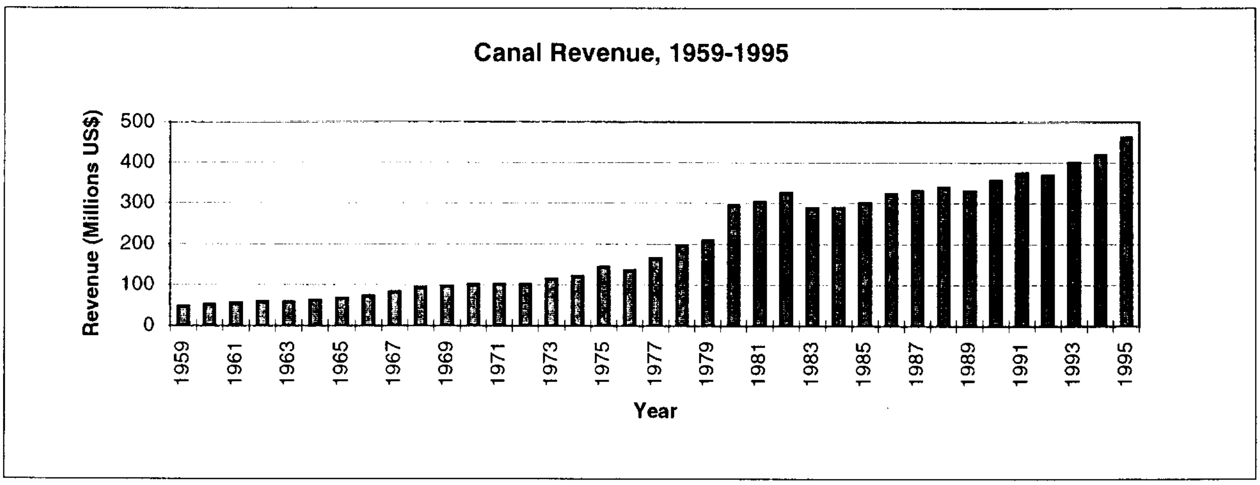
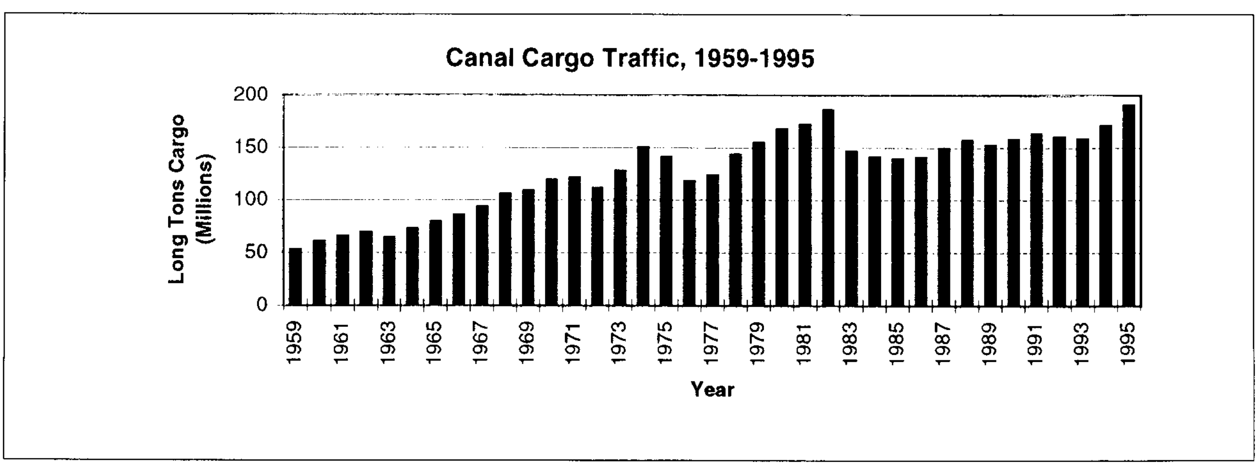


Figure I - 4
Canal Traffic, Revenue and Cargo Traffic, 1959 - 1995







Previous PCC studies have indicated that Canal transits are likely to grow slowly in the future at no more than a 1-2% average annual rate. If the organization is to plan for faster growth, it must consider how to optimize the use of its main asset, the Canal, and whether it should pursue new business opportunities, without adversely affecting the quality of its services in its core business.

- **Canal History and Evolution of its Mission**

The Panama Canal was built by the United States under the Treaty of 1903, which authorized the US to build the Canal through a ten-mile wide zone and to administer and protect it. The entity that operates the Canal has evolved over the years since the Canal opened to traffic in 1914. As originally established, the Panama Canal organization was an agency of the US government responsible for Canal operations and civil government functions in the Canal Zone area. The Panama Railroad Company was then a US government owned commercial company that ran the non-Canal related businesses.

The initial focus of the two major organizations in the Canal area was revised in the 1950's. The two agencies in the Canal zone then became both the Canal Zone government, which administered various government civil functions, and the Panama Canal Company, which included commercial operations, mainly related to transport and maritime shipping, such as ports, drydocks, the Panama Railroad, as well as the basic Canal operating functions.

The Panama Canal Treaty of 1977 defined the terms and conditions for the transfer of the Canal and the operation of the waterway from the US to the government of Panama. A transition period began in 1979 and will be completed in 1999 with the actual transfer of the waterway. After the treaty became effective in 1979, all the functions of both Canal area organizations were transferred to the government of Panama or the US Department of Defense, with the sole exception of the Canal operation. The business of the newly created PCC was then narrowed to focus solely on Canal vessel transits.

During treaty negotiations, the Panamanian government was interested in narrowing the scope and function of the Canal operating agency. By narrowing the basic Canal operating function, related commercial operations would revert to Panama as early as possible and opportunities would become available for private businesses to offer their products and services in the Canal area up to that point these services were managed by the Canal Zone government or the Panama Canal Company. The treaty and the implementing law imposed limitations as to allowed PCC functions and restricted the role of the Canal organization in commercial operations other than the core business of vessel transits.

Panamanian officials recognize that after the Canal reverts to Panama it will no longer be in Panama's interest to restrict commercial operations of the Canal organization. To facilitate a seamless transition and to allow the PCC to function in a more business-like manner, the US has recently passed legislation changing the PCC from a government revolving fund agency to a government owned corporate structure. Other legal and regulatory changes are being pursued to further facilitate a seamless transition.

At the same time, the Autoridad del Canal de Panama (ACP), a new legal organization under Panamanian law, is being created to take on the PCC's responsibilities. The ACP will have a degree of fiscal independence and budgetary approval separate from the overall Panama government.

- **Military Security - Related Function of Panama Canal Zone**

In addition to the PCC and its predecessor US government agencies that managed the vessel transit operations of the Canal, the US military has had a significant presence in the Canal area since the original treaty was signed in 1903. Just as there is a transition underway with respect to the Canal operation, there has also been a transition underway for the transfer of US military installations to the government of Panama. According to the treaties, all US military installations should be turned over to Panamanian control before or on the date of the Canal transfer. Panama has been concerned as to the negative economic impact of the closing of all military installations, and discussions are scheduled to start soon on whether a US troop presence and some military installations will remain in Panama after the year 2000.

- **Reverted Areas - Related Opportunity**

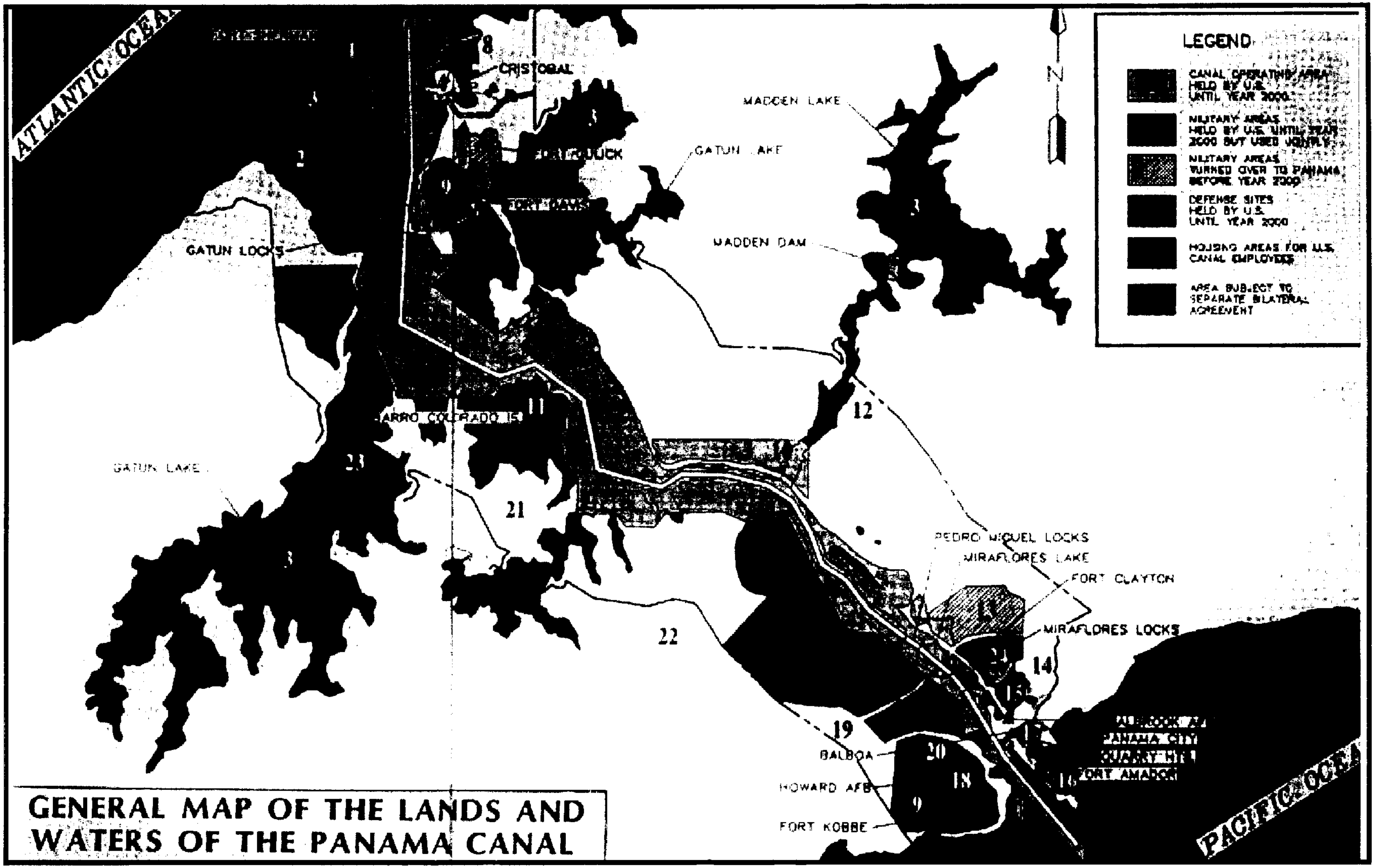
The Panama Canal Treaty of 1977 divided the previous Canal Zone into several areas: the Canal operating area (also known as the "pink zone", the military areas, housing areas, and other areas subject to separate bilateral agreements (e.g. Barro Colorado Island). (See figure I-5). The non-operating and non-military areas have mostly already reverted to the government of Panama. Some of the military installations also have already reverted. In accordance with the treaty, the rest of the military installations and the Canal area will revert prior to or on December 31, 1999.

Even if an agreement is reached to keep some US troops and military installations in Panama beyond that date, a large portion of the Canal area will have reverted to Panama by the year 2000, creating a unique opportunity for land and regional economic development. As of September 1995, 225,511 acres of a total of 364,078 had been turned over to Panama. Many of the development opportunities in these reverted areas reflect the value associated with their location near the Canal. The Canal has been the main engine for economic development in the Canal area and will remain as its centerpiece.

- **Interoceanic Regional Authority - ARI**

In 1993, Panama created the Interoceanic Regional Authority (Autoridad de la Región Interoceánica - ARI) to manage the property reverted to Panama under the 1977 Panama Canal Treaties. ARI has responsibility for planning and developing projects in the reverted areas. The law, amended in 1995, establishes ARI's main objective as the custody, utilization and administration of the reverted

Figure I-5
Canal Operating Area and Reverted Areas



properties. ARI can rent, sell, grant concessions, and administer the reverted properties not related to Canal operations. ARI also has responsibility to guarantee that use of the reverted areas will be compatible with continued uninterrupted use of the Canal operating areas for vessel transit services to the world shipping and maritime sectors.

ARI's responsibilities with regard to the Canal operating area are effective until the new Panama Canal Authority is established in accordance with the Constitutional Title. Furthermore, none of ARI's functions under its law are to extend beyond the year 2005, unless specifically extended by the law. At this time, all of ARI's functions will be transferred to other government units, as determined by the Panama Cabinet Council.

ARI has contracted to prepare a regional plan for the entire watershed area as well as a Master Plan for the reverted areas. As part of this effort, ARI has requested that its consultant consider what areas are really needed for Canal operation. ARI has been discussing with PCC areas that are presently part of the Canal operating area (or pink zone) that ARI would like to use for other purposes. Similarly, PCC has requested use of certain areas that are not part of the pink zone, but that PCC considers important for Canal operations. The watershed regional plan and the reverted areas master plan are scheduled for completion in 1997.

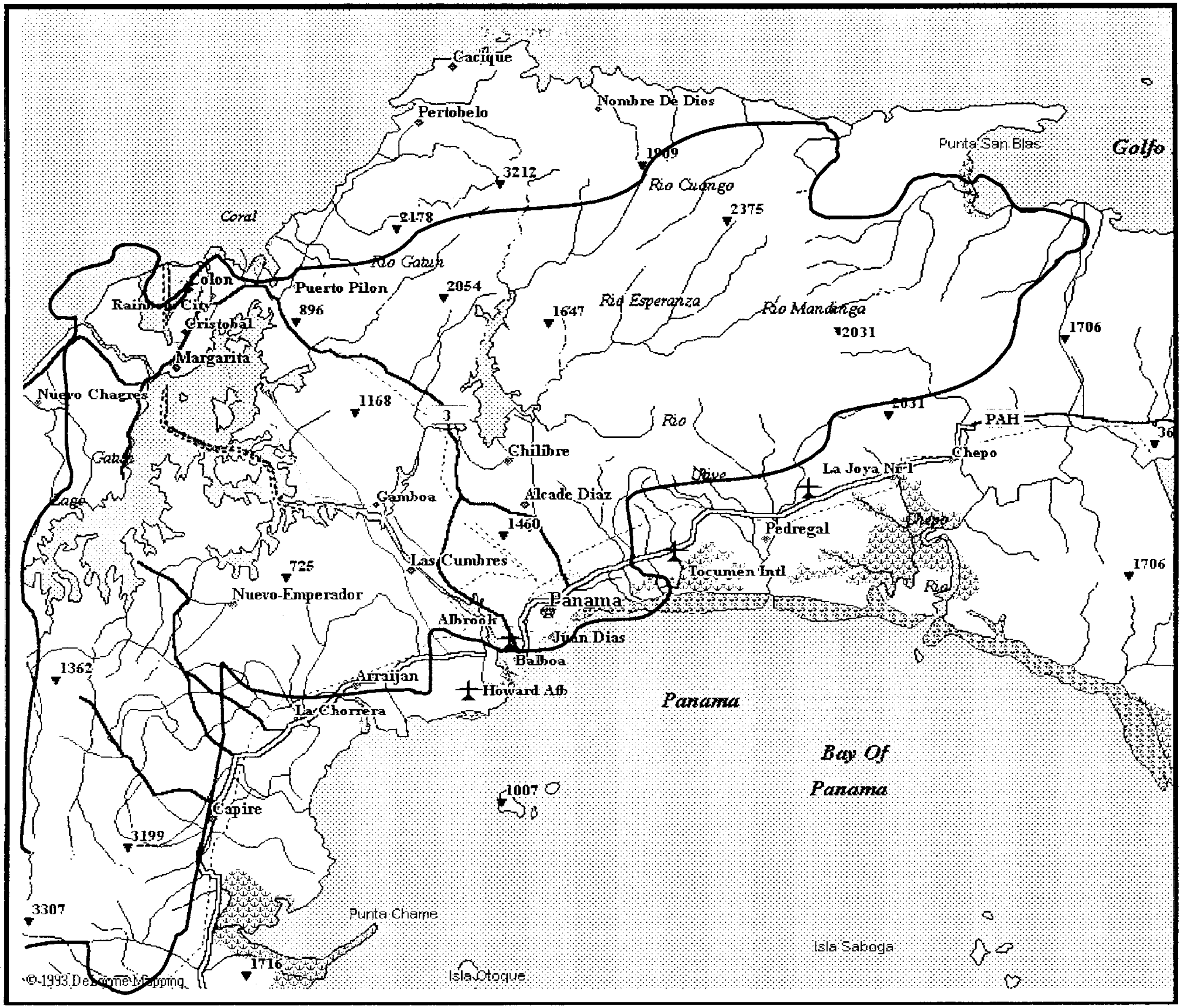
- **The Panama Canal Watershed**

While the reverted areas represent a unique opportunity for land and economic development, it is important that such development be compatible with long-term use of the Canal watershed for uninterrupted vessel transits. The Panama Canal's watershed, encompassing approximately 1,289 square miles, provides water for the Canal's operation (See Figure I-6). The lakes in the Canal are also a source of the power generated for both the Canal and the cities of Colon and Panama and the potable water for both urban areas.

The PCC paramount interest is to have sufficient supply to cover the requirements for vessel transits, even to the extent that hydropower production is curtailed in favor of preserving the water supply for the Canal's operations. Water supply effectively may be one of the primary capacity constraints that the Canal faces as the number of transits and/or vessel sizes increase. Recent studies suggest though that the historic average yields appear to be sufficient for current Canal transit capacity and drinking water supply for forecasted population growth.

In the future, though, if the Canal's capacity needs to be expanded through the construction of a new set of locks, this will likely require additional water to meet the Canal's operational requirements. Land outside the existing Canal jurisdictions and additional sources of water for operating the expanded Canal facilities will need to be committed to support the Canal's operations.

Figure I-6
Panama Watershed



There are several Panamanian agencies that are involved in various aspects of watershed management. As noted, ARI is presently preparing a Regional Plan for the watershed area. This regional plan must not jeopardize the long-term availability of water for Canal use. It is essential that the new Canal organization have a clear mandate to exercise this responsibility and protect the Canal.

1.3 Panama's Maritime Strategy

The Canal organization after the year 2000 will have an added role besides transiting vessels. Article Three of the adopted Constitutional Title calls for the integration of the Canal into Panama's national maritime development strategy. The Canal is viewed as an economic development magnet to attract all types of maritime sector activities and to establish Panama as an International Maritime Center. The Colon Free Trade Zone, located near the Atlantic entrance of the Canal, is the second largest duty-free zone in the world after Hong Kong and the largest employer in Panama (including private employers operating in the zone). As free trade multinational blocks are created and nations eliminate or decrease duties and tariff rates, the Canal is viewed also as part of the cluster of organizations that can help change the focus of the Colon Free Trade Zone and create a strategic alliance to make Panama the major distribution center for Latin America.

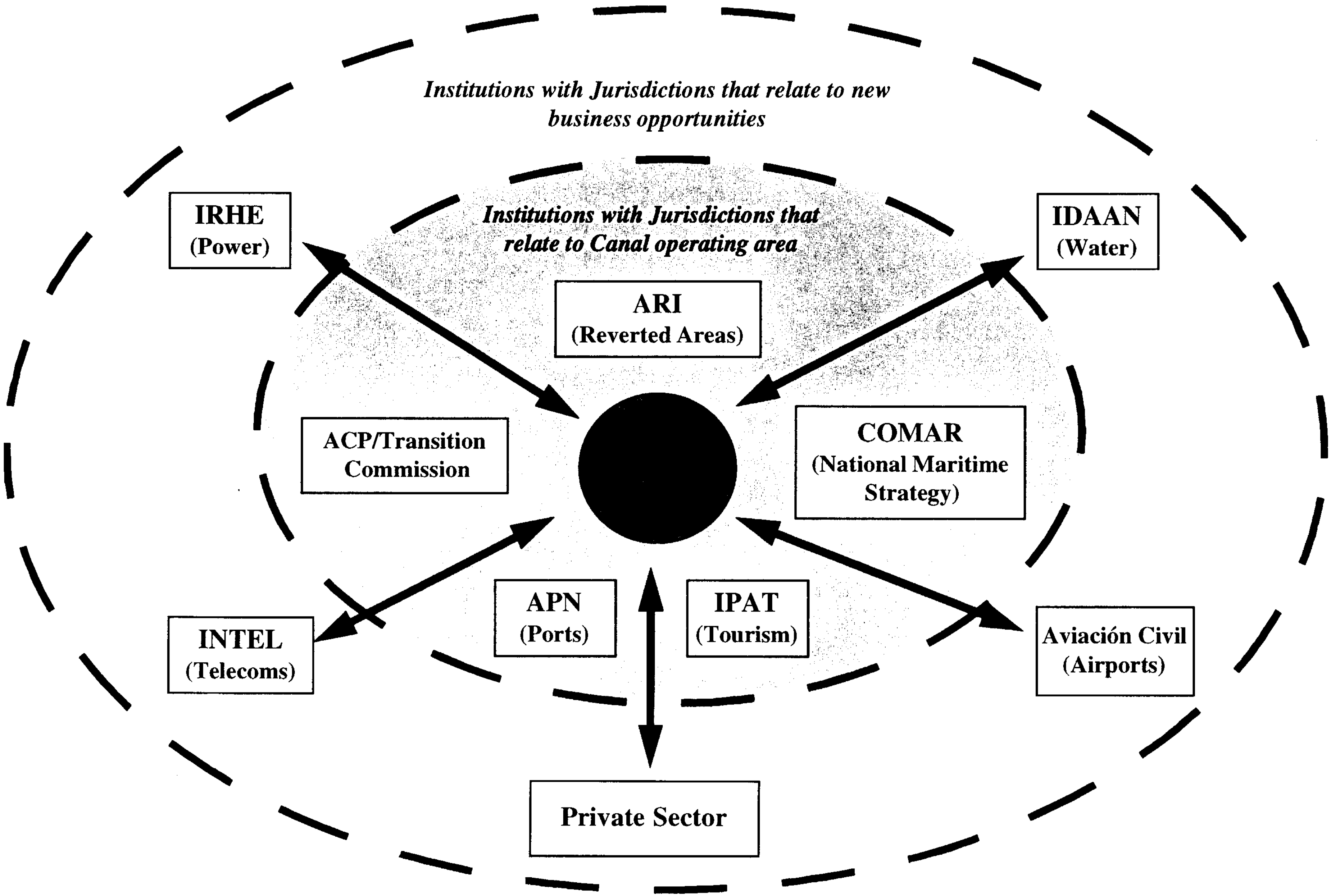
In September 1995, the Panama National Maritime Commission issued a National Maritime Strategy, setting forth policies to guide development of the maritime sector and the integration of the Panama Canal and the Interoceanic Region into the rest of the nation's commerce so as to generate economic activity and employment. One of the strategies outlined in this document is the use of Canal excess infrastructure and plant to support maritime sector development in Panama. The Canal clearly has an important role in Panama's vision as an International Maritime Center.

1.4 Overview of Growth Strategy Legal and Policy Environment

A Canal Growth Strategy for the 10 year period from 1998 to 2008 involves the last two years of US government management and the first eight years under Panamanian control. As such, any early actions and planning to pursue the strategy will require a consensus among the board members representing both countries, top management, as well as other groups in Panama who have an interest in the eventual role of the new ACP. The many Panama agencies involved in planning and development activities in the Canal area are shown in Figure I-7.

Panama can choose to establish the Canal as a break-even organization that continues to be solely focused in Canal transits, as required under the existing treaty and laws. Panama argued for imposing those restrictions while the PCC was a US government agency. After the year 2000, that reason no longer will remain. The challenge in developing a growth strategy is to recognize that the new Canal organization should have the flexibility to fulfill multiple roles, as a:

Figure I-7
Institutional Environment



- self financing profitable public sector enterprise;
- world maritime resource;
- generator of revenues for the Panamanian treasury; and
- development engine for the Panamanian economy

The Canal organization can then stimulate the creation of national wealth by focusing on profitability of its core business and other competence-based new business opportunities. By leveraging the Canal's competencies and its financial base, the growth strategy can create a new focus on profitable growth, and at the same time give the Canal organization an appropriate expanded role within the framework of Panama's national economic development and maritime strategy.