

# BUSINESS & Finance

## THE PANAMA

On the Move in the 21st Century

**CANAL** An Interview with Alberto Alemán Zubieta. By Karen E. Breiner-Sanders

On December 31, 1999, the United States transferred control of the Panama Canal to the Panamanian government, ending an era of American ownership, entitlement, and protection. There exists little debate regarding the enormous economic, strategic, and political value of the Panama Canal, especially in its still vital role as a link between the seas. At the same time, however, uneasiness and controversy have framed the issues of control and ultimate authority of the canal and probable economic losses due to the U.S. departure. All of this has led to a kind of ambivalent “Yankee, don’t go home yet” syndrome.<sup>1</sup>

Nervous voices continue to question whether Panama has the will and the talent to defend as well as operate the canal, to maintain political and fiscal responsibility, and to pursue the necessary economic and technological advancements to be a viable manager of the canal without prejudice or malice toward other countries. There are also those who contend that, by enhancing the capability and versatility of the waterway and the surrounding territory, encouraging private enterprise, and pushing for development and modernization, Panama may shed the alleged model of state socialism

**Alberto Alemán Zubieta** was previously the Administrator of the Panama Canal Commission, a U.S. federal government agency. Since 1998, he has been Administrator of the Panama Canal Authority, the new Panamanian agency that assumed responsibility for the waterway.

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and break-even operational policies applied to the canal in the past.

Panama Canal Administrator Alberto Alemán Zubieta talks with the *Georgetown Journal of International Affairs* about the management challenges he faces and the direction he has plotted for this “gateway to the world.”

GJIA: Mr. Alemán Zubieta, there are those in the United States, and indeed in Panama, who continue to speak out against the return of the canal to Panama. Some protest out of patriotic indignation, others do so out of the fear of either political realignment of power in the hemisphere or of worsening economic hardship. After all, 8,500 U.S. military personnel and approximately 2,000 civilian workers and their families had to exit Panama in the last stages of the transfer, producing an economic and social hole that must be difficult to fill. Do you note this attitude or any sentiment of concern or anxiety at the present time?

ALEMÁN ZUBIETA: No, I do not. The withdrawal was gradual, and in any case, many of those who worked for the Panama Canal Company and then the Panama Canal Commission were Panamanians. Those workers have continued in their positions, and this has allowed for an orderly and smooth transition.

GJIA: In fact, you are a prime example of this. Appointed in 1996 as the administrator of the Panama Canal Commission, a federal agency of the United States Government, and then in 1998 as the administrator of the newly formed Panama Canal Authority, you worked both positions simultaneously until the turnover to guarantee continuity and as seamless a transition as possible.

Your academic qualifications and your lifetime career experience are anchored in industrial and civil engineering. At this point, and thinking in terms of the responsibilities that your position entails, do you consider yourself more of an engineer or more of an administrator?

ALEMÁN ZUBIETA: Much more of an administrator. I have a lot of fun in engineering, but my responsibilities are clearly administrative.

GJIA: What kind of changes have taken place around the canal since the transfer of ownership?

ALEMÁN ZUBIETA: The former military post, Fort Amador, has undergone quite a transformation. A marina has already been developed at one end of the site, and a very large, first-class hotel has just been inaugurated. There are plans to build a museum there as well. So you can see that we are catching up to our schedules and moving along nicely with our plans. Then there is old Fort Howard, which has become an immense international airport, and Albrook air station which has become the local airport.

But it is important to take into consideration not only what is happening inside the old military areas of Panama, but also in many other sectors of the city. For instance, the airport in Paitilla was moved to Albrook, and now Paitilla has been converted into a very large, private shopping mall. This represents an excellent investment and it demonstrates how we are able to move components of the infrastructure and develop them in different parts of the city.

Yes, there is a recession and it is being felt; there’s no doubt about it. Just the same, last year the Panama Canal earned

approximately \$230 million in terms of direct payments for the Republic of Panama; that's about \$80 million more than the canal provided the Panamanian National Treasury in any previous year. In fiscal year 2001 (October 1, 2000 to September 30, 2001) Panama Canal toll revenues totaled \$579.5 million, and approximately 13,500 vessels transited the canal. Perhaps in the past the U.S. military was putting these kinds of earnings into the informal economy, but now the money goes directly to the government and to the formal economy. One needs to consider not just what is earned, but where the money flows and what it does.

the market, and we need to present the canal in certain ways. Before, these things were not issues. There was no marketing. Basically, if a ship appeared, it would go through the canal.

GJIA: Talking of traffic on the canal, has the direction always been one-way at any given time because of the size of the locks? And when the waterway is enlarged, will you be able to send ships through simultaneously in both directions?

ALEMÁN ZUBIETA: The Canal is not a problem; movement is east-west, as well as west-east. And, yes, the Gaillard Cut

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I think that in Panama there were doubts—everyone had doubts in 1998 and 1999—about whether we had the capacity to run the canal. I didn't have such doubts. Not on the operation side, because I was administrator of the canal under the United States, and the people who were working there are still working there. So nothing has actually changed in that respect. However, we are changing the mentality and the organizational culture of the place, and that is going to take time.

GJIA: Taking care of the canal, the enormous task of maintenance and modernization, requires that you think outside the box.

ALEMÁN ZUBIETA: Exactly. We know we have to compete, we need to understand

widening program, which was recently completed very soon, will allow for virtually unrestricted two-way traffic for all vessels throughout the length of the waterway.

GJIA: About a year and a half ago, a study was undertaken and a project was planned to create another set of locks. Has anything happened?

ALEMÁN ZUBIETA: We are currently studying this plan. It is called the "third set of locks;" I don't know why it is called that because the canal already has three sets of locks. Basically, we are creating one more lane, but this is nothing new. Most people do not know that the United States had a full set of plans and actually started building the extra set of

locks in 1939, but the project was stopped in 1942 because of the war. Of course that project was different from the one we are working on now. The United States had intended to put one bigger lock—one more lane—near each of the existing locks. They started excavation and spent about \$70 million, but the project was stopped in 1942 because of the war effort. Then the plan was never pursued because the idea had been more of a military strategy than anything else—to be able to move the aircraft carriers that couldn't pass through the locks of the canal.

to do with that discovery. I met with the vice presidents of the cruise lines and explained that we recognized that we were a prime tourist destination, and I asked specifically what the lines wanted, what we could do to attract more of their business, and how we could all work together to make it better.

GJIA: There really isn't enough time allocated by the cruise lines for their passengers to disembark and explore when the ships dock near Panama City for refueling and reloading after the transit. At best, the passengers go down

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GJIA: How has the ratio changed between cargo ships and cruise ships that make the transit?

ALEMÁN ZUBIETA: Cruise ships are an industry that represents a small percentage of the volume that goes through the canal. However, it has increased some. I would say that cruise traffic has increased proportionally as the cruise industry has grown as a whole. Nowadays, the ships are bigger; they're beautiful ships, and I love to see them go through the canal. The Panama Canal is the second most important destination of the cruise industry: the first is Alaska, then come the Panama Canal and the Caribbean. When cruises are advertised with Canal passage, they always sell out quickly.

What is really happening now is that the tourist industry, and specifically the cruise industry, is discovering Panama, and I must say that I have had something

to the dock to buy *molas* from the Kuna Indians and small items from other stands set up hastily nearby for each cruise ship's arrival. But that's all, and the cruise ships continue their journey with no meaningful exposure or contact with Panama and its people by the cruising public.

ALEMÁN ZUBIETA: My country has done something interesting—something unique in the Caribbean at least. Panama has proposed to the cruise industry that it will pay for every passenger that disembarks at the Port of Panama City. The hope is that the tourists will be induced to stop longer and experience more of Panama City and the surrounding area. A cruise port is being developed in Amador that will allow passengers from the 250 cruises that now transit the Panama Canal to disembark and enjoy a day in Panama.

GJIA: In all the literature, the term that is used for the Panama Canal Authority is “autonomous agency.” Yet, all eleven board members are appointed by the President of the Republic. How autonomous is the Panama Canal Authority? Can you really separate the Authority from politics in the country?

ALEMÁN ZUBIETA: Whether or not the canal was actually going to be apart from party politics was one of the big worries before the transition. I think that we have created a very interesting management system that is different from other government-owned agencies in many ways. One factor is that our charter is part of the Constitution, so even if the government wanted to change the law, it would first have to change the Constitution, and that is very difficult to do. In fact, the approval of the constitutional article that covers the canal required the efforts of two successive governments.

GJIA: Just the same, in terms of privatization and development, for example, the government can, and will, make those kinds of decisions.

ALEMÁN ZUBIETA: No, it cannot. And that’s what is interesting. There was a recent change to the Constitution that details how the canal is to be managed. It states, for instance, that it has to be run for profit, and that is totally different from the way the United States ran the canal. It is no longer a break-even enterprise, nor is it budget-driven. It has to be efficient, safe, reliable, and profitable. Another important factor is that the government has given the canal its own patrimony.

GJIA: What does that mean?

ALEMÁN ZUBIETA: The Canal, as it is defined in the Constitution and the Law, is the inalienable patrimony of the nation. As such, it can neither be sold, transferred, mortgaged, nor in any way levied or alienated. The Authority runs and manages the patrimony; all the land and property that comprise it are registered under the Panama Canal Authority. Unlike the Panamanian government’s control of all other government assets, the Authority has the right to handle the revenues related to the canal and to make the decisions for it. For example, the Authority decided to return to the government some property that was located in ports and near ports. We have that power, but the government does not.

GJIA: There was a lot of controversy at one point—I think it has died down now—as to who was running the canal, whether it was Hong Kong, whether there were various foreign governments...

ALEMÁN ZUBIETA: The Panama Canal Authority, an autonomous Panamanian government entity runs and manages the canal. We have financial autonomy. That means that all the income of the canal stays with the canal. In fact, we decide what our capital investments are going to be; what money we will put into the maintenance of the canal; the payroll; and any reserves to be established, perhaps for accidents. Then, at the end of everything, as any company, we take out a certain amount of money for depreciation. So, we have control of all matters, just like any corporation.

There is another advantage built into our system of management: the dividends are not distributed the year the profits are made; the government is paid the year following any profit earnings.

We are not part of the government budget; we have an independent budget and our own procurement system. We also have our own labor system, and, while strikes are forbidden in the canal, we have our own expeditious method of resolving labor problems and disputes. There is a tribunal of five people who are appointed by the president, and that tribunal decides such issues. The same is true for the union: if it has a dispute with us and we cannot resolve it, we all go to arbitration and that's the end of it.

GJIA: This all sounds very well thought out. But of course, there were years of planning to establish these structures and systems.

ALEMÁN ZUBIETA: Certainly. We worked on these plans from 1994 to 2000. And again, how have we managed to remove the canal from party politics? There are some very important mechanisms in place for just this purpose. One is that we go to the cabinet and to the assembly only for the approval of the budget. The cabinet can ask all the questions it likes, but it cannot modify the budget. Only the canal Authority can make modifications through the Board of Directors. Once the budget is approved by the cabinet, it moves to the assembly, and the only options for the assembly are to approve the budget or reject it. If the assembly rejects it, then the prior year's budget applies, but with all the modifications needed for the capital improvement of the canal. So basically, the budget cannot be played with; it cannot be sabotaged. The same applies to other issues related to the operation of the canal—decisions on personnel and procurements are done through regulations, and the regulations are approved by the Board of Directors.

GJIA: During the two years since December 31, 1999 and the final U.S. withdrawal, there have been relatively stable conditions in Panama under President Mireya Moscoso. What if the country were to return to more volatile times such as under Omar Torrijos or Manuel Noriega?

ALEMÁN ZUBIETA: Well, that would be rather difficult because we don't have a military regime any longer. *¡A Dios gracias!* There was a very strong military presence in Panama for quite a long period. Each time that Arias was taken down, for example, it was at the hands of the police or the military. In fact, in most Latin American countries, presidents still need the okay of the military in order to govern. Costa Rica became very stable when it eliminated the military, and we are glad to be rid of the military as well.

GJIA: But there is a new police force in Panama now, and September 11 has brought into focus the whole question of terrorism and violence once again. What about terrorist cells operating in Panama? What about Panama's response to the United States in terms of the coalition against terrorism?

ALEMÁN ZUBIETA: I think the response of Panama has been very straightforward. We are very much with the United States on this. However, the canal has always been politically neutral and open to all countries that wish to use its services. During the Cold War, Russian and Cuban ships routinely made the passage. Even in the case of armed conflict or declared war, ships from competing armies and navies, and their troops, are free to utilize the waterway. We don't take sides; we maintain neutrality.

GJIA: But coalition support is going to cost money, and the commitment of Panama means that the country runs a greater risk of terrorism directed against it, and more specifically against the canal—not just your everyday, normal kind of risk.

ALEMÁN ZUBIETA: In fact, the protection of the Panama Canal is the principal responsibility of the Panama Canal Authority. If we need to put more effort and more resources into protection, we can do it.

This is not party politics, but state politics. For example, when Panama became a member of the World Trade Organization, that affected the things we do and the way we do them. But the way we tackle those things is the independent dimension of our operation. It is like having a corporation in which the administration defers to the board of directors, and the board makes the decisions. In the case of a major investment, the board had better go to the stockholders. Otherwise, both the board and the management run the risk of being thrown out of office. Some people say that the canal should be managed just like any other ministry. But no, the canal is run with a different mentality; it is a business.

GJIA: There is a saying: "*el hombre propone y Dios dispone*" [man proposes and God disposes]. I remember you talking about creating additional dams and lakes especially in the west. In 1998, for the very first time, there was grave concern in Panama due to a severe drought. It almost closed the canal because the extremely low water level was barely sufficient to supply the locks. The decision to close the canal seemed to be only a day or

two away. But then the floods came, and the canal was saved from its first forced closure ever.

ALEMÁN ZUBIETA: That is why we are proceeding with deepening Gatón Lake so we can have more water reserves in case of another drought. We did just that in 1985 when we suffered from *El Niño*; the Gatón was deepened and we were able to better manage the water at that time.

GJIA: How is the dredging progressing? As I understand it, this is a constant concern, especially through the narrowest portion of the passage, the Gaillard Cut.

ALEMÁN ZUBIETA: It is going very well. We actually finished dredging the Gaillard Cut, and we completed it way ahead of schedule and under budget—about \$200 million under budget. That is a big accomplishment, I would say.

GJIA: Aren't there significant ecological risks involved with such a project? In Florida, for example, much of the water was siphoned off and damned to take care of agricultural needs. Due to misguided water management and abuse of Lake Okeechobee as a resource and a recourse, the watershed started to dry up, and those in charge had to reverse many of their project decisions in an effort to restore the wetlands and water levels.

ALEMÁN ZUBIETA: But they were drying out the Everglades, and that is a very different story because it is a different type of wetland. The technology is much improved even beyond that used on the Hoover Dam, which is a great dam that has created many benefits. The Tennessee Valley Authority (TVA) is also an organization that manages

water in diverse ways. In fact, I went to the TVA and looked at a project of theirs that involved damming a river, which created water-quality problems, and in turn caused the fish to disappear. The TVA responded by creating a system to put more oxygen into the river—actually more than nature had provided before the dam project. This goes to show that there are things that can be done. You have to think outside the box; there are ways to do things better than in the early 1900s.

GJIA: Finally, in terms of administration, you worked first with the Panama Canal Commission, then with the Panama Canal Authority as part of an overlap transition, and now you work exclusively with the Panama Canal Authority. Do you have any aspirations for a political position in the future?

ALEMÁN ZUBIETA: None whatsoever. I am very happy with what I am doing. It is

important that I am not a member of any political party. I think that, institutionally for Panama, it is more important to maintain the canal apart from party politics, and I would be doing a big disservice to my country and to the canal if I started using the canal as a platform for running politically. I think that I should focus on the things that I am charged with doing. I do not have any political interests whatsoever. I hope that when I finish with the canal and go back to my private life, I will be able to play golf and work to reduce my handicap, which unfortunately is going up because I don't have the time to play enough to work on it.

GJIA: Thank you very much, and the best of luck to you with your enormous responsibilities to the canal as the destination for *the* new millennium... and also with your golf handicap.

Notes: 1. Terri Shaw, "Pssst, Señor, Want to Buy a Canal?," *The Washington Post*, 27 June 1993, C3.