

The Return of the All-Water Route

During the last few years, containerized cargo flows through the Panama Canal on the Asia - East Coast of the United States route have been experiencing significant growth as a result of the shippers' increased demand for all-water services.

The preference for the all-water route, or the decision to move cargo by water, is being propelled by several factors, the most important one is the fact that major U.S. importers are relocating part of their operations to the East Coast, where 75% of the consumer market is concentrated. Companies like Wal-Mart, Home Depot, and Target Stores have established large regional distribution centers (DC) close to ports such as Savannah, Norfolk, and Houston.

Shippers, as well as major retailers, are recognizing the various important advantages offered by the all-water route. These advantages include reduced transportation and cargo handling costs, simplified and more direct cargo routing, while experiencing one of the most reliable, safe, and secure methods for moving cargo. The adverse impact of the October 2002 West Coast port shutdown and the fact that all-water services provide more direct calls to ports near the major consumer markets have also been instrumental in tipping the scale in favor of all-water.

Another important variable that motivates the preference for the all-water route is security. A potential security problem occurs every time cargo changes hands. The all-water route transports the cargo from the port origin to the port of final destination, minimizing the potential risks associated with the possible tampering or contamination of the cargo as fewer hands are involved in the handling operation. Likewise the all-water option eases expenses in low value cargo by reducing inventory-carrying costs as the cargo stored in a container while in-route is treated as part of the distribution center's inventory. By treating the container as an inventory storage option, the capital expenses associated with the establishment of distribution centers are reduced as there is less need to expand the existing facilities.

All of these factors create a favorable scenario for the Panama Canal. It is expected that the all-water route will grow at the pace of the US East

Coast distribution centers. The growth in northeast Asian markets and the commercial boom that has resulted from the incorporation of China to the World Trade Organization is also contributing to the increase in the all-water trade.

Presently, the Panama Canal is well prepared to handle greater cargo levels as a result of the timely implementation of major improvement and modernization programs. These include the widening and deepening of the waterway, technological upgrades, and the streamlining of Canal operations.



Panama Canal Results in Savings to Customers

This year, several shipping lines are introducing new liner services through the Panama Canal to serve the increased demand for the movement of containerized cargo on the Asia - East Coast of the United States route.

The all-water route through the Panama Canal represents significant cost savings to importers and shippers. Mr. Larrabee, Port Commerce Director of the Port of New York and New Jersey estimates that it costs between \$200 and \$300 less to move a container between China and the Port of New York and New Jersey through the Panama Canal, than moving the same container through the west coast landbridge. The Port of New York and New Jersey receives fifteen all-water services on a weekly basis, and thirteen of them use the Panama Canal.

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VISION OF THE ACP

WORLD LEADER in services to the maritime industry and in the sustainable development for the conservation of the Canal watershed;

CORNERSTONE of the global transportation system and driving force of Panama's progress and growth;

MODEL of excellence, integrity, and transparency, committed to the full development of our work force.

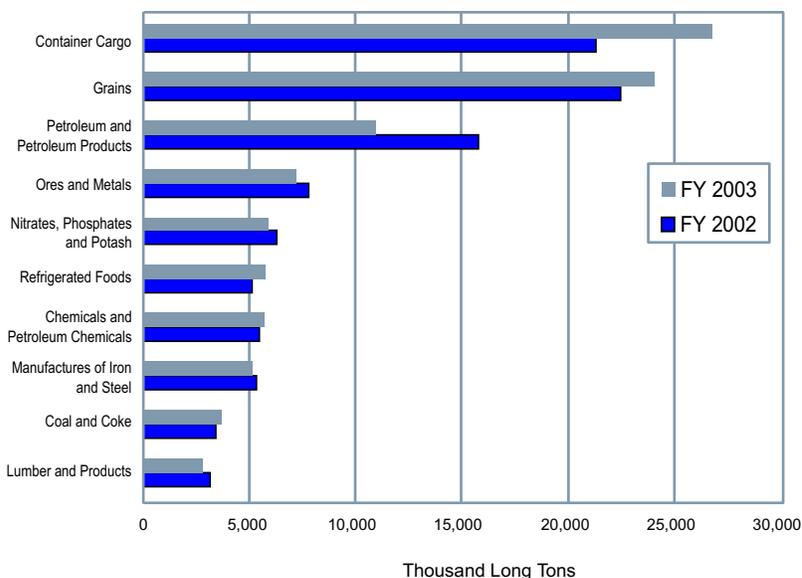
Containers Still Rising

Canal cargo tonnage reported an overall increase of 1.2 percent to 111.1 million long tons in the seven-month period (October-April) of fiscal year 2003, up from 109.8 million long tons recorded in the same period in fiscal year 2002. Containerized cargo continues to be the leading commodity at the Panama Canal while holding a 24.1 percent share of total cargo tonnage. Containerized cargo recorded a 25.7 percent increase to 26.8 million long tons for the seven-month period, compared to the same period of fiscal year 2002. This cargo increase can be attributed to new services using the Canal route and the rerouting of cargo through the Canal in response to the U.S. West Coast port strike.

Grains have remained in second place, even as tonnage levels for the first seven months of the fiscal year rose by 7.4 per cent to 24.1 million long tons. Larger grain movements, mainly soybeans, were destined to China to satisfy the growing oil and soy meal consumption in that country. As expected, petroleum and petroleum products, the third commodity group in importance for the Canal, declined by 29.1 percent to 11.2 million long tons. This decline was the result of a reduction in the exports from Ecuador and Venezuela, the most important producers in the region and key users of the Panama Canal within this segment. High oil prices, coupled with a worldwide economic slowdown, have caused a contraction in the demand for crude petroleum of the OECD member countries, including the United States.

The adjoining chart provides cargo tonnage comparisons for the first seven months of fiscal years 2003 and 2002.

Major Canal Cargo Flows October-April



Panamax Vessel Transits Remain Strong

Preliminary traffic statistics for the first seven months (October- April) of fiscal year 2003 show that transits by Panamax-size vessels, the largest vessels that can pass through the Canal locks, are continuing to rise. Statistics indicate that 2,805 Panamax vessels transited the waterway, about 7.0 percent more than the 2,621 transits registered for the same period in fiscal year 2002. The adjoining graph illustrates a monthly comparative breakdown by fiscal year.

Panamax Transits 100' Beam & Over

Month	FY 2002	FY 2003*	% Change
Oct.	355	379	6.8%
Nov.	389	397	2.1%
Dec.	370	417	12.7%
Jan.	395	421	6.6%
Feb.	346	398	15.0%
Mar.	383	417	8.9%
Apr.	383	376	-1.8%
Total	2,621	2,805	7.0%

Canal is Running Safer than Ever

As of April 29, 2003, the Panama Canal registered a total of 172 continuous consecutive days without a marine accident investigation, surpassing its own safety record. The prior longest period without marine accidents was recorded twenty years ago in 1963, when the Canal experienced 75 consecutive days without serious marine accidents. This success confirms the commitment of the Panama Canal's labor force to provide the highest quality service to the maritime industry.

AIS required on July 1

Effective July 1, 2003, the Panama Canal Authority will require that all vessels over 300 gross tons or over 20 meters LOA transiting the waterway be equipped with an automatic identification system (AIS) transponder that meets the standards set by the International Maritime Organization (IMO).

To facilitate the implementation of this requirement without affecting those customers that do not have AIS systems installed on their vessels, the Panama Canal will have available for rent AIS-ready vessel tracking portable units at a nominal rental fee of US\$150.00, from July 1, 2003 through December 31, 2003.

The implementation of this satellite-based vessel navigation aid for commercial vessels will result in reduced delays, improved safety, increased security and better logistical management of vessels, the Canal, and dock assets.

Wallenius Selects Panama as a Transshipment Hub

In March of 2002, Wallenius Wilhelmsen, the world's largest automobile and ro-ro transportation company, designated Manzanillo International Terminal (MIT) as hub for its service to and from South America. MIT now serves as the principal link between Latin America and the rest of the carrier's global trading network. The hub concept has allowed the company to link previously unrelated service routes and create a more efficient and comprehensive service network throughout the region. The majority of the hub's cargo volumes to-date have come from Brazilian ports – originating business destined for other parts of South America, Central America, the Caribbean, Mexico, and the U.S., as well as Australia, New Zealand and Asia.



Transshipment operation at MIT

The Manzanillo hub gives Wallenius Wilhelmsen access to several new markets and opens up new trade opportunities. According to Jan-Eyvinn Wang, President of Wallenius Wilhelmsen for the Americas Region, "This move further reflects the company's positioning of South America as a key component of our global trading network."

Manzanillo's location at the Atlantic entrance to the Panama Canal is ideal, as Wallenius Wilhelmsen's vessels in transit between Europe, North America, Oceania, and Asia already use the Panama Canal in their regular service patterns. The vessel deviation and port time are minimal. Plus, MIT's accessibility (operating 24 hours a day, seven days a week) has been important to the success of the Wallenius Wilhelmsen's hub concept in Panama.

Second Tolls Adjustment Set for July 1

In August of last year the Cabinet Council of the Republic of Panama approved a two-phase increase in Panama Canal tolls and a change in the waterway's pricing structure. The first phase of the tolls increase resulted in an average increase of approximately 8 percent, which was implemented on October 1, 2002; and the second phase, consisting of an average increase of 4.5 percent, will take effect on July 1, 2003.

During last year's tolls hearings the Canal had proposed a single increase that was slightly higher than the total two-phase increase that was ultimately approved by the Cabinet Council. The decision to approve a lower two-phased increase was primarily in response to compelling economic concerns expressed by a number of international participants in the hearing process. The Panama Canal remains committed to providing its customers with safe, efficient, and dependable transit service at a fair price. Canal officials will also continue to explore new services that will result in added value to customers and the waterway.

TOLLS STRUCTURE SECOND IMPLEMENTATION PERIOD JULY 2003

Type of vessel	NEW TOLLS					
	First 10,000 tons (PC/UMS)		Next 10,000 tons (PC/UMS)		Remaining tons (PC/UMS)	
	Laden	Ballast	Laden	Ballast	Laden	Ballast
General cargo	\$2.96	\$2.35	\$2.90	\$2.30	\$2.85	\$2.26
Refrigerated cargo	\$2.96	\$2.35	\$2.90	\$2.30	\$2.85	\$2.26
Dry bulk	\$2.96	\$2.35	\$2.90	\$2.30	\$2.85	\$2.26
Tankers	\$2.96	\$2.35	\$2.90	\$2.30	\$2.85	\$2.26
Container ships	\$2.96	\$2.35	\$2.90	\$2.30	\$2.85	\$2.26
Vehicle carriers	\$2.96	\$2.35	\$2.90	\$2.30	\$2.85	\$2.26
Passenger ships	\$2.96	\$2.35	\$2.90	\$2.30	\$2.85	\$2.26
Others	\$2.96	\$2.35	\$2.90	\$2.30	\$2.85	\$2.26
Displacement	\$1.64/displacement ton					
* Minimum tolls will remain the same						

PANAMA CANAL LOCKS MAINTENANCE SCHEDULE

Dates	Duration	Locks	Nature of Maintenance
June 2 - 12	11 days	Pedro Miguel	Rehabilitation of 1,514 ft. of locomotive track on west sidewall and centerwall
July 7 - 17	11 days	Miraflores	Rehabilitation of 2,127 ft. of locomotive track on southeast approach wall
July 7 - 17	11 days	Pedro Miguel	Conversion of 8 rising stem valves on east lane dry chamber
Aug. 11 - 22	12 days	Pedro Miguel	Rehabilitation of 2,445 feet on west wingwall
Sept. 1	1 day	Pedro Miguel	Final phase of hydraulic conversion of rising stem valves on central-wall culvert
Sept. 15 - 25	11 days	Miraflores	Rehabilitation of 1,705 ft., on east approach wall
Sept. 15 - 25	11 days	Gatun	Dry chamber miter gates 9 - 10 - 17 - 18

For additional information visit our website www.pancanal.com

Outreach Efforts

In June and July 2003, the Minister for Canal Affairs and President of the Panama Canal Board of Directors, Mr. Jerry Salazar, and the Panama Canal Administrator, Mr. Alberto Alemán Zubieta, will represent the Panama Canal in an official ceremony that will lead to the signing of Memorandums of Understanding (MOU) between the Panama Canal Authority and the Port Authority of New York and New Jersey, Georgia Ports Authority, Virginia Port Authority, Port of Miami, and South Carolina State Ports Authority.

President & CEO of COSCO Visits the Panama Canal

Captain Wei Jiafu, President & CEO of the Chinese Ocean Shipping Company (COSCO) and member of the Panama Canal's Authority Advisory Board, visited the Canal on April 11 along with a delegation of eight executives. During his visit, captain Wei Jiafu said, "The administrators of the Canal are doing an excellent job managing and operating this important waterway. The Canal's modernization and improvement projects have enabled us to deliver and meet the demands of our customers by providing goods and products on-time."



From left to right: Panama Canal administrator, Alberto Alemán Zubieta, Captain Wei Jiafu and Mr. Jerry Salazar, Minister of Canal Affairs and Chairman of ACP Board of Directors during COSCO visit to the Panama Canal.

IEEE Award presented to the Panama Canal

On April 4, during an official ceremony held at the Panama Canal Administration Building, Mr. Michael S. Adler, President of the Institute of Electrical and Electronics Engineers Inc. (IEEE) honored the Panama Canal Authority with its coveted Milestone Award. The award was presented as a tribute to the efficiency of the waterway's electrical system. Since the construction of the Panama Canal, improvements and upgrades have continuously been made to its electrical system by introducing new technology and adapting to the changing energy demands of the waterway.

Throughout the years, the Canal has made significant investments in the maintenance of its electrical equipment and has always fostered innovative engineering. These efforts have been fundamental to the Canal's long-standing success as an engineering wonder of the world.



Mr. Michael Adler from IEEE and Mr. Manuel Benitez from ACP unveiled the Milestone Award Plaque.

Prevention of SARS

As a result of the outbreak of atypical pneumonia, also known as severe acute respiratory syndrome or SARS, in various parts of the world, the ACP is taking safety measures to prevent the possible spread of the disease.

The measures include the requirement that vessels that have visited any of the affected countries within 30 days prior to their arrival to the Panama Canal, must report any suspected case of atypical pneumonia on board. Other measures include, but are not limited to, boarding of vessels by sanitary health authorities to investigate possible cases, and the use of personal protective equipment, such as masks and gloves, by Panama Canal personnel.

We want your comments

Your comments and suggestions are very important to us. If you would rather receive it electronically, please send us a note with your correct email address to: customerrelations@pancanal.com. If you need additional copies mailed to other officials within your corporation, please contact us at the address indicated in the next box.

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