Section IV: Scope of Work for Phase II

IV. Scope of Work for Phase II

4.1 Objectives

The objective of this study is to develop a growth strategy for the Panama Canal, carefully evaluating ways to focus the mission and role of the organization in light of the new opportunities to pursue commercial ventures. The study will consider:

- how to grow the present core business of the Panama Canal Commission;
- what new or expanded business ventures should be launched by the PCC; and
- what the appropriate role of the new ACP should be in pursuing new commercial ventures.

4.2 Approach

The work involves five modules that are closely related to each other:

1. a strategy for the core business;
2. a strategy for new business opportunities and an initial strategy for selected priority businesses;
3. a financial strategy for the new organization;
4. definition of the institutional role for the new Canal organization; and
5. an umbrella growth strategy that integrates the four modules above

The first four modules will be carried out concurrently. Figure IV-1 shows a diagram of the Phase II approach.

The project will start with an initial meeting with the PCC Board and key management. It is recommended that the PCC Board appoint a Growth Strategy Committee to participate with the consultant in strategy development. Other PCC personnel will be assigned to assist the consultant in obtaining information, as well as, coordinating contacts with agencies of the government of Panama, the Panama Transition Commission, and others as appropriate.

4.3 The Strategy Development Modules

4.3.1 Module 1. Core Business Growth Strategy

The fundamental question that must be answered before developing a growth strategy is: how should growth be measured? Growth in the core business of transiting ships could be measured as growth in number of transits, revenues or profits. While it is possible that these three coincide, it is not

Figure IV-1
Approach to Phase II of the Growth Strategy

necessarily the case. The different factors that will contribute to the growth of the core business are contained in a simple formula:

Revenues = Market Size x Market Share x Price

Market size is typically a factor that an individual company can not control. This is most certainly the case for the markets in which the Panama Canal competes. The world supply and demand for commodities and finished goods that transit the Canal are not affected by the Canal.

Market share and price are very much within the power of the Canal to influence or control. However, it is on these two variables in the revenue equation that companies typically focus to achieve revenue growth. They are usually paired in a trade-off relationship.

- "We can gain market share if we reduce our price"
- "We can raise our price but we'll lose market share"

A strategy to achieve revenue growth depends on the degree to which these two factors are balanced. In a market characterized by highly elastic demand, revenue growth should be focused on lowering prices slightly to achieve relatively large increases in market share. Conversely, inelastic demand tends to favor price increases given the relatively small losses in market share.

The degree of price elasticity of demand in the markets in which the Canal competes depends a great deal on the specific market segment. The historical reaction to tolls increases indicates that demand tends to have low elasticity--price increases would probably not have a significant negative effect on market share. In the example of the Suez Canal, toll rate increases have resulted in some shippers using the bypass route although revenues have gone up.

It is important to consider the timeframe over which the Canal is planning. Dramatic price increases might improve revenues in the short-run but induce users to seek other options in the long-run. At a certain point, price increases may result in companies making long-term decisions to avoid the Canal route.

On the other hand, the current high level of capacity utilization indicates that a strategy to increase market share must be accompanied by a plan to increase capacity. This situation creates an opportunity to use price increases as a way to "ration" scarce capacity to the users who place a higher value on the transit service and at the same time achieve revenue growth.

It is impossible to ignore a focus on share-based or price-based revenue growth in the core business. This will depend upon analysis performed during the second phase of the growth strategy and policy decisions that must be made by the PCC and ACP. The proposal for Phase II strategy development does assume, however, that some combination of improving market share and price realization is possible. The tools must be made available for the Canal to be able to choose among the full range of options to design the marketing strategy that best suits its growth objectives and mission.

The approach to growth strategy development during the second phase should focus on the following four aspects:

- Definition of the market by major segment and estimation of its size and growth potential;
- Analysis of ways in which the Canal can improve its share position within each major market segment;
- Evaluation of the ways in which the Canal can use its pricing strategy to improve revenue growth;
- Development of an integrated marketing strategy that combines these elements

The tasks associated with each of these areas are summarized below:

A. Market Analysis

A1. Market segmentation

Canal traffic will be broken down into major market segments along the most significant dimensions that distinguish them:

- vessel type (6 types account for over 90% of transits);
- trade route (6 trade routes account for over 75% of tonnage);
- commodity type (14 commodity types account for almost 95% of tonnage) and passengers

For each segment, the key attributes that characterize it and the factors that may affect its use of the Canal will be identified.

A2. Review of Historical Canal Crossing Data

The consultant will collect and analyze historical traffic transits through the Canal over recent years. To make the analysis relevant to present trends and future forecast, it is proposed that the historical data will cover the last five years (1991 -1995). Final decision about the time period to be covered will be done in consultation with the PCC.

The data will be organized based on the four to five attributes that define "flows":

- Commodity or Cargo
- Origin & Destination Points (or Regions)
- Trade Route

- Characteristics of Transportation System Employed
- Service Pattern

A3. Market size estimation

For each segment, the overall size of potential Canal transits will be estimated. This requires analysis of data on international trade and transport of commodities and the regional cruise industry that could potentially be captured by the Canal. The approach to this task will be to focus on specific relevant cargo flows and build an according estimation of the market of capturable cargos. The approach will specifically avoid attempts to model or explain world trade, which typically depends on abstract econometric techniques that are then difficult to relate to material trade flows through the Canal.

A4. Market trend analysis

Each market segment should be analyzed to identify trends that may affect the way in which cargoes are shipped and influence the ability of the Canal to improve its share. These include trends in vessel sizes, shipping alliances, intermodal transportation and supply-to-market relationships.

The consultant will review development and forecasts of the shipping segments that are the most relevant to the Canal, including dry bulk, tankers, containerships and refrigerated vessels.

The review will include:

- Dry Bulk Shipping Outlook - Current Fleet, New building and Scrapping Trends, Fleet Composition, Daily Charters and Freight Rates, etc.

- Oil & Product Tankers - Current Fleet, New building and Scrapping Trends, Environmental/Safety regulations (Double Hauling), Fleet Composition, Daily Charters and Freight Rates, etc.

- Containers - Current Fleet, trends in Construction of post-Panama Containerships (4,500 - 6,000 TEUs), Service Patterns, World Alliances, etc.

- General Cargo and Multipurpose - Fleet Size, Shipping Patterns, Specialization (e.g. (TCOHC), Transshipment Patterns, Average Tons/Transit, All-Water Express services (Panama Express), etc.

- Reefer - Size, Bulk vs. Containers, Banana trade, etc.

The Consultant is expected to undertake the following to accomplish this task:

- Interview shippers, receivers, and ship owners;
- Review existing fleet in term of size, age, and technical capabilities;
- Identify short and long-term trends in shipbuilding (order book), especially with regard to size;
- Assess a possible impact of the trend in shipping on Canal fleet;
- Review service patterns, especially in liner trades, but also in tramp shipping (front/backhaul and triangulation);
- Identify shipping constraints (e.g. channel restoration in major world ports)

B. Customer Needs and Market Share

This set of tasks will focus on understanding all factors other than Canal pricing that affect customer service and market share.

B1. Customer Survey

A survey of users in all major market segments will be conducted, also including those who do not presently use the Canal but are considered to be capturable. The key objective is to "know the customer" and understand his requirements. The survey will emphasize the value that the customers place on factors that are within the ability of the Canal to control, including:

- Schedule predictability;
- Average Canal transit time;
- Pricing system;
- Safety (damage rates)

B2. Analysis of Service Level

Service level, one of the key factors that affects customer satisfaction with use of the Canal, can by measured by three indicators:

- Average Total Canal Waters Time (CWT)
- Reliability or predictability of total CWT
- Safety (damage rates)

It appears that most Canal customers consider the safety of the Canal operation to be adequate. However, there are concerns about delays and the lack of unreliability in total time spent in Canal waters, due to congestion and lane outages.

The ability of the Canal organization to reduce delays and improve reliability is dependent on three major factors:

- Available human resources;
- Canal infrastructure and equipment capacity; and
- Operational procedures and systems

Each of these three factors will be analyzed taking into account the strategies identified through the market analysis and results of the customer surveys. Based on the analysis of these three factors, strategies will be evaluated to improve service level to customers, evaluate available capacity and ways it can best be used to keep costs low to core customers.

B3. Competitive Analysis - Cargo Segments

For each of the key market segments, the major competitors will be identified and evaluated to determine the degree to which their service is valuable to the customers for whom the Canal is competing with them. Competitors fall within three major groups:

- The "land bridge"
- The "bypass" maritime route via the Strait of Magellan
- Other maritime routes that avoid the Canal, such as the other way around the world via the Suez Canal
- Supplier or market substitution, in which markets seek new supply sources or products that do not require transport that could feasibly transit the Canal

The analysis will consider the results of the user survey and evaluate the perceived value to the customers of advantages or disadvantages in the following aspects of each competitive option:

- Transport time
- Transport cost
- Logistics considerations (e.g., inventory costs)
- Other service level characteristics
- Uncertainty about the effects of the change in Canal ownership on service
- Supplier-Market relationships

B4. Competitive Analysis - Passenger Segment

In the case of the passenger cruise ship segment, the choice to use the Canal is not based on the same terms of route economics and logistics as in the case of cargoes. Competition comes not so much from other routes that are cheaper or faster, but from other destinations that are more attractive, with the cost and time associated with the crossing being of secondary importance. Canal cruise demand is more dependent on total tourism growth, Caribbean area regional demand and the ability of Panama and the Canal to attract a sizable share. If there is sufficient demand for cruises that must transit the Canal, then a niche will continue to exist assuming the cost, time and service characteristics do not seriously worsen.

The approach to analyze the competition in the cruise segment will therefore be based more on the results of the customer survey and industry analysis. It is also anticipated that service level characteristics will be of heightened significance as many complementary services might be offered by the Canal to increase the appeal of the Canal transit to passengers.

B5. Capacity Analysis

The Canal is presently pursuing various initiatives to increase capacity. Within the framework of the expansion programs currently underway and planned and the available models and methodological approaches to estimate capacity, a number of scenarios will be developed to project capacity restrictions during the planning period. Scenarios will consider the impact of the increased need for lane outages to conduct locks overhaul and other factors that may limit maximum sustainable capacity. An hypothesis based on the development of a third set of locks will also be included.

B6. Transportation Cost Model Development

For each Canal's flow and its reasonable alternatives, the Consultant will construct a transportation cost model to assess the sensitivity of the flow to possible changes in transport factors. The Transportation Cost Model will estimate total transport costs, from origin to destination, for each flow and its feasible alternatives.

The total cost estimate for each flow will include the following elements:

- Access/egress land transport (e.g. barges or rail transport) costs;
- Cargo handling costs at the port of origin, the port of destination, and/or intermediary port;
- Vessel type/size costs

To accomplish this task, the Consultant will:

- Define a network diagram that will clearly identify current and alternative flows including interdependencies among flows
- Calculate (estimate) the elements and total cost for each of the major flows through the Canal and alternate routes
- Identify structural and non-structural constraints in the transportation systems employed and their impact of costs

- Identify possible changes in costs, and assess, through sensitivity analysis, their likelihood and possible implementation period

The transport cost/time comparison will take into consideration several vessel size/shipping deployment scenarios, and reasonable alternative trade routes, either exclusively maritime or a combinations of maritime-land transport operation. The study will develop alogarithms for traffic allocation of various primary commodities, based on minimum total transport costs.

For example, the study will: (a) compare the total cost of shipping coal form the USEC to the Far East using a Panamax vessel via the Canal, against a Capesize vessel reloading also at South Africa; (b) compare the shipping cost/time of containers to the Far East via a land bridge across the US, against a maritime route via the Canal, if the latter imposes tariffs on-deck cargo (at present on-deck cargo across the Canal is free of charge); or (c) compare shipping costs of petroleum products in tankers across the Canal against the pipeline connection across Central America.

Cost criteria will be supplemented by other factors influencing shippers' decision such as time of delivery, reliability, shipping pattern (for containers), and shipping size.

B7. Canal Traffic Forecasting

The Transportation Cost Model will be used to estimate Canal traffic by calculating its market share in each of the capturable segments. Market share will be calculated based on the following variables:

- Cost, time and service level comparisons with competitive options
- Alternative pricing strategies
- Capacity constraints

Canal traffic forecasts will be developed for the entire planning period.

C. Pricing Strategy

One of the key factors that affects the Canal's competitive position and the level of customer satisfaction is the pricing policy for Canal services. At the present time, the Canal's three major sources of revenues associated with its core business of vessel transits are:

- Tolls charged based on vessel carrying capacity
- Advance booking system
- Other navigation services (tugs, launches, and line handling)

There are two main approaches to pricing Canal services, *cost based* and *market based.* In turn, there are many possible variations under each approach.

The *cost-based approach* establishes a minimum or floor level that the Canal should charge for its services. If pricing is set at a level below this minimum, other Canal operations or other related businesses have to cover the difference, or the government has to subsidize those users not paying their share of Canal operating costs.

The major factors that affect vessel transit costs are the size of the vessel, its maneuverability, and its total transit time. These factors in turn affect the total Canal Waters Time and the resources that the Canal organization must use.

Similarly, the *market-based approach* establishes the maximum that the market would be willing to pay based on the price that equates to the value that the users gains by using the Canal. Charging above this level means that shipping lines or users will seek alternative routes, modes, supply sources, or products. In this case, the Canal can be expected to lose business or market share. The major factors that affect what the market is willing to pay for Canal transits are:

- The time and cost that it takes to use the Canal route compared to alternative routes;
- The value of the cargo, its perishable nature or the timeliness demanded by the shipper (just in time inventories or product cycle times)
- The cost of alternative supply sources and/or products

The proposed approach to consider pricing alternatives will involve the following four major tasks:

C1. Cost based analysis of Canal transit services

For each major segment the cost to transit the Canal will be calculated. This will involve an estimate of the resources utilized during the crossing, the time required to transit, any delays that are imposed on the overall traffic system and opportunities lost to transit other vessels. Particular attention will be focused on vessels prone to slow transit, such as large vessels or those with certain cargo types that have transit restrictions, small yachts, and overdraft vessels.

C2. Market based analysis of Canal transit services

Similar to the previous task, the "value" to each market segment will be determined based on comparison between the Canal and the next best competitor. Each of the major factors mentioned previously that affect value will be studied, and for each segment the competitive route cost will be calculated by placing all factors in terms of generalized cost. The value of the Canal transit can be calculated by subtracting the cost of the competitive option from the cost via the Canal with the toll rate included.

C3. Evaluation of the existing pricing system

The existing pricing system will be evaluated in light of how the effective price charged to users compares with those calculated in the previous two tasks and customer concerns inferred from the user survey, such as the importance of predictability of transit time for each segment. The current pricing system of tolls and other user fees will be converted to the terms in which users typically measure costs, such as per passenger, ton or TEU. The main output will be an estimate for each major segment of the perceived value of the Canal vis a vis the competition, and the "unit contribution" generated by comparing revenue with the cost of the transit to the Canal. This will enable the determination of the elasticity of each segment to price increases.

Additionally, the three types of fees charged to users -- tolls, booking fees and fees for navigation services--will be assessed to determine their effect within the context of market based and cost based pricing concepts.

C4. Alternative pricing policies

Based on the results of the customer survey and runs of the traffic forecasting model, the effect of alternative pricing policies on revenues will be evaluated. The various elements that make up the pricing system will be rationalized to achieve the desired objective of the pricing policy. For example, a policy based on cost recovery will rationalize the method of charging for navigation services such as pilotage and tugs to assure that each user pays for the resources it consumes. Pooling of costs and charging of uniform fees may mask cross subsidization among different market segments. Similarly, advance booking fees or other premium pricing techniques will be applied in a way that properly reflects the value of the premium service provided. If a user who places a high value on reliability is willing to pay a premium for it, then the guarantee of transit without delay should be honored if it is true to the pricing strategy of value-based pricing.

D. Integrated Marketing Strategy

The results of the previous tasks will be combined to produce a marketing strategy that integrates the ways in which the Canal can influence market share and use pricing to contribute to sustained revenue growth within the core business.

4.3.2 Module 2. New Business Opportunities Strategy

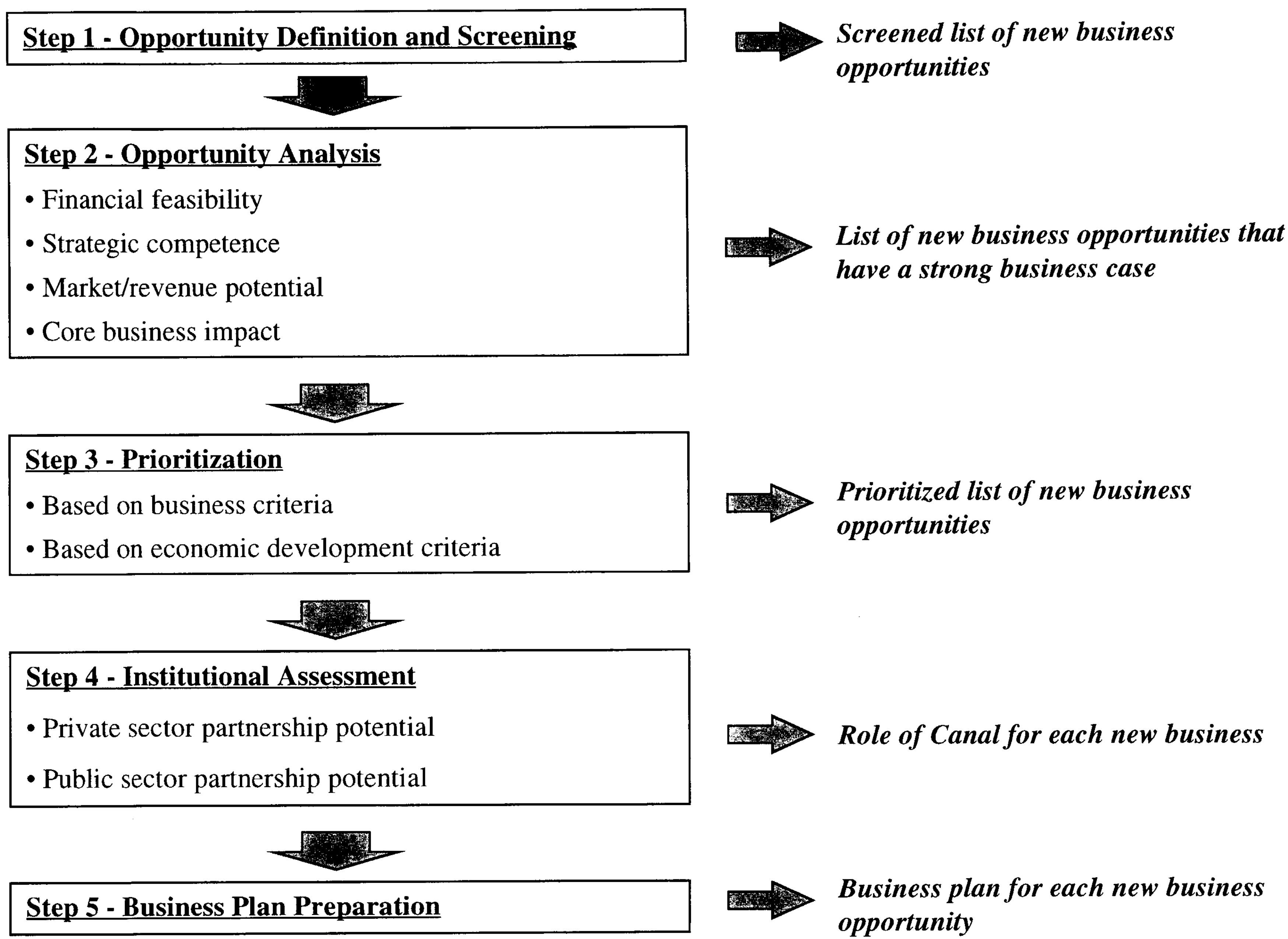
The consultant will assist the Canal staff in conducting all necessary analysis of the list of business opportunities presented below, in accordance with the process outlined in this section. It is recommended that the following business opportunities be considered. Those business opportunities that are most promising based on the preliminary screening during Phase I are:

Categories	Business Opportunities
Businesses where the Canal has **unique** competencies	■ Vessel and heavy equipment repair and fabrication ■ Maritime and industrial training ■ Dredging services ■ Maritime services
Businesses where the Canal has **some** competencies and experience	■ Electric power generation ■ Potable water supply ■ Marine statistics publishing and information services ■ Telecommunications and the Teleport concept
Other businesses	■ National Maritime Strategy related businesses ■ Tourism related businesses ■ Colon airport development ■ Real Estate and other development in the Canal area

Figure IV-2 depicts the process recommended for the evaluation of new business opportunities during phase II of the growth strategy. The approach is consistent with the strategy framework we have developed during phase I and summarizes the process into 5 "steps", or groups of activities. The five are summarized briefly as follows:

Figure IV -2

Phase II New Business Opportunity Evaluation Process



Step 1 - Opportunity Definition and Screening

This step has essentially been completed during Phase I, with identification of a "universe" of new business opportunities and screening to eliminate those that are not attractive based on a qualitative assessment within the business viability and economic development frameworks. The output is the screened list of new business opportunities presented previously. At the start of Phase II, this list will be reviewed and modified to reflect client comments and new opportunities that may have surfaced.

Step 2 - Opportunity Analysis

The list of new business opportunities may then be further reduced, by subjecting each to a screen of tests of commercial viability that require somewhat rigorous and individualized analysis of each. As shown in the process flow diagram, each project will be analyzed within four basic criteria.

- *Strategic competence.* The Canal will have some set of skills and/or assets that enable it to participate effectively in the market it is entering.

- *Revenue potential.* A new business area will have the potential to generate enough revenues to justify the investment of organizational resources required to pursue it.

- *Financial feasibility.* Discounted cash flow analysis will be performed on each business to establish whether it meets requirements for financial viability. This may be measured in terms of a minimum rate of return on investment, net present value, investment payback period debt coverage ratio, or some combination of various indices.

- *Core business impact.* No new business will negatively affect the Canal's ability to provide efficient, safe transit service.

The net result of analyzing each business opportunity within these four criteria is a determination of whether it should move to the next stage of the new business evaluation process.

Step 3 - Prioritization

The opportunities that survive step 2 will be prioritized based on the extent to which they satisfy criteria from the business strategy and economic development frameworks.

The result of this step is a list of those most promising projects that should be the focus of management attention.

Step 4 - Institutional Assessment

The institutional aspects of each project on the priority list will be evaluated in order to determine the most appropriate role the Canal should play in its implementation.

As a result, the Canal may decide to pursue business opportunities in any one of the following roles:

- Individual operator of a new business in which control is critical to core services and the Canal has the necessary competencies;
- Joint venture partner with private sector companies who possess complementary competence in the new business;
- Concession-grantor or lessor of facilities or the rights to perform services in the Canal operating area; and
- Partner with ARI or other GOP entities that has some jurisdiction over areas or activities necessary to operate the business

Step 5 - Business plan preparation

A business plan will be prepared for each business opportunity that the Canal decides to pursue into the implementation stage, defining the structure and economics at a greater level of precision than was prepared during the step 2. The nature of business plans requires that structure, methodology and contents vary according to the specific project. Each business will have different features that are determined to be the most critical success factors.

In general, business plans will contain the following elements:

- Market analysis
- Competitor analysis
- Operations analysis
- Plant and equipment requirements
- Staffing plan and management requirements
- Marketing strategy
- Investment requirements
- Financing plan
- Financial projections

The conclusion to this process will be a plan for the implementation of new business opportunities in accordance with the business plan.

4.3.3 Module 3. Financial Strategy

Review of the Current Situation at the PCC

The current situation of the PCC with respect to financial policy and management is characterized by a few major attributes that frame the way financial resources are used to conduct operations.

The current legislation allows the PCC to borrow up to $100 million from the US Treasury to be used to finance operations and capital expenditures, although it has never been utilized. It is currently being planned for the ACP to maintain the same limit, although obviously not the stipulation that the US Treasury be the only source, without any apparent justification based on financial or operational criteria.

Pricing policy is guided by the restriction that prices (tolls and other user fees) be set in order to fully recover costs such that the Canal operates on a break-even basis. This effectively eliminates the possibility for the Canal to generate "profits" or earnings. A slight exception to this rule is the practice that allows the Canal to make contributions out of gross revenues to working capital and capital expenditure accounts--current assets are effectively reserved for future expenditures. At the end of FY 1994, the two accounts held $9 million and $77 million, respectively. Although this practice seems to produce a net increase in the cash balance, it is worth pointing out that the capital expenditures account contributions are offset by outlays for capital improvements.

Relevant Experience of other quasi-public agencies

The freedom to raise its own debt secured by revenues and to pursue business opportunities within a broad area has contributed to the development of a richly "commercial" culture in other quasi-public agencies. This commercial attitude enables the agency not only to enter into new areas in which it enjoys a strategic competence, but also affects the way in which the organization undertakes those activities that are perceived to be core activities. Although typically public agencies are not free to earn "profits" in a strict sense and do not pay dividends to its owners--net earnings must be plowed back into investments--a focus on profitability of businesses and economic development helps these agencies perform efficiently and with a strong customer orientation.

Financial Strategy Issues

The comparison of the experiences of other relevant agencies and the PCC with regard to financial strategy points to a number of key issues that will be addressed during phase II of the growth strategy.

- The ACP must be clear on its future policy with respect to profit-making or earnings. A focus on earnings is both a means of providing incentives for greater efficiency in operations and generating funds that can be used to reinvest in operations or expand into new areas;

- Regardless of whether or not the ACP seeks to be a profit-making enterprise, a commercial attitude with respect to investment decisions and financial management will be adopted;

- Financial strategy should serve as a catalyst to taking advantage of business opportunities that leverage the Canal's strategic competencies, or at a minimum not be an impediment;

- Debt is an efficient means of financing public works or projects that require large initial investments in plant and equipment with long useful lives. In light of the Canal's probable need to invest heavily in maintenance of existing infrastructure and in the expansion of capacity, the organization's financial strategy should enable it to leverage its competencies and take advantage of new opportunities. The Canal's strong financial position provides a key resource base from which it can take advantage of attractive business opportunities;

- The Canal's financial strategy should seek to optimize the management of its cash and other assets;

- The Canal should institutionalize a business planning process that constantly considers the attractiveness of entering new business areas or retreating from existing ones.

Phase II Work Plan for Module 3

The following tasks will be carried out during Phase II of the growth strategy:

A. Financial Policy Analysis

The present financial management policies and practices will be examined and their strengths and weaknesses with respect to the future operation of the core business and entry into new business ventures will be identified. Alternative policy issues will also be identified and studied, drawing from experiences of other relevant agencies. Recommendations will be made to the Canal Board on financial policy actions that will be taken to support the growth strategy and new Canal mission, covering the following aspects:

- Profit-making requirements and restrictions;
- Requirements and restrictions on the use of debt financing and other instruments to raise capital;
- Cash and asset management;
- Reporting requirements for new businesses.

B. Assessment of Financial Needs

Based on the analysis of each of the new business opportunities that is being considered for implementation during the period of the growth strategy, the necessary financial resources will be estimated, including:

- investment requirements
- working capital requirements
- cash flow projections
- risk analysis

The main output will be a summary of the most likely cash flows expected to be generated by each new opportunity and its impact on the financial position of the Canal organization. Results will be summarized in terms of the contributions that will be made by the Canal and the future income it can expect to receive.

This analysis will consider options for structuring new investments that minimize the exposure of the Canal, such as entering in Joint Venture arrangements or issuing concessions that encourage the use of private sector resources.

C. Financial Plan to Support the Growth Strategy

Once the major finance policy issues raised in task A have been resolved and the business opportunities that will be pursued as part of the growth strategy have been identified, a financial plan will be developed that enables implementation. The plan will identify the sources of funds required for investments and project the effect of cash flows from each business on the Canal. The plan will address profit requirements, the use of debt instruments, reporting requirements, debt coverage requirements and other factors that affect the financial performance of each new business area.

The financial plan will be a key input to the 5-year business plan that is to be developed as a part of the growth strategy and is discussed in Module 5 of this scope of work.

4.3.4 Module 4 - Institutional Strategy

The upcoming transfer of the Canal to Panamanian control creates the need to rethink the mission of the Canal and its implications for the institutional framework within which it operates. Many of the issues involved in the evaluation of growth strategy opportunities require the resolution of key institutional questions. For the past 20 years, legal and institutional impediments have prevented the Canal from engaging in business activities that were not directly related to the operation of the core business.

A guiding principle to be employed in the evaluation of new businesses is that no opportunity should be ruled out based solely on institutional impediments. If the Canal faces an attractive growing market in which it can compete effectively based on leveraging its key competencies, then the necessary institutional changes can be considered. Failure to realize opportunities in which the Canal possesses unique competence or resources would mean economic development opportunity loss to Panama.

The role that the Canal plays in new business areas must consider the following critical issues:

- The extent of private sector capabilities;
- Compatibility with the jurisdictions of other agencies within the GOP, such as ARI, IPAT and COMAR;
- The appropriate role of Canal within the Panamanian economy and the maritime sector.

The development of an institutional strategy to complement the strategies for growth in the core and new business areas, will consist of the following Phase II tasks:

A. Analysis of PCC Mission and Alternatives for ACP Mission

The consultant will analyze the various options available to the Canal in its development of a new mission after the transfer, including the following potential roles of the Canal:

- As a self-financing public sector enterprise;
- As a world maritime resource;
- As a profit-making enterprise that generate revenues for the Panamanian Treasury;
- As a central contributor to the development of the Panamanian economy

B. Board-Senior Management retreat to define mission for ACP

A retreat will be held in which members of the Board of Directors and Senior Management define a mission statement for the ACP, based on the analysis prepared during the previous task. Appropriate changes to the current PCC mission up to the year 2000 will also be considered, taking into consideration its new corporate structure.

C. Legal and institutional analysis

The necessary changes to the legal and institutional framework in which the Canal operates to enable pursuit of the growth strategy will be analyzed. Legal analysis of present constraints and post-2000 constraints on tolls and pricing strategies for vessel transits will be carried out.

D. Interinstitutional Workshops

Workshops will be held with ARI, the Panama Transition Commission, the National Maritime Commission and representatives of other GOP agencies to address ways in which they will interact on issues concerning the realization of new business opportunities and continued operations of the core transit service.

E. Development of an institutional strategy

Based on previous analysis and workshops, a Canal mission and role within the GOP institutional structure should be defined, as well as recommended changes to the US government corporation prior to the transfer to facilitate seamless transition.

4.3.5 Module 5. Integrated Strategy

The tasks outlined in the first four modules will be integrated to fit into a cohesive, consistent growth strategy for the period 1998-2008. This includes the following tasks:

A. Determination of the timing for each change/opportunity

Activities and milestones will be identified for the planning, negotiations and implementation of each opportunity, both prior to and after the year 2000.

B. Implications to the organization and resources

The realization of the growth strategy will require the use of valuable resources of the Canal organization, including physical, human and financial resources. Each of these areas must be carefully studied to assure that necessary steps are taken to make these resources available at the appropriate times.

C. Prepare an Integrated Growth Strategy for the period FY 1998 - FY 2008

An integrated strategy for the 10 year period will be developed, incorporating the core business strategy and new business opportunities strategy, timing for each opportunity, and organizational resources considerations.

E. Prepare a 5-year Business Plan for the period FY 1998 - FY 2003

A Business Plan for the Canal organization will be prepared covering the first five years of the recommended business strategy for the Canal.