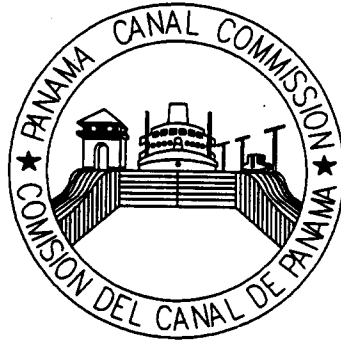
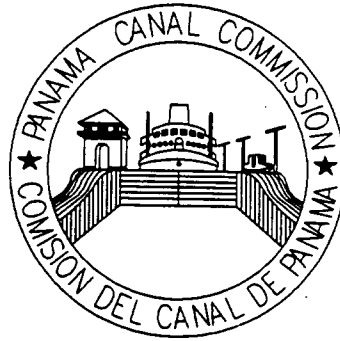


**PANAMA CANAL GROWTH STRATEGY
PHASE I - EXECUTIVE SUMMARY**



June 28, 1996

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A GROWTH STRATEGY FOR THE PANAMA CANAL PHASE I REPORT-EXECUTIVE SUMMARY

For Phase I of the Panama Growth Strategy study, Booz·Allen was asked by the Panama Canal Commission to complete two tasks: identify growth opportunities for the post-transition Canal organization, and develop a methodology to evaluate and implement recommended growth opportunities in Phase II. Focusing on growth opportunities associated with current businesses, process improvements, and new businesses, our Phase I report identifies growth opportunities which could double current revenues to nearly \$1.1 billion by 2005.¹ The remainder of this executive summary highlights the conclusions and most salient points of our analysis.

1. A SURVEY OF CANAL STAKEHOLDERS INDICATES THAT LITTLE OR NO CLEAR VISION OF THE FUTURE CANAL MISSION CURRENTLY EXISTS

An organization's growth strategy is defined to a large extent by its mission. During Phase I, Booz·Allen identified three potential missions for the future Canal organization to assist in the subsequent evaluation of growth opportunities. They are as follows:

- Mission 1** – Focus on core transit services to provide the optimal transportation linkage for inter-ocean maritime traffic
- Mission 2** – Be the lead or essential element of a broader national maritime strategy encompassing ports, shipyards, registry, maritime safety, etc.
- Mission 3** – Be the lead organization in promoting industrial and economic development within and related to the Canal area

Twenty-eight interviews were conducted with commissioners, staff and other stakeholders to ascertain preferences for the above mission statements. As summarized in Exhibit 1, interview findings suggest that while there is some agreement within each subgroup, there is little or no consensus between the three subgroups concerning the future mission of the Canal organization.

EXHIBIT 1
First Choice Score Of Mission Statement
Preference By Interview Category

Mission Statement	Mission Statement First Choice Score		
	PCC Board and Secretary	PCC Staff	Non-PCC Interviews
Mission 1 (Core Specialization)	2	3	6
Mission 2 (Broader Maritime Strategy)	2	8	1
Mission 3 (Economic Catalyst)	3	3	0

■ Indicates high score in each interview category.

Collectively, however, the three subgroups tended to favor Mission 1 and 2, indicating a preference for a more limited scope than that detailed in Mission 3.

¹ "Revenue" as defined in the Booz·Allen Phase I study is equal to conventional revenues as well as revenue equivalents. Revenue equivalents are utilized to measure cost reduction opportunities against revenue generating activities and are equal to increased profits divided by 10% (which is assumed to be a typical profit margin).

2. THIRTY SIX GROWTH OPPORUNTIES WERE EVALUATED IN DETAIL DURING PHASE I WITH REVENUE POTENTIAL ESTIMATED AT \$500 MILLION

During the course of Phase I, Booz·Allen identified 70 opportunities for growth through a process of interviews, brainstorming and benchmarking. Of these, thirty-six were selected for further analysis, segmented as follows:

- Twenty-five (25) were related to the core business. Of these:
 - One (1) related to tolls and tariff management
 - Four (4) related to improving existing processes
 - Twenty (20) were extensions of the existing business of the current Panama Canal Commission
- Eleven (11) represented new business opportunities.

Collectively, these opportunities have the potential to grow the Canal’s revenue base by \$0.5 billion per year. As shown in Exhibit 2, eighty percent of this growth can be attributed to opportunities relating to the core business.

**EXHIBIT 2
Revenue (And Revenue Equivalents) For Thirty-Six
Growth Opportunities By Category/Sub-Category**

Growth Opportunity By Category/Sub-Category	Annual Revenue Potential (\$ Millions)
Core Business:	
– Process Improvements	\$200 *
– Tolls/Tariff Management	\$125
– Extension Of Current Business	\$75
Core Business Sub-total	\$400
New Business	\$100
Total Growth Opportunity Revenues	\$500

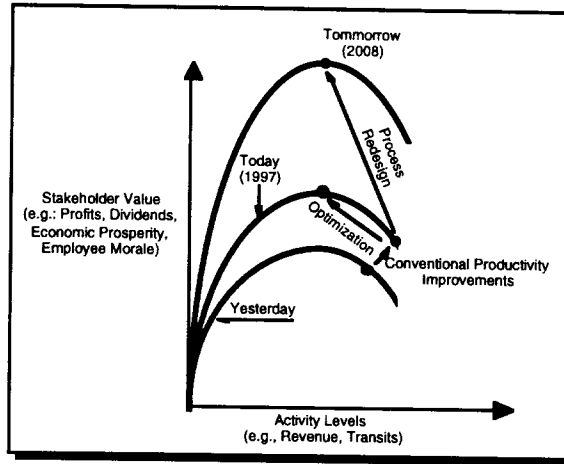
* Revenue Equivalents Assuming 10 Percent Margin On Revenues

A rigorous evaluation was completed to evaluate each of the 36 identified growth opportunities. To compare and rank each growth opportunity, ten evaluation criteria were considered in the detailed analysis, including: potential revenues and profit, employment, probability of success and required investment. Specifics on this evaluation methodology can be found in the main report. The ten most promising opportunities resulting from this analysis are shown in the Attachment to this summary. In aggregate, these ten items provide nearly \$450 million, or 90 percent of the total revenue and revenue equivalents estimated for the growth opportunities evaluated.

3. SUBSTANTIAL GROWTH OPPORTUNITIES EXIST INTERNAL TO THE CANAL’S CURRENT CORE SERVICES. TO ACHIEVE THE OBJECTIVES OF THE COMMISSION, HOWEVER, A PARADIGM SHIFT WILL BE NEEDED IN THE CANAL ORGANIZATION’S APPROACH TO GROWTH

Five of the ten growth opportunities identified in Phase I relate to the current mission (Mission 1 in Exhibit 1) of the Commission and may not be implementable without a substantial paradigm shift in corporate mission and philosophy. Exhibit 3, on the following page, illustrates the type of paradigm shift or major process change that will be required to enable the Canal organization to realize growth.

EXHIBIT 3 Processes And Enablers Of Growth

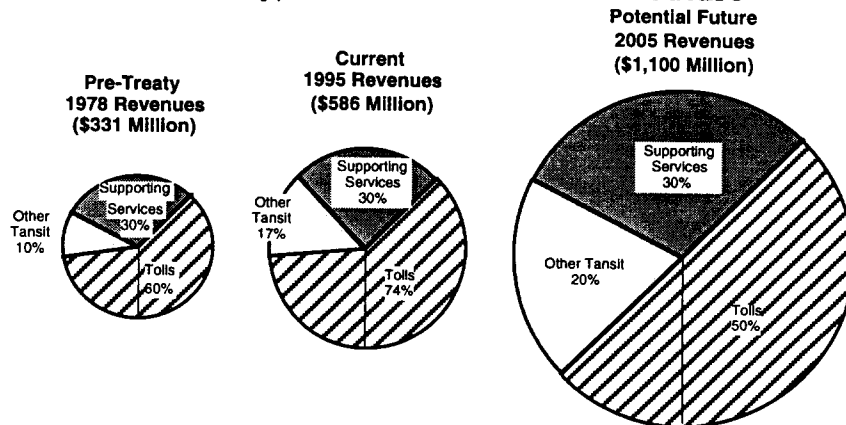


The exhibit suggests that existing programs (e.g., cut widening, VTMS) will only enable small increments of value enhancement through activity increases. The growth opportunities suggested in Exhibit 2 could be far more substantial – even without transit activity increases! Substantial optimization of existing programs or even redesign of fundamental processes may be required to achieve the growth estimated by Booz·Allen.

4. IMPLEMENTATION OF GROWTH OPPORTUNITES IDENTIFIED IN PHASE I COULD LEAD TO DOUBLING CURRENT REVENUES TO \$1.1 BILLION – WITH ADDITIONAL BENEFITS FROM A MORE DIVERSIFIED REVENUE BASE

Were a paradigm shift to occur, then revenues could approach \$1.1 billion by 2005. As illustrated in Exhibit 4 below, a comparison of revenues – pre-treaty (1978), current (1995) and a future year within the forecast horizon of this project (2005) – highlights not only the probable two-fold growth of revenues from current levels, but also a decrease in the Canal’s dependency on toll revenues resulting from a more diversified revenue base.

EXHIBIT 4 Comparison Of Revenues By Source: Pre-Treaty, Current And Potential Future



Details supporting this projection are presented in Booz·Allen’s full report dated June 28, 1996.

**EXECUTIVE SUMMARY - ATTACHMENT
Top Ten Growth Opportunities In Declining Order of Final Score**

Top 10 Growth Opportunities	Description of Growth Opportunities	Core / New Business	Final Score	Revenue (Millions)
Investing Cash Balances (Cash Management)	Improve investing activities to better leverage higher yield opportunities of \$200m cash on the balance sheet	Core	92.32	\$130.0*
Tolls/Tariffs Management	Adjust toll/tariff system to reflect elasticity of demand plus any risk of cargoes, and include true cost of transiting vessels	Core	89.66	\$125.0
Electricity (Utilities)	Sell excess capacity	Core	85.66	\$50.0
Inventory Mgmt (Purchasing - One Time Savings)	Review current inventory mgmt. practices to assess cost savings opportunities (e.g.: reducing current inventory levels, sourcing, etc.)	Core	82.66	\$25.0*
Sourcing Optimization (Purchasing)	Identify/develop relationships with providers (include. local) as a means of cost reduction including incorporating supply chain concepts	Core	80.33	\$22.5*
Ship Repair-Drydock (Marine Industrial)	Provide extensive ship repair capabilities for regional and global vessels	Core	79.33	\$60.0
Port/Trans-shipment Facility	Apply Manzanillo terminal concept to breakbulk/bulk trades	New	67.66	\$20.0
Payroll Processing (Cash Mgmt)	Adjust payroll processing procedures to reflect best practices in cost minimization in U.S.	Core	65.99	\$9.0*
Heavy Lift Services	Provide waterside heavy lift services to industry	Core	58.99	\$1.0
Cruise Terminal (Tourism)	Become a stop over for transiting cruise passengers	New	58.33	\$5.0
Top 10 Total Revenues				\$447.5

* Indicates revenue equivalent as defined in footnote 1 of Executive Summary