

**CENTER FOR
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**PANAMA'S PROMISE:
CANAL EXPANSION AND ITS IMPACT ON TRADE**

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STEPHEN JOHNSON: (In progress) – in '99. In 2005, the board of directors re-elected him to lead the authority for another seven years. Alberto's vision has been to transform the canal into a world leader in maritime services, to be the cornerstone of the global transportation system and a model of excellence, integrity, and transparency.

He is a member of various international organizations, such as the International Advisory Board of Texas A&M University, the World Economic Forum, the Panamanian Chamber of Construction, and the Panamanian Association of Architects and Engineers. Ladies and gentlemen, it is my great pleasure to present a distinguished leader of the Americas, and a great friend of the United States, Alberto Alemán.

(Applause.)

ALBERTO ALEMÁN: Well, thank you, good morning. It's always very exciting to be here in Washington. As was mentioned, I had the distinct pleasure of actually running – I was the only non-U.S. citizen who actually runs a federal commission. I used to work for the U.S. government. I was a federal employee in a period of my life. And actually, it was very exciting years, and really, you know, when I think about where we are today, I have to reflect back where we were maybe 14 years ago.

And in those days, there was a lot of doubt, not only internationally, but also locally in Panama, about – because Panama was about to actually be transferred – the Panama Canal – from the most powerful nation in the world to a very tiny little nation in the – in Central America.

And this is a very key and important waterway for world commerce. So there was a lot of, basically, criticisms, doubts. And as we go back and reflect on that – in 1997, I replaced a great engineer and a great person, Gilberto Guardia, who was the Panamanian administrator of the Panama Canal Commission then. And Gilberto actually was the one, the person that started, in a very interesting way, the expansion of the Gaillard Cut. And he did that because it was a requirement that you have to fund all the money in the budget to be able to do a project, you know, and that's – it was around a \$500-600 million project.

So Gilberto was very intelligent and said, no, let's do this in small projects, you know? So then he budgeted small, you know, earthmoving projects. And that is how he started the expansion of the Gaillard Cut. So he put, you know, maybe \$50 million this year, and the next year we put some more in, and that way he started expanding the Gaillard Cut.

In 1997, in September of 1997, we were celebrating the signing of the Torrijos-Carter treaty, and we put together in Panama, a – and this is a very key issue because we put in those – in those – (inaudible) we got the Universal Congress of the Panama Canal, a reference to a

congress that Ferdinand de Lesseps did back in – when he was putting, or – starting the idea of building the canal in Panama.

But it was a different congress this time around. This time around, I had to face the different segments of the industry, and they were all saying that, you know, we were going to kill the chicken with the golden eggs, that we were going to milk the canal dry, and, you know, they said all those things in front of the public. And I said, you know, what Panama is going to do with the tariff? Panama is going to raise the tolls. You know, it's going to be – you know, you're going to try to get all the money.

And I said, well, look, very simple: I think that the market will define how much Panama can do because otherwise, if you go one penny above what you should charge, you know, you can move around and go somewhere else. Because that was this idea that Panama has a monopoly on this route, and that if you don't like to go through the Panama Canal, you have to go around the Horn and then, you know, go somewhere else. And that really was not the case.

But more importantly, in that congress, we – there were two studies presented, on what, you know, what was it that was meant for the Panama Canal. One study was done by a U.S. company, and the other was given to Panama by the European Union as part of the congress. Both studies reflected, or actually came to be about the same different – you know, not exactly the same, but very close – that the Panama Canal was going to have a capacity problem in the year 2011, which is this year.

And actually, that made me reflect, in those days, just getting, you know, to know the turf, and start, you know, making the changes in the canal. We were actually – in that precise year, we were basically finishing, in Panama, according to the Organic Law that created the Panama Canal Authority. So we were in that process of the transfer.

We decided to put together a team of engineers in the canal and make a special office that we called the capacity office of the canal. And actually, we concentrate, in that office, every single study that has been made since the canal was started, on what the canal should do on solving this capacity issue. First to say, it was for real. We were, at that time, basically starting a program to modernize the Panama Canal as per the requirements of the transfer of the canal, so that the U.S. could transfer the canal back in good working condition.

And that was a very interesting program itself, that we then continued, actually, after we took over, and in fact, Panama has spent over \$1.6 billion in these 10 years, you know, upgrading the actual canal. You know, girding, maximizing its capacity, because we needed to basically be able to manage, you know, the need for the Panama Canal.

When we did that, actually it was the base for the study that we put together, that eventually we called the master plan for the Panama Canal. And that was a plan that actually defined what we needed to do in the short, medium, and long term. And then start, you know, putting all these studies and work together to see what we could do. The idea of putting a third set of locks is not a new idea. In fact, the U.S. started building the third set of locks in 1939 and actually stopped that work in 1942 because of the war. And they spent \$80 million of 1939

dollars, which is a lot of money. They did a lot of excavation back then. In fact, we are using most of those excavations in this project.

I got to see, in 1995, for the first time, when I was doing pro bono work for the – actually, for the board of directors, binational board of directors of the Panama Canal – they showed me in the district – (inaudible) – district, sorry, of the U.S. Corps of Engineers – they showed me, you know, here is the third set of locks. And I said, wow, you know, this is the plans, you know, for – a complete set of plans who never got to be built.

So when we decided this was because I found that, you know, running the canal and moving ships from one end of one ocean to the other, actually is, I would say, common things that we do every day. The canal has been working like that, and the people who run the canal, most of them were Panamanians. So I have no doubt that we have the capacity and the people to run the canal properly.

But there was a different, actually, approach, and I have the opportunity – and actually, I have been blessed – by the fact that I run the canal for the U.S. and I also run the canal for Panama. And I think this is one of the great success stories, actually, because every people who, as I mentioned before, they have these doubts, and now they – the canal, I think, when people say that the canal is run better than the U.S., actually, it is because we are running a different system.

And we have a different approach. For the U.S., this was a break-even operation, basically, for the shipping industry; basically, they were paying only for the cost of the operation of the canal. So they were having a great time. And we have to match the incomes with the expenses. And in a corporation, it is very simple: if you are a manager, you are only managing a budget. And actually, the idea is to spend all of the budget, you know? Which is actually because otherwise they will cut it.

When we got there, we said no, actually, we need to manage it as a resource. In fact, a funny story is that in the last two years of the transfer, according to the treaty, if there were any excess of monies, they should be transferred to the Republic of Panama.

The first year, in the 1998 fiscal budget, we had a surplus of about \$8 million, if I recall correctly. And my deputy, a great guy, came to see me and said, Alberto, we have a problem. I said, you know, what do you mean we have a problem, Joe? And he said, well, we have this surplus now; suppose, you know, we have – you know, they are now closing the books and we got money and we are supposed to be break even?

And I said, look, Joe, that's OK, you know? You know, we actually budget for a break-even, and so then that money will be transferred to Panama. So that's what happened.

The next year, he came back to me and said, now we have a bigger problem. I said, what's the problem now? He said, well, we've got some close to \$30 million in – and I said, look, Joe, the way I see it, I think that the White House should call both you and me, you know, to the White House and I should be given a prize because we are running an agency break-even,

and actually, we are making a surplus. And we have done exactly everything that we need to do. We haven't left, you know, any maintenance. Everything we set to do, we did it.

But we are managing its resources. The people, in their mentality, are no longer trying to spend all the money. They have the money, and now they have controls in which to make it work better. And I'll tell this because, actually, we needed to change the culture of the place. It was different. It was difficult for some of the people over there to actually be able to manage that type of change.

And there was also, inside of the organization, a lot of doubt. So when we started, actually now, when you reflect about it, you know, Panama did not raise tolls when we received the canal in the year 2000. In fact, we raised tolls in the year 2002.

Because we did a lot of things first that actually provided better service. We changed some of the reservation system. We started understanding our customers. We started talking to them. We started, you know, understanding what their needs were.

And then we made a big decision. Because, you know, there was a lot of pressure to maintain the canal as a utility. And we said, no, we are going to run it as a profit center, as a corporation. And it should be run as a corporation.

And one of the big parts of the success story is that the Republic of Panama – and I think that the success of the canal is owed to the people of Panama – and when I say this, I said it, you know, because it was the – maybe one of the only times in which I've seen our country get together and then decide that the canal should be, you know – a change in the constitution, which is not easy, and sometimes it tries to change it, you know, from time to time – but in this case, everyone got together and created a title in the constitution of the country that says, this is the way the canal should be run.

And then we went into a process that is called Organic Law, in which there was a lot of discussion with every member of the civil society of Panama. And we got a common goal. And that is why the canal has this structure, this legal structure, that defines the way that it should – that it's run today. So it was a decision of the society of Panama that gives this mandate to those who are working in the canal.

Now, when we get to the – to start doing this analysis, then, you know, in those days, we decided then to set the tolls in a different fashion, the first time around. We understood that we were not dealing with one industry, we were dealing with many industries. In this break-even operation, under the U.S., every ship was the same.

You know, it didn't matter if it was a container ship or it was a passenger ship or it was a bulkier, basically we measured the ships the same way: one size fits all. OK, because we only needed to basically take the amount of tonnage that was going through the canal, charge X dollars per ton, per Panama Canal ton, and then basically that was it, divide it amongst everything, worth the same.

And we said, no, we are in a totally different industry, because we understood that the container industry was totally different from the bulkers, from the passengers, they have different needs, and so on. So we basically decided to – that the first toll structure – we changed the structure into eight different segments.

And we modified, then, the toll, you know, slightly up. Obviously there was a lot of crying, you know. You are raising tolls and blah, blah, blah. But we basically start sending a very important message, how we were going to run the canal. And then we had huge discussions, which then – at the same time we were preparing this program, which was also very interesting, what happened over there.

So in the toll structure, for instance, there was an issue with the container tray. Under the U.S., we could not charge the on-deck cargo. And that was done in the '30s because someone decided in those days there were no container ships, and basically the on-deck cargo, which used to be the captain's cargo, basically, there were – basically was locks who were put on top of the deck.

And someone, maybe, in one of the states where they basically were logging and sending those for the world trade, decided that, you know, there was a small amount of money to be charged by the canal, and therefore we should take it out. And that was the decision. It was taken out, and therefore we could not measure any ship – anything above-deck.

Well, in 1997, when we have the last toll increase by the U.S. – and actually, that was my first day at the job, by the way, in 1996 – when I got in, and I was sworn in on Sunday, on Monday we had a board meeting, and the board meeting decided to raise tolls. And said to me, well, now you want to raise tolls.

Well, we, in that day – we decided that we wanted to charge for the on-deck cargo for the containers. They put a huge lobby here in Washington, and I had to come to Congress, and thanks to a great congressman, Herb Bateman from Virginia Beach, we explained to him what was going on.

And Herb called this meeting, and we explained, and eventually, they allowed us to do a reverse mathematics, to put into the formula of how we measure the ship a percentage of that volume, because it was based on how much money the canal can actually charge to maintain the canal to break even.

So we put that small percentage over there. But I told the industry back then, I said, look, in the next three years, Panama is going to take over, and believe me, I am going to charge 100 percent of it. Actually, we did that in 19 – in 2004 because first we needed to segment the market because otherwise, every time we would do a toll increase, it has to do for all of the ships. And they were a very specialized part of the industry.

So I told them, then, well, now, we're going to charge the full volume. So we can do it either by TEU – that's the way you manage your industry – or we can do it by volumetric measurement. You have your – you know, select.

So we got to an agreement, and then we changed, actually, the way we measure those ships, and we started measuring them per TEU of capacity. And we put a – and then they claimed that we were raising the tolls 65 percent, which was actually not true because we were only charging for that part that they were getting away with. That was about 65 percent that actually goes on-deck.

And then – I'm making this to you so you can understand some of the issues that we were dealing with, with the industry, and how we got to this program. So when we were analyzing, you know, how can we basically maintain the canal as a very important waterway, our idea is not basically to take away the restrictions the canal has today and make a bigger canal. It's not about that.

It's actually to maximize what I believe is the biggest asset of my country, that is, our geographical position. Because otherwise we will become a secondary road, and I don't want that to happen. And you see why, and that's why I believe that it's so important. Because by doing this, Panama is becoming, and it will become, the most important logistic and transportation center of the Americas.

Some people tried to say that Panama would be the next Singapore. And I believe that we have much more than Singapore to offer, and I explain later why. So when we were putting this program together, we made some mistakes. We made mistakes as engineers.

You know, one of them was that we went to what we call the western watershed, and we started analyzing where we were going to get water. You know, nothing wrong to do a study. Well, the thing that we did not take into account was that people who live in those places, you know, believed that we were going to inundate all of them. They thought that we were going to create a huge lake.

That was not the case. What actually is – helped us a lot in understanding a dimension that, you know, sometimes we were not seeing, and that is the social part of a program like this.

And thank god that it really happens very early on. We contracted – we asked the United Nations through the PAN-UN (sp), an office over there, to analyze, you know, what were our stakeholders? You know, what were the questions that we need to answer?

And the person in charge came to me, after going and talking to everyone in the country, you know, everyone you can imagine, you know, unions and Indians and natives of all the country, and went to look at every aspect. And he presented to us: here's your stakeholders. And it's huge. Everyone wants to know about it. Everyone is concerned.

And he said, Alberto, you have a lot of questions to answer, and you don't have them ready yet. And I said, well, yes, that's true. So we then engaged in doing more than 150 studies to put together a program that today, you know, is going well, I think, is extremely well.

But that program needed to go and be presented to the people of Panama in our national referendum. So people, you know, used to ask me, why do you want to, why do you have to

present an infrastructure project to a national referendum? And this is one of the extremes, I believe a very important one, because it shows that any project requires to have a – to represent it to those stakeholders of the civil society, so that people can actually – maybe you don't like what they're going to tell you, but you at least need to hear them, and then you can make decisions.

And I don't think that you should be cutting corners in that – in those areas. And that's sometimes some of the frustrations of people, tends to happen when you want to do a project.

And sometimes we engineers tend to want to do things very fast, and we try to go around things, when I think that it adds value and actually makes you a much better and stronger project when you do things right. And, for instance, the environmental issues, talking to the people who are going to be affected.

Because at the end of the day, when we went to a referendum with this program, we put it together with this master plan, and we presented this in the year 2006 to the Republic of Panama. There was a lot of doubt. People asked me, OK, how much money is it going to cost? They said, it's going to cost \$12 billion, you know, it could not cost \$5.2 billion.

They said that there were a lot of risks, that why should we take the risk? That there were going to be, you know, awful things happening, that may – (inaudible) – the word, not – OK. And there was, you know, valid criticism, and there were valid concerns, you know. And you have to take it in that measure, and you need to basically have the answers for those questions, as far as they could be, it doesn't matter.

The important thing is that, actually, you need to tackle them, and actually understand, you know, what, you know, actually, they'll bring to you, and then you will have even a stronger project.

So in 2006, when we presented this, we went to the people of Panama. We had six months to explain, and we could not put propaganda and spend money of the canal into any of this, saying, you know, please vote yes. Actually, we were constrained, and the only thing we can do was to explain to the people of Panama what were the benefits, and the reason why we were presenting this plan.

Well, early on, we thought that, you know, we could talk about Panamax ships and post-Panamax ships and amounts of money, and billions here, billions there, and construction costs. They didn't care. That was not the question. The question was, what is in it for me?

And you need to answer that question. You need to answer it to the people in the mountains of Chiriqui, what this represents to them, what were the benefits for them? You know, for a people that were doing a pineapple farm, what it does represent for them. They don't understand, they – some of them have never seen the canal. In fact, the canal was filled away from, in those days – Panama was, you know, taken over – an infrastructure – the canal.

But we need to actually – it was off-limits for most of the people of Panama. The Canal Zone was off-limits. So even though we were very proud of the canal, the canal in itself, you

know, people do not – can't touch it, you know? Some of them have never been to the canal. They feel afraid. You know, it was under the U.S.

So, that was a big challenge, to go and do that, and I have to say that, you know, we had people from the canal from every area. And there were, like, a hundred and some of our colleagues in the canal who went out and talked to the people, and they were – you know, they tell you everything, you know?

Some people were very hard in some of the questions, and we went and talked to everyone. Every single person, every union. The construction union, which is very hard, very tough. I said to the people who live there, I said, look, I'll go there, and I'll present the case. Just, you know, hear me out. If you don't like it, you don't like it, that's OK; we can agree to disagree, no problem.

So at the end, we had a great success, and this was approved by a 78 percent approval rate. So we have, now, a very strong mandate. And we started, nine months later, we started the first program, the first construction project. And it started in September of 2007. The referendum was in October. So 11 months later, we started, actually, started digging the first program. And we've been working at that very diligently since then.

And I would like at this time to take a break and show you a film that will be basically only a week and a half ago, two weeks ago – on where we are in this, you know, very large and important project. So let's just run this film. It's a five-minute film.

(Video plays.)

MR. ALEMÁN: Well, that's where we are today. Also, I would like to reflect on getting to put a program of this magnitude together. There is a very important issue that has to be: How are you going to manage a project like this?

And we had – we contracted, through a bid process, CH2M Hill, which is actually doing an integrated team with the Panama Canal. We also needed to prepare our own engineers. We had a program in which we provided MBAs, first, to a hundred of our engineers from INCAE.

And you wonder why I want engineers to be MBAs. Because, well, basically, you are running a project. You are running a corporation. And you need to know more about engineering. Then you need that other part. And I think there are very few companies in all of Latin America who can have a hundred MBAs and engineers at the same time, working for you.

But, also, we prepare people and make them – more than 100 of them are actually certified program managers, from PMIS certificates. Because we needed to be prepared, also, Panama put together Inale (ph), which is an institution that was created basically to train Panamanians. And that's why, today, we have -- most of the people who are working in the expansion are Panamanians.

You know, some of those operators of very, very large equipment, this CAT equipment, in fact, got – also put some training facilities to train people in managing or actually operating this very huge equipment that, you know, was not the norm in Panama. So – and I think at the end it will be a very, very important transfer of technology, and I think that we will have even a much better workforce for other projects that Panama will also have to do.

As we move forward, then, in the year 2007, we haven't contracted, yet, the funding – the financing for this program. And we had a unique effort we put together, five multilateral banks. The IDB bank, IFC, JBIC, the European EIB, and CAF. And in a single term sheet, they got together, and they revised, and they did the due diligence on this program.

And we were able to show, some of the time, in some of the issues, which prohibited practices very important in those institutions, as well as the area of environment. And I have to say today, and I can say it, and I am very proud of it, that the way in which we contracted this program, actually, today, is the norm in which very large infrastructure projects should be contracted.

Because we negotiate, with the contractors, the terms, before, and not after – we don't negotiate anything after. And that is very different. Usually, it is important to do an analysis of who should get what risk. Because it is about risk-taking. Who should be the ones taking the risk, if it is better for the owners to manage that, or if it is better for the contractors to manage the risk.

And it took us 14 – basically, 14 months, to do the contracting of the main works. And I have – I can report that we have already contracted most of the, I would say, close to 96-97 percent of these contracts already – of this program has been contracted. We already have finished two projects, and basically, the third one, of the excavation of the Pacific side of – (inaudible) – almost completed.

And we are well-advanced in all of the dredging programs in this very complex program. And all of them, without exception, have been under the budget of the Panama Canal Authority. And we don't do the budget to win the projects. We do the budget that's asking that it's a good price, in which we can actually contract this program. And we have done things that are different, which we learned from diligence and actually talking to them.

For instance, on dredging: we designed – all of the dredging of this program has been designed by the Panama Canal Authority. All of the excavation that is done – all of those, actually, 50 million cubic meters of excavation in this program, have been designed by our engineers.

Well, when you do, in the case of dredging, which is about 55 million cubic meters of dredging – we did something that is very – well, actually, it's the norm in a lot of the contracting, internationally – is that we sat with the possible contractors. And we gave them: here is what we want you to build. This is the design. This is how many cubic meters of material have to be dredged.

And here is, kind of, you know, what is the type of material you will find. But you need to contract, between yourselves, a company that should do the analysis of what type of material you are going to find. So then, between themselves, for instance, and the first dredging project in the Pacific entrance, they did a \$1.5 billion study among themselves. There were six contractors who were supposed to work on dredging, and each one stayed to its part. Everyone received the same information.

Now, the risk of the material they will find doing the dredging is on their contractor, not on the ACP. If we were the ones providing that information, if there were any change in the type of materials that we could be claiming against – but if it's their own information, they have to bear that risk. And everyone has the same information, which is very important.

Well, we had a fantastic price in every single project, and that's the way we've been doing it. And that is a modern way to do it. In fact, the winner has to pay the other contractors, you know, the percentage that each one paid for the study. So that's the way, and they want to know the rules.

And we know exactly, and we have had all this work done, and there hasn't been any claims. And most of those projects are basically finished. For instance – (inaudible) – in the Pacific – in the Atlantic side, he would – he put seven dredges on one given time. Why? Because when they bid this program, it depends on if they have dredges available, if they have, already, them working in the country.

Dredging International brought to Panama the largest dipper dredge – I mean, cutter-suction dredge in the world to do a project that requires a lot of rock excavation in the Pacific entrance. Well, it's a very powerful dredge. They have the equipment, they have the capacity. Let them bid for that. We are not the ones who should be telling them what to do and how to do it. They have to take their own risk.

So this program – and actually, I sat with a corps of engineers that went to visit me in Panama, and they – I, to explain – for me to explain to them – Panama, now explaining to the corps – how we were doing this, because they want to use this model to actually bid for very large infrastructure project even in the U.S. So we are very proud of that.

I think that we put together a program that actually is being contracted and very efficiently, and it's doing very well. In fact, we are about \$400 million below the expected budget. Hopefully everything will finish; there's still a lot of work to do. There's a lot of things that can happen, but we will try to maintain this very much under budget and ahead of time, and those are very difficult tasks to do on a very large and complex project like this one.

This is a project that is basically being done around the world. For instance, the designer of this program of the locks is Montgomery Watson Harza from Chicago with the Tetra Tech. Those are the two largest designers in the world. They are the ones designing this, but they are also designing this with companies in Belgium that are specialists on the gate, for instance, and they are doing what you saw over there – one of the largest ever built hydraulic models to test

the (water flow in ?) the basins, the water flowing from an upper lake to an ocean that actually change 18 foot in tides, a lake that actually will move 89 feet down to 81 (feet).

So we need to look at all of those hydraulics, and this company – Compagnie National du Rhône – it's being contracted by them to do these studies, and actually I have to also report that the – well, they came out of those, so we basically are already finished. It's very exciting and very good. You know, it's because they could not start building anything unless we passed the tests, not only on mathematical models, but also on physical models like this one that they built over there. They are also designing the – actually the mathematical models are being done in Buenos Aires, Argentina, on a company owned by Montgomery Watson Harza. And they have specialized in these hydraulic mathematical models.

And those are working with, you know, with France, with Chicago, with Belgium, and with Panama. You know, and the – for instance the gates are being built in Italy; all the valves and equipment is being built in Korea by Hyundai, so this is a project that actually span the world. It's not only, you know, the contractors; it's actually – you've got Belgium, contractor from Holland doing dredging, so you've got all type of workers – and I – I'm sorry, of contractors – working in this very exciting program.

Now, what will happen when we open the canal in 2014, when we expect this to be open? In fact, I think that we have said it is a game changer. And why is a game changer? Because actually by allowing now a ship that – the Panamax, in terms of container, for instance, is a 4,400 TEU ship. Will we be able – actually already the industry designing a Panamax – the new Panamax ship, that actually we call the design vessel – to be able to carry over 14,000 containers, fitting the dimensions that we have as our design. We were thinking about a 12,000 TEU ship; now they're already gone up to 14,000.

When we talk about bulkers, in the canal we can only move a 60,000 deadweight ship. We're looking at a ship that is about 170,000 deadweight ton ship – three times more, almost three times more.

Now, what happens? There is – there, for instance, in energy. We cannot move LNG through the Panama Canal because the size of the ships doesn't fit – the LNG tankers are not Panamax in size, are larger than Panamax. Well, there's a lot of gas, even here in the U.S., in Peru, in the Caribbean, and now you can actually be transferring from one ocean to the other.

When we look at what happened in Panama in terms of transshipment, in the year 1995, in Panama, '96, we only moved 200,000 containers a year. This past year we moved 5.6 million TEUs. We became the number one port in Latin America; we surpassed Santos in Brazil – this tiny country, Panama.

We have more trains in Panama because we have 52 overhead trains for containers. Well, just happened that is 23 percent of all the trains in Latin America. We have more trains in Panama – container trains – than Mexico has. We got more trains than Brazil has. We got more trains than Chile. See?

And that is about basically being able – because when I said that we have better things than Singapore – in basically location and position, because we have a long way to go to get to Singapore – that is because we can connect two oceans. Singapore do not connect two oceans. We connect the Pacific and the Atlantic. And we actually can – can actually get to a very large market that is Latin America. And that is why Panama is now a game changer, because we now allow larger vessels to roll from one ocean to the other and therefore you can have greater economy of scales, huge economies of scale.

And that should benefit – and that's why there's a huge discussion going on today, and that's what I am so glad about because we are here now talking, that Panama is now presenting to the U.S. and to the world a game changer in terms of infrastructure change. And now the discussion around the – all this seaboard in the U.S – is who's going to be the winners? Where should the investment be made? Here in the U.S.

The same thing happened in the Gulf. See, there's a huge difference between being able to move soybeans in Panamax-sized ships than moving soybeans in three times the capacity. It give U.S. soybean exporters or corn exporters a huge advantage to get to the market in the most efficient way because when you have a low-cost product or commodity, the cost of transportation is very large. And if you can reduce that part, then you make it – you actually made it much more efficient.

Then what happened to Panama? For us, the same thing. We have the capacity to go to any market. That's why when we are basically selling pineapples to Europe, we have the capacity to basically contact or transport that pineapple in a very efficient way because we have the port system, we have the – not more important than the port system – we have the lines connecting to those ports. So we are – we can have access to that connectivity because Panama is the country with more connectivity in Latin America, in fact the number two in the Americas. Number one is the U.S. Besides the U.S., then it's Panama.

So that is why when I said early on that for us, the importance about the expansion of the Panama Canal is not about allowing larger vessels to go through. It's actually to maximize what we can offer as a country and maximize that location that we do have. And it's about adding value. At the end of the day, it's about adding value, and how should also we help? We can capture value from the value that we offer and that is why, you know, nowadays, we have these discussions, and that's why the canal has been able to price itself properly and actually to get monies, you know, to be able to do what we're doing.

And it actually, you know, just as a reflection, we had a(n) interesting discussion one time – just to close out – with industry. And during the debate for the expansion some of them said to me, you know – (inaudible) – but why are you charging us, the industry, now, you know, for something that we are not the ones who are going to use it? You know, why don't you charge that money later?

I said, you know, I think that you've got it all wrong. Because, you know, I provide you a service and when you use that service, like when you go and buy a Coke, you drink your Coke, OK? And you don't tell Coke what to do with the money in which they sell you that Coke.

(Laughter.) OK? So I provide you a service today; the canal provides you a service today that I am sure that you pass that on to your clients. And you charge for that service today.

We are the ones taking the risk; you are not paying for any Panama Canal expansion. You got it all wrong. We are paying for the Panama Canal expansion ourselves. We are the ones putting – we are the ones betting for that. We are the ones who are actually burying that money in our country, expanding the Panama Canal, because I believe that we're going to supply you with service that we can actually gain from doing that. We are the ones putting \$5.25 billion in this infrastructure because you have one big advantage over me, and that is that you have ships, that you have engines and that you can move them around. So I am going to offer something that I'm not – that I'm sure that is going to be of benefits to you, and that's why you're going to be using it. And that actually is what really happens, you know.

We are basically growing our service – we will continue to grow our service, and I think that adds – has value and today we see the industry actually moving and contracting bigger vessels, new Panamax-size ships, and everyone is now trying to position themselves to get advantage of the Panama Canal expansion. We did fantastic, and I love it; I actually think that our bet is going to be a very safe bet, and actually I think that it will enhance Panama even further. So, with that, I just like to thank you again for your time and for allowing me to basically explain to you what's going on in Panama. Thank you very much.

(Applause.)

MR. JOHNSON: Thank you very much, Alberto. This is very, very interesting. And just to set your comments in context, I'd like to call on Bill Lane, the director of government relations for Caterpillar Tractor to provide a sense of what this means in terms of construction and jobs. Bill?

WILLIAM C. LANE: Yeah. First of all, thank you very much. You know, sometimes you get to deal with projects that touch history. Sometimes you get to deal with projects that actually make history, and this is one of the things that I think we ought to be most proud of.

I was really eager to accept this invitation because it's very rare where you really get a chance to talk about the nexus between infrastructure and trade. You know, we live in a time where there's been all sorts of chatter about expanding infrastructure in the United States, and it's usually within the rubric of a jobs program. And I would say, if that's the theme, it's really short-sighted because, you know, if you're borrowing money to just sort of make work, that's really not improving the efficiency of your economy. But if you're borrowing money to improve the efficiency of your economy, that's a dividend that's going to pay – or that's an investment that's going to be dividends forever.

I mean, when you think of the U.S., probably the most transformational infrastructure project was the Erie Canal, which ultimately resulted in the commercial center of the U.S. moving from Philadelphia to New York because it linked the Midwest. But what's going on in Panama is equally as great.

And within a Washington context, we spend almost all of our time talking about trade agreements and ways to remove trade barriers from a tariff or a quota standpoint. What's going on in Panama is really removing trade barriers. The canal expansion is the most visible manifestation of that, but there's more going on in Panama than just that. I mean, and think about this: The airport in Panama City is being quadrupled in size; Copa is being upgraded to truly a world-class airline; over 30 new American Boeing jets are going to be purchased, all with GE engines. And all of a sudden, you're going to see as a transportation hub Panama, for the entire hemisphere.

From a Caterpillar perspective, first of all, I have to tell you, we really get excited when we see our equipment on – (inaudible, laughter.) I mean, we really do. I mean, moving dirt really – I mean, that's what we're all about. (Laughter.) I mean, it's a – you know, everybody else has other things; it's fashion or money or – I mean, we just like dirt. And – we even like mud. Mud's good too. So, I mean – but this works out really good.

So the fact that Caterpillar was championing the Latin FTAs shouldn't be – come as a surprise. A couple things we've learned in this exercise. One is we all have to do a lot better job communicating. With the – you know, with the administration – and the administration always had a propensity to move forward – they just didn't want to take on some interests that were antitrade.

But what really, I think, shocked the administration was when a number of businesses pointed out that – well, from a Caterpillar perspective, Colombia – we export more to Colombia than we do to India or Germany or Japan. That's not to say that they're not bigger markets, but most American companies tend to service their Latin American clients through exports from the United States, whereas when you're servicing Asia, it tends to be more of a mix between what's made in Asia and what's made in the United States.

What really shocked the administration was when we pointed out that last year we exported more American-made products to Panama than we did to Korea. And that's not to take anything away from Korea; that's just to say that when you have an opportunity to open three markets versus one, you want to open three markets.

And, as a result of that, we played a leadership role. I just got word this morning that – and some of you may know this story, but let me just tell it anyway because it's sort of fun. (Laughter.) In December, we made a real push to make sure the administration didn't lose sight of the opportunity to open all three markets. And in a way to sort of visualize that, we took an ad out in POLITICO – and you'll have a copy of the ad when you leave here – and it showed a football of – a field goal post – and the headline was, this is not the time to kick a field goal on trade.

And the operative line, which quite frankly the administration didn't find all that funny, was, passing the Korea – or, passing the Korea Free Trade Agreement while keeping Panama and Colombia on the sidelines is the equivalent of kicking a field goal on second down. (Laughter.)

We just got word that that won the highest platinum award for advertising this morning – (applause) – for creativity. So you know, don't ever let it be said – a 5,000 (dollar) ad can actually make a difference. But it really did coalesce people's views that, you know, maybe we need to think bigger rather than smaller. And in a period of three months, to the administration's credit, to the Republican leadership's credit and the business community's credit, you know, folks did coalesce around the notion that we need to do more, not less.

Let me just wrap up by saying a couple of things. Meredith is going to talk at length about the trade agreement, but let me just put this more in a U.S. perspective. And Alberto talked about it. I don't care if you don't make anything that has to do with earth-moving equipment. If you do, that's even better, but think about this from a supply-chain standpoint: A more efficient Panama Canal reduces your supply chain, which means almost all American manufacturers become more efficient and better able to compete in the global economy.

Don't think – you know, micro-standpoint – don't think that this is the be-all and end-all. As was pointed out, this is going to result in an awful lot of construction projects along the coast of the United States and in the Gulf as ports have to expand to be able to handle the larger ships. That's going to generate jobs; that's going to make U.S. infrastructure more efficient.

Think in terms – if you have a goal of doubling exports, we're going to have a lack of infrastructure to accomplish that. Now, so far, the goal of doubling exports only – or, you really should be doubling trade, but for now, let's handle just exports. You need to have more capacity of the ports, you need to have more feeder roads and railroads in order to actually accomplish that, because if you're doubling exports, you're doubling the amount of goods you're selling.

You're also going to have to increase imports – and I think sometimes we lose sight of the fact: While exports are very, very important, imports are important, too. And in many times, it's the imports that give you the vitality of your economy. And it allows you to ratchet up your level of competition so you really are more competitive.

Let me just say two things I'd like to leave you with, and this is one thing that I think the Panamanians have done better than any – and it's something I think we have to regain: We've got to regain a sense of urgency when it comes to projects, when it comes to change, when it comes to making the big fixes that's going to improve the economy.

You can avoid eye contact on tough issues and sort of drag things out – I think the Republicans like to say, kicking the can down the road – but you know, people talked about the Panama Canal expansion five years ago, six years ago.

And I remember when I was first hearing about it, really, and it was actually 10 years ago, and they said, this is going to be a \$5 billion project. And of course, in my mind, I said, oh, that means it's going to be a \$10 billion project, because that's what happens in the U.S. It's still a \$5 billion project. It's ahead – in some ways, I think you're actually ahead of cost. You're on time.

We used to do things like that – (laughter) – and there's no reason why we can't do it again. Our equipment is more efficient than it's ever been. Our workers are more productive than they've ever been. Yet every day, we commute to work and we hear about the inter-county connector being a couple more decades away. And I guess eventually we're getting there now, but the point is, we need a sense of urgency as far as addressing our issues. And we can learn from Panama in that regard.

Secondly, Cat's made some investments in Panama, and some of it has to do with supporting the activities as far as the expansion, but some of it has to do with our own policies. You know, we used to like to bring workers into the U.S. to be trained. But it's very hard to get visas. And so if you want to be a diesel-engine mechanic or if you want to learn how to service some of our equipment, it really takes a herculean task to get folks to come in for a couple weeks to get that kind of training from Latin America.

We're now setting up a training center in Panama. It's a good investment. It's employed a lot of Panamanians. But what it does, it allows us to stay in touch with our customers and the folks that run our machines. So you know, there's other issues we have to address dealing with immigration issues and business-travel issues and things of that sort.

And let me just end with a phrase that we've probably heard for a long time, that Panama has always seen itself as someday being the Singapore of the Western Hemisphere. You know, I was in Asia recently, and in Singapore they're now saying, someday we're going to be the Panama of Asia. (Laughter.) So I think you've accomplished it.

We're proud to be part of the expansion. We're proud to be one of the leaders of the free trade agreements with Panama and Colombia. And I really think that when we look out 90 days from now, we're going to see that an awful lot has been accomplished.

And when you think in terms of countries where there is really a bright future in Latin America, we used to just focus on Chile. Now it's Colombia and Panama. Folks are showing the way that other countries can follow. And so not only are we benefiting directly, but I think we're going to be benefiting over the intermediate and long term because what you're doing is you're setting an example for others to follow. And that's going to be good for Latin America and that's going to be good for the United States. Thank you very much. (Applause.)

MR. JOHNSON: Meredith, the floor is yours, and then we'll have about – probably about 10 minutes for questions and answers.

MEREDITH BROADBENT: Thank you very much. When you sort of think about what you – how you want to put into context a trade agreement like this, which has actually been in thought and in construction since November 18th, 2003, when President Bush actually notified the Congress of his intent to negotiate a free trade agreement with the Republic of Panama.

And I was just thinking back – I have a son who's a junior in college. He was in seventh grade at that point, and he's now an engineering student and I'm hoping that he – Alberto may consider him as an intern this summer – (laughter, chuckles) – where he can learn a little bit

about this, you know, all-American market segmentation that we've got going at the Panama Canal.

Very, very gripping story and an exciting thing for all of us to hear about, and we're lucky that Alberto would come and give us his down-to-earth assessment of what's going on there on the ground.

The update I have on the free trade agreement for all of you, who I know are following this closely and know this as well, but just to sit back and appreciate some of the mile markers that we've come to at this point, since 2003, you know, we now have legislative language for implementing a free trade agreement up on the Hill that's there, transmitted informally, sitting in front of the congressional staff and the attorneys along with administration attorneys, looking at these agreements and coming up with the right language. And that is just a huge accomplishment that we've got, and we're well on our way. And things are going quickly, is my impression on implementing this long-overdue free trade agreement.

It will stand, I think, as a symbol to a country that is really a peaceful crossroads for maritime commerce, both east and west. They've been a longtime ally of the United States, a friend in a very difficult part of the world where we worry about drug interdiction and organized crime and keeping the roads and the maritime ways safe coming up from Latin America.

So it is a vibrant place that offers an awful lot of opportunities. I think we've missed some, unfortunately. I think if this agreement had been implemented a bit earlier, we would have been in a better position as a country to have some of our companies take advantage. But there is a renewed sense of urgency I think that Bill alluded to that's very important. And we're well on the road to have a success.

Some of it, the statistics are just huge, and I'm not going to bore you because I know folks here have followed them closely. But Panama is one of the fastest-growing economies in the Americas. It's expanding at more than 6 percent a year. The forecast is to sustain that performance for probably the next four or five years. The United States needs to participate as fully as possible in this economy so that we can take advantage of the growth that the Panamanians are doing and make it a mutually reciprocal, beneficial relationship.

As we know, we all worked, a lot of folks – I see familiar faces in the room that worked on the Caribbean Basin Trade Partnership Act that was instituted in the '90s. We give duty-free treatment on a permanent basis to most of Panama's exports to the United States. Panamanian producers and service providers don't face any barriers here, but our goods going into Panama at this point face tariffs from 7 to – some are 260 percent. So getting those phased out is crucial for this economy that's looking for job creation. And this is job creation that doesn't cost anything.

Over 80 percent of U.S. exports of consumer and industrial products to Panama will become duty-free immediately, with the remaining tariffs phased out over 10 years. We're going to be able to cooperate, or consolidate our partnerships and cooperative relationships and really strengthen our deep cultural and historic ties with this very important ally.

So I think we've got a good kickoff today for what is going to be a really exciting couple of months on Capitol Hill as we see the United States kind of come back and get in the game on trade, you know, and get more U.S. companies with their banners doing big, full-scale production projects in the hemisphere. (Applause.)

MR. JOHNSON: Thank you, Meredith, very much for that perspective. Meredith is the senior advisor for CSIS and holds the Scholl Chair in International Business. I'd like to open it up for questions that you might have for either Mr. Alemán Zubieta, Bill Lane or Meredith Broadbent. I'd just ask if you'd raise your hand so that our intern scholars that have microphones could come and give you the mic so that everybody can hear what you have to say.

Q: Thank you very much. Andrew Piti (ph) from the AFP news agency. We've seen in recent months that the trade deficit between the U.S. and China has narrowed slightly. I'm wondering if you're seeing that in traffic flows. And secondarily, if you – do you think there's any long-term risk for the canal in China becoming a less export-driven economy? Thank you.

MR. ALEMAN: Well, yes. Yes, we have seen this year – I think that we're going to go to a record year in the Panama Canal. So far, we had about 20 million tons more in the first six months of our fiscal year than last year, which we had in those – last year, we were about over 300 million. The maximum the canal has ever had is 312 million the Panama Canal has done, so I think that we're going to basically break that record this year.

And we are, you know, moving – we have seen the – basically, every segment of the – in the canal actually has a very positive flow in the canal. That's – to answer that question, you know, we have seen that improvements, basically, is reflected in the canal traffic.

On China, I think that the canal not only serves that rate – you know, it's – we serve Asia to East Coast of the U.S. It's the main trade of the canal, for sure. We will be seeing not only that – I don't think that China is going to simply disappear off the world market. Obviously, it will be competition. There will be some – there are some movements to Vietnam and to India, but then when you look at the infrastructure that China has, actually allows – it's not only about – and some people tends only to look at the cost of labor. And I think there's a lot other things besides labor that actually impact more of the supply chain than the cost of labor itself. I think that also, as China, it's becoming in itself a consumer, also provides benefits for actually being – you know, building parts or products in China. So I don't see China going away anytime soon or in the future.

Also, there are – we also serve other trade lines than – besides China. The west coast of South America, for instance – Chile has grown, you know, exponentially in the last few years by having free trade agreements with the U.S., also with Europe. And then there's flows from – import and exports from these countries.

There is also an export from the U.S. People tend to think that only the flow goes in one direction. Actually, it goes in both directions, even though there is an unbalance of trade. And that's why – when I look at the Panama Canal route, that is why it's so important that you look –

that when you are coming (in terms ?) of containers or compartmentalized cargo, you put services in – actually in areas where you can actually tap into larger markets.

That is why Panama has grown so much into doing a transfer of cargo, because we actually interconnect the east-west routes with the north-south routes. And maybe the way to look at Panama in that sense is that Panama is the only port in the world that has terminal in two oceans. I've been saying this for a long time. You know, you can go from the Pacific to the Atlantic in less than one hour. And you don't do that anywhere in the world.

MR. JOHNSON: I think we have one in front here. And we'll take – I think there was another one. In front and then in back.

Q: Thank you. (Inaudible) – former representative of the Inter-American Development Bank in Costa Rica and Jamaica. (Audio break.) But my question is on the other side. Now that Panama is almost ready, is the U.S. ready? Because I understand that when ships suddenly become – seeing as ports aren't as big as they used to be, do we have, in this country, the adequate port capacity and the adequate rollover capacity that we need? I understand there's a competition between New Orleans and between Charleston and a few other – but if you look at today's hydraulic problems on the Mississippi River and whatever, are we ready?

MR. JOHNSON: Bill, do you want to take a stab at that?

MR. LAND: Not – I actually think Alberto can do a better job. But I don't think we are. And I think that's becoming very clear, that there needs to – we testified – one of our executives testified before Congress late last year and pointed that out, that there needs to be not just an expansion of port capabilities dealing with the canal, but also, if you're actually going to try to double exports, that there is a capacity issue there as well.

But here, too – that gets back to that theme. Money spent on infrastructure that improves efficiencies – that's going to pay dividends. If you just spend money to create jobs, that's going to undermine your competitiveness, and ultimately it's going to turn the public sour on those type of investments. So I think it's important for policymakers to be very careful on the way they talk about infrastructure.

I mean, ultimately we're going to have to spend far more resources on upgrading and improving the U.S. infrastructure. But we really do have to make sure they're true investments and not just make work projects.

MR. JOHNSON: Alberto, a short comment?

MR. ALEMAN: I think that's a very interesting discussion going on. Actually, we have to – first, I have to point out that what people are talking about is to maximize or be able to actually handle the largest vessels that can hold the canal. And I – we have a discussion going on, on what are the type of ships that are going to be deployed? There are some ports already that can actually handle the 14,000-tier ships. I just was in Norfolk this past week, and I saw,

they have super post-Panama cranes and so on. And they have the facility, they have the depth in the ports.

But the question is actually the role of infrastructure. And I think that I am – I fully agree with William on this. It's that, yeah, you need to look at the whole chain. It's not only the ports, it's also the railways, it's also the roads, the distribution centers. So all of that comes and click, you know? And there's a lot of infrastructure that has to basically be upgrade to be able to capture. You know, and actually it's to make it more efficient, the way you get to market. And that is acting that will add value. You know, the canal is only one element in the overall chain. And you will be connecting to ports, like in Houston or in the Gulf, Alabama, the Mississippi also.

Now, we just signed yesterday an MOU with the Soybean Coalition – Transportation Coalition, because they are interested also in looking at how they are going to be able to capture the benefit that we can offer. It's where they're going to have the equipment to basically put that cargo on top of the ships. Are they going to be able to actually be with larger ships to move that cargo into Asia or into Japan or wherever they're going to export? Because they want to capture the value that we provide.

Now, they need to have the infrastructure to do that. None of them – they won't have ports that actually can get those vessels. How are you going to do that in an efficient way? And there has to be investment made. And where you made those investments? Because you also need to get the – you need to get that train to the port, either by the Mississippi, you know, or you have it by rail or by trucks; you name it. You know? Which is the most efficient way to do it?

And I think that's a big discussion going on today. Because it's happening, you know? It's a different story when you (haven't ?) maybe six or seven ago, when – well, it's nice to have. Now, who is going to be ready? So we better be ready, OK? And that's an interesting discussion going on.

MR. JOHNSON: In the back?

Q: Thank you for your time. Could all of you address some potential security concerns with the increased flow of traffic?

MR. ALEMAN: Well, the security is always paramount. There is a – I have actually been to Congress before when I was the Panama Canal Commission administrator, and I believe strongly that the best way to protect the Panama Canal is through intelligence. You know, we do have a very sophisticated system for – all kinds of cameras and things like that – you know, hardware. But at the end of the day, it's about intelligence, you know? And I think that's where we need to focus and be ready to actually prevent rather than actually react after the fact. And that's what I will have to say on that.

MR. JOHNSON: Bill?

MR. LANE: Yes, I – go ahead, Meredith. I don't have anything to add.

MS. BROADBENT: Well, I think – Steve, you may want to respond to this because, you know, my sense is that we have very high-level security relationships with the Panamanian government, but I haven't studied those closely.

MR. JOHNSON: Well, I didn't want to have to say anything today, but – (laughter) – I'll be happy to add on to that.

I think it's very important to – obviously, with increased traffic flows there are increased vulnerabilities, and also the need to be able to track those flows. Panama, I think, with this project, stands at the forefront of being able to do that. Some of the other ports in the Americas are probably a little bit less prepared to be able to participate in that. And I mean by that: being able to track what's inside containers, being able to track the containers themselves and being able to secure their own port facilities.

Then there is the question of what actually goes through the canal itself. Fortunately, we have exercises that are hosted jointly by SOUTHCOM and the government of Panama called Panamax exercises that test some of these vulnerabilities and exercise ways with host coast guards, navies, in being to meet some of these threats.

So I think that we're cognizant that these things are going to continue to increase. They're not things that we can eliminate. They're not threats that anybody can stop. But they're situations that require control and being able to be technologically manned in terms of personal proficiency – ready to be able to meet them. And I think that we're on the way to doing that as long as we cooperate well among the countries of the hemisphere. And these exercises draw participants from different countries in the hemisphere.

I think we're just about at the end, but we'll take two more questions. What we'll do is if we could take them one right after another. Then we'll allow the panelists to answer both of them. So, the gentleman in the back and then – lady in the front.

Q: Hi. This question is for Mr. Aleman. What changes have you seen in terms of shipping based on the higher price of oil? Are companies adjusting to the way that they're shipping because of that – fewer boats coming through, or just a different strategy in terms of how to get things from point A to point B?

MR. ALEMAN: Well, the answer to that one is that there has been a lot of consolidation in the industry. That happens. And it happens not only because of oil, but actually when we got into the crisis in 2008 and (200)9.

But one other thing is that there is a – what they call slow shipping, the slow movement of the ships – they now are moving at lower speeds. And it's to reduce the costs of energy. And that type of – is affecting somehow – you know, they need to put more vessels in the system. But at the same time they're saving a lot of money in the cost of energy, and that slow steaming,

as it is called, is an ongoing – is a procedure that the shipping lines are taking to basically reduce the cost of fuel. And that will be the major change they have done.

Q: Hello. Betty Brannan from La Prensa of Panama. My question is, China has announced its intention to build a canal through Colombia that would compete with the Panama Canal. I wonder how Mr. Aleman reacts.

MR. ALEMAN: Well, they also announced, at one time they were going to do the one in Nicaragua. Yes, the Atrato – the canal in Atrato, actually – and the one in Nicaragua and many others in the region are not new to us. In fact, this is a rail – supposedly, a rail that would connect the productions for coal, basically. And also, they are talking about actually putting a city or something like that for the exports of containers.

We don't see it. Honestly, I don't think that – and every expert in the industry actually has reacted to that. So yes, there are this type of announcement that comes from time to time.

What I do believe, and I have said it because I have seen, you know, canals, freight canals in – and I don't see they pose a competition to the Panama Canal, but the – if you are moving – even if you are moving coal, OK, and you have to move the coal from the Atlantic in Colombia all the way in a very long rail – and then you (also have the ports ?) – you will need a lot of cars to move the amount of cargo that we can move in the Panama Canal.

And actually, there are some issues, very interesting, that can happen because now we are talking about maybe the possibility of actually topping off, you know. And that means that, to basically fuel ships that actually are even – who can come to the Panama Canal, but they are not, let's say, fully loaded, even with the expanded canal. What you can do is, to actually – to top that off, it means that you would have – (inaudible) – vessel in Panamanians' water after they cross the canal, and then you finish filling it up so then we go fully loaded into the long leg. So there's an alternative that now we even can explore that were not there before. And that will do away with a lot of these ideas, OK?

What I do believe, though, and I am strong about this, is that Latin America, just like in the U.S., we need to invest very heavily in our own infrastructure. Sometimes – and I think that it's even more, when I just mention in my remarks, that we are still a way from being Singapore, you know? And I point out more in the system that Singapore has adopted, and took them about four years to do, you wish now you can be – and you're exporting out of Singapore, importing, you can do that, all the paperwork and requirements, permits, you know, from your desk, and you will get that in maybe in 10 minutes, when usually it takes you weeks and even months to get the permits before.

Now that's a very, you know, large program because there's a lot of cost in that bureaucracy that doesn't add any value. And then we tend to have different elements saying, here I want to say, you know, yes on this, yes on that.

And we need to work on that, but also in the infrastructure because now we have regions like Central America having free trade agreements with the U.S. Well, how are we going to compete, you know, efficiently, if we cannot get our products out of – in an efficient manner?

And there is a study by the World Bank in how much is lost in the production in our countries because of lack of real good infrastructure and lack of – or the excess of bureaucracy in some of these issues. There is no reason why, Betty, we could not have, you know – and there is the advantage of getting the Panama Canal or this infrastructure we're putting because I – when I look at moving a container from, let's say, Guatemala, OK, to the city of Panama, or even Costa Rica, which is actually nearer, well, you never know how much – how long it's going to take. It depends if the border is closed or open, because they might be out for lunch. Or today is Sunday, and I don't work on Sundays. Or we need to change the tractor that actually is moving the container, because now he has to be a Costa Rican operator – [unintelligible] – and a Panamanian one.

You know, that is nonsense, OK? If you do the same thing in Europe – and I make this story for the IDB bank, OK – you can have – you can load a container in Hamburg, in Germany, and take it all the way to Sevilla in Spain in something like 28 hours. The same distance in Central America will take you weeks, OK? And this is cost that actually doesn't have any sense.

I have people in – we are doing work in INCAE now, the private sector with INCAE, trying to analyze this issue, and there was a person from Nicaragua. And this guy exports beef through Panama. Well, the problem that he has is that because of this paperwork and these customs that – you know, they are closed, and you know, he said, I could actually be able to export beef that is not frozen, OK, to a market getting a much bigger value on my exports, but I cannot do it because of this problem that I'm facing. And this is from Nicaragua to Panama, OK? So we don't see that.

And I think that that's where we need to focus. And I think that all of these ports – I am glad that, you know, Chile is doing energy facilities, that Peru is now having better ports in Callao, that hopefully Costa Rica will have better ports in the area, that El Salvador build a port facility and they don't have trains – things like that, you know? And I hope that they can actually be able to export better because you open markets, you open more volume, and then we all benefit. I think that, at the end of the day, that is about, you know, investing properly in infrastructure.

MR. LANE: Allow me just to sort of conclude with one – just to build upon those comments – Alberto's comments because, you know, I actually abbreviated sort of my stump speech, which is, you know: You have man-made trade barriers, which are quotas and tariffs, and that's what, you know, we try to address with free trade agreements and multilateral agreements. You have man-made barriers, and that's what the Panamanians are doing as far as infrastructure, and the United States – hopefully, we're going to be doing.

But the third type are sort of the trade barriers you put on yourself. And you can do that by embracing protectionism, but in some ways you can even be more sinister. If you see your customs department as a way to employ people rather than a way to facilitate trade, that's a trade

barrier. And in some countries, it's marginal, but in a lot of countries in Latin America and Africa and Asia, it's far more than marginal. And it really is more pernicious than a lack of infrastructure or a lack of market-opening trade agreements and what have you. And maybe that'd be a good topic for another CSIS program: just the importance of capacity building and what that type of payoff could be from efficiencies and expanded trade opportunities.

But this, I mean, this really is a big a deal. And it really is a self-created trade barrier which really puts an enormous penalty on your own economy.

MR. ALEMAN: Just to finish a thought on that. For instance, when you talk about this idea of bringing rail into the Pacific side of Colombia, well, you know, you have a huge area of Colombia that doesn't have access. By (building ?) either roads or rail, you are actually promoting more exports out of that region. You will make that region even more – with more production capacity, and therefore, at the end of the day, it better – or possibility to having flow from the Pacific to the Atlantic is actually benefiting all the way around.

And I think that, really, one issue that Latin America do have, and that we're actually lacking, is proper infrastructure to actually be able to compete. Because otherwise, we're going to be condemned; that the only way we can compete is going to be on having low wages. And I don't think that that is the way to do it.

Otherwise, you know, I always put the question: How can we compete with a – and what other ways here in the U.S.? I really – do we really believe that only the people are putting factories in China because low wages? You know, let's try to do factories in China when they don't have ports or they don't have trains or they don't have highways ready to do because they will be so expensive there's no way you can do it.

So that is why you need to look at the whole picture. And that's why you need to invest in infrastructure to really be competitive about, you know – and actually create more markets.

MR. JOHNSON: Ladies and gentlemen, a round of applause for Alberto Aleman, Bill Lane and Meredith Broadbent.

(Applause.)

(END)