

Complete transcript Q&A section Panama Canal update webinar – Dec. 19, 2023

What are the canal's expectations for its operations and performance after February and for the fiscal year 2024?

Fiscal year 2024 is going to be extremely challenged. The number of transits, for example, has been reduced to about 700 transits per month. The regular transiting schedule is about 1000 and change, so it's about 30% reduction on the number of transits.

What we are urging shipping companies is to try to consolidate among themselves the largest volume of cargo and to increase payload factor on the vessel to make sure that the total volume of cargo that goes through the Panama Canal per unit of water is maximized.

We are trying to optimize the use of water, and optimizing the use of water also requires some contributions from the shipping companies in order to bring the largest vessel fully loaded or as loaded as possible, depending on draft. And by doing that, we maximize the volume that we jointly provide our common customers.

What we believe is that come May of next year; 2024, the rainy season will restart and that is the time horizon that we have been working for. Everything we do as far as scheduling, reduction of transits, adjusting advisories, regulations, allocation of slots, and everything else that we do to manage capacity, is geared towards operating the Canal throughout the dry season. Assuming that the dry season is not going to be a repeat of what happened this year 2023.

In a normal year, by the month of April, we should have the first showers and when the rainfall restarts, then we will normalize our operation depending on the actual precipitation we receive.

One point which is very important: We are managing water to the extreme. We have improved our operations, as Ilya mentioned, by cross filling, by using the fullest, the water-saving basins, regulating salinity in the lake. Every variable has been into given consideration and we have managed accordingly.

We have used new technologies, we are using new ways of resolving water utilization, filling up maintenance and avoiding leakages in our systems. We have reduced the amount of water that we use in order to transit the Panamax vessel somewhere between 15% to 20%.

And we are trying to use water to a similar level and reduce it and improve the efficiency of water utilization in the Neopanamax locks. We are scheduling vessels in such a way that we have a balanced northbound southbound schedule so we can reduce saltwater intrusion in the lake system.

So, every conceivable analytical tool has been used to max out water utilization. But we need some cooperation from the industry as well. We know that there are alliances. We know that you can share spaces in your fleet, in as much as you can do that and consolidate. And that's the reason why we provide information with such advanced notice. For the shipping companies to allocate their resources in the best way to serve their clients, and by doing so, maxing out the capacity that they can provide using the Panama Canal.

On top of that, there are some alternatives, especially for container traffic, to some limitations through the Isthmus of Panama, because there is an intermodal system already in operation.

But as far as the Panama Canal is concerned, our interest will be to provide as much information, so you can do the best scheduling possible, you can maximize the amount of cargo that you can put through the Panama Canal and give it to the final destination.

We are taking interest in the seasonality of products and the direction of cargoes, and also the volumes and destinations where these cargoes are handled to.

The idea is to have very joint-cooperation and every advisory has been a reaction to what the shipping lines require in order to better service under these extreme circumstances.

One point that is very important to all, the Panama Canal is a public service, and being the public service, we must provide uniform service to our customers.

We have been, in the past, probably biased towards container cargo because we designed the Panama Canal expansion for container shipping, but that capacity is also shared with other cargoes; so, we have to balance out, and the Panama Canal cannot take a position to dictate which one goes first, which one goes second.

There have been rules in force for decades that we are trying to adjust, reacting to requests from the industry to make sure that everyone has an opportunity to transit the Panama Canal.

We cannot be in any way a determinant of preference or provide any advantage to any particular cargo or any particular shipper. By doing that, it will subject the Panama Canal to potential liabilities that is not the purpose of a public service. And this has to be very well understood by the industry. That's why we listen, that's why we share information, and that's why we try to remain neutral in providing services to all who calls for it.

The next question we have is for deputy administrator Ilya Espino de Marotta. After February, would the canal consider implementing further restrictions?

It will all depend. I mean, we're in the lookout. This is everyday we monitor everything. We monitor the water usage, the queue, the water quality; so we don't discard that. Something could be modified after February depending on how we can progress; like we had some rains yesterday, that was good, that's a plus.

So, like I said, this is a changing situation. Definitely, in October when we forecasted 18 transits in February, we have been able to change that to 24, but that doesn't discard that. We could go down to 20 or 22 or maybe 18 in March or April.

Hopefully by may we will start a full rainy season and things can start picking up. But we will definitely notify the industry at least with 30 days prior to implement any changes, whether if it's to improve or to be a little bit more restrictive.

So be assured that we will always communicate with you. We will always issue our advisories. We also have customer meetings locally where the shipping agents can talk to us. We have it every three months. We just had one recently. And if we need to have a special one, we will call for a special one if there's any changes.

Right now, we are forecasting 24 in February, but yes, it could change. And like I mentioned before, in 2016 we did give a 43-foot draft restriction. We always analyze what is the least damaging to the industry at a specific point in time. So it could be either a decrease in number of transits or it could be a decrease in draft, which is, I think, our last action that we would take if

needed. But so far, we're looking a little bit better than we did in October. So that gives us a positive outlook.

This is a question for Dr. Vasquez. What is the Panama Canal vision for the upcoming future? Do you foresee another impact such as this one, before long term solutions are in place?

That is very unpredictable, but we have to stand ready, and lessons learned from this crisis are going to be instrumental in providing solutions to the next one when it shows. We know that the long-term solution will be to create a new reservoirs and new sources of water. What we have learned from this situation is that we could improve with a reduced number of transit or the operation itself, reduce the amount of water we can use for operation. Two elements that are very important and the way we have handled the current crisis:

One, as Ilya mentioned, we have used cross filling. So we have used the experience of the Neopanamax locks and the Panamax locks in the way we manage water and cross filling sideways instead of going down the river.

That has led us to significant savings in operations. So we will continue to use that as much as possible. That impacts scheduling. So scheduling has to be adjusted in order to make sure that we can use those operational tools to transit vessels through the Panama Canal. That is one.

The second one is that we have a better understanding on saltwater intrusion after the years that we have used the Neopanamax locks and we have reduced the use of the water saving basins when we have excessive rainfall, and we have used it more efficiently when we have lot less rainfall.

Saltwater intrusion is a matter of the lake level. If we have the same amount of saltwater intrusion to the lake at a depressed lake, it will concentrate more salinity.

Where the salinity is an issue? When we treat water for human consumption. So instead of addressing not only the amount of salinity on the lake, what we're going to be doing is addressing salinity at the water treatment plants. So we will focus more into where the most severe impact of salinity impacts and instead of just trying to use that in order to preserve the overall water salinity on the lake. That salinity is going to fluctuate depending on water rainfall. And it's a matter of management salinity instead of eliminating salinity, it's a significant change of scope in the way we look at something that has been ever present since the Panama Canal began operations in 1914.

Saltwater intrusion has always been something that the Panama Canal had to handle. It's more severe when you have extreme droughts. It's not relevant when you have surplus water and you wash out the lake. So this is a new way of managing some of the variables that we use to operate.

So all these lessons learned from cloud seeding, new hydrometeorological information, and trying to link hydromed with operations, making sure that the water levels allow for x number of transits, which transit we will use, how we can do the scheduling is an all integrated system that now, with more analytics and data we are using technology in order to make it more efficient.

That will not replace the need for infrastructure for water storage and to accumulate water for the dry years. So we have to do both. And even if we can do some auxiliary service that will provide better service to the Panama Canal, we will do so.

I did not fully answer the question that was posed before. And what will be the financial results on the Panama Canal? I think that overall revenues from tolls are going to decline or not only from the budget level that we presented and was approved that included a reduction from the trend of about \$200 million. There is a possibility that that amount is going to come to about 500 to 700 million below the estimate that we have for this year.

We know that it is complicated, but we share that information with the authorities. So the expectations of Panama Canal contributions to the treasury of Panama are adjusted in their budget as well, because this is a situation that is unprecedented and it's something that is beyond the control. As we mentioned before, the Canal is committed to sustainability. So once we overcome this crisis, we will be talking to the industry also on new technologies, on new sustainability conditions, and making even greener the Panama route for international trade.

We have a question now for deputy administrator from Intertanko. Intertanko members reported increased number of contact incidents when entering locks of the new Panama Canal.

These incidents, normally not severe and keeping the vessel seaworthy, often lead to haul indentations and consequently condition of class or significant memorandum imposed by class to the vessel status.

It is difficult for tanker owners to trade a vessel with a condition of class, especially those committed to oil major spots and time charter business. Inappropriate fendering of the locks was suggested as one of the contributory causes.

Do you share the view that the number of small contact incidents has increased and is there anything that the Panama Canal can do to minimize likelihood of hull indentations in the operate?

The fendering issue is only in the Neopanamax locks. And since we inaugurated the expanded Canal, we experimented with seven different prototypes of fenders and we still continue.

We did an experimental of floating fenders which seem to function rather well. And we are not only changing them to floating fenders, but we're also including an additional fender to the upper edge of the chambers, which is where most incidents can occur if, when the floating fenders collapse due to touch up.

So right now we have received a prototype of a new floating fender. We have already one on the lower chamber in Cocoli locks. We are going to put now one in the upper chamber of Cocoli Locks and test it for about three or four months. We'll replace all that.

But we have enhanced our fendering replacement system. We don't see any increase significant from the beginning, on the contrary, we see how the trend has gone down on the accidents, and we're learning a lot of water savings. We're learning a lot about the fendering replacement mechanism and system. So with a new system of floating fenders, we see that they're a lot more efficient. We are going to eventually replace all of them. But like I said, we monitored seven different prototypes of the original fenders. Now, with the floating fenders, we're testing two different systems, and we will definitely implement one of them.

In addition to the upper edge of the Neopanamax locks, the fendering issue is not an issue in the Panamax locks. We do not use fenders in the Panamax locks because we have the locomotives

to position the vessels in the center of the chamber. We do have fendering in the approaches. We have not seen an increase. Like I said, it's maintained in the last three years, pretty much standard, the number of scrapes, but we have seen a decline from when we first opened the Canal in 2016, the expanded canal. But definitely that's something that is on top priority for the Canal. The fendering system in the Neopanamax locks.

For efficiency purposes and to stay with you, Ilya, and then I'll transfer the other questions to the administrator. These are two short questions.

Can clients that book a reservation expect the same high level of reliability that the canal has customarily delivered? And can you clarify procedure for cruise lines?

Yes, absolutely. We guarantee that if you have a booking, you will transit within 18 hours of your book date. That hasn't changed. We're very responsible in that sense. So that promise to our clients has not been modified stands the same. Cruise liners also, they have their special period with 766 days, I believe, to have their booking. So for cruise liners, let's say things have not changed. And for every book vessel, things have not changed. When it's an auction slot, the promise of transit, I believe it's a little bit more. I don't know if it's 24 or 36 hours. I owe you that accuracy, but I'm sure if you look in our advisories, it will be there. But for a book vessel, for a standard booking slot, it's 18 hours transit time. So that hasn't changed.

Dr. Vasquez. Ship companies ask for the Panama Canal to suspend the ranking system, as we understood, it has not been suspended but limited in order to obtain a reservation slot. Is that correct?

That's correct. We have not suspended the ranking system because it's part of the regulations that we have in place through many decades.

We cannot introduce that many changes at once. The first thing we try to do is to assure that everyone has a chance to transit the Panama Canal. The ranking system is a self-fulfilling prophecy because the more you transit, because you have a higher ranking, the more capacity you have to control the number of slots you can earn.

The Panama Canal, once again, I'd like to stress this issue. The Panama Canal is a public service and we cannot bias in favor of anyone. And the ranking system somehow it was originally designed for one specific purpose and through the years has been modified in a way that is a pervasive element in the way we allocate slots, especially when the number of slots have been reduced 30, 40%.

So when we had 36 slots, probably it was not critical. But even then, when we had our conversations about the new toll system, the ranking system came over and over from our customers that it was a system that was not fair to everyone that wanted to use the Panama Canal.

We were in a process of reviewing the ranking system in order to make it more transparent and probably to simplify it. And then came the El Nino, and then we have to allocate the slot. And the issue here is the responsibility upon the Canal on selecting who transits.

We need to have one criteria which is neutral and independent, although has been traditionally used, probably is not the best system that we can use at this moment. But it's the system we

have, and we have been trying to modify it in order to make sure that we give an opportunity to every customer to transit the Panama Canal.

There are some other measures that we have been discussing with shipping companies in order to expand the structure of allocating slots, probably looking into multiple days, for example, and other alternatives.

But this is work in progress the same way and the same intensity and commitment that we work in technology, engineering, data analysis in order to assure that we can provide a service, we are putting an effort in order to understand the trends every day of the week, which way, which destination, which direction, to make sure that we can get the best combination of transit that maximize the use of the Canal for most of our customers and we have the greatest volume of cargo moving through the Panama Canal.

So we expect that in the months to come, once we overcome this critical issue of rainfall, we will go back to the industry, have conversation about how to improve the allocation of bookings and the allocation of slots that will go into tender.

And another question for our administrator is has the Panamanian government already taken a decision to develop the reservoir project, Rio Indio, and what is the timeline?

The government of Panama has not approved the legislation that authorizes the construction of Rio Indio yet, but we have continuous conversation with the authorities in order to get it approved sometime in the next twelve months. Either by the existing administration and we will have conversations with the new candidates for the new government that comes to office July 1.

This is a paramount priority for the country, not just for the Panama Canal. And we acknowledge that once the political crisis that we were involved in the last couple of months sees out somewhat, there will be the serenity and the commitment from the authorities and the general public to discuss this issue.

The Panama Canal is willing to provide engineering solutions to the water consumption problem and to the water supply to the Panama Canal. We have the know-how, we have the engineering, and we have the proven record that we can do significant massive projects and do it on time and within budget.

So I think that the best gamble and the best bet that the country can have is to trust the Panama Canal to do these projects and to do them well.

I think that the general public acknowledges that, and we believe that now, in a more subdued environment, with less political tensions, we could have that conversation. And we have started that conversation even yesterday when we presented the payment of surpluses to the government, that that must be a priority.

The government has proposed other alternatives as well, and we will listen to them and we analyze them, but we have to come to terms in something that is critical, not only for the Panama Canal, but for Panama as a whole. And Panamanians understand that that is the case.

So in a more serene environment, as we are right now, and probably before we start up the heat up of the discussions of the political elections for president and Congress, we will have a window of opportunity to have that conversation with all the relevant players in Panama to make sure that is in the top of the agenda items for this government, for the remainder of this administration, or

for very early into the next administration. We feel very positive that given the experience of what this El Nino has proven, that now we have an economic value of shortage of water, and it's real and people can relate to that.

Some of the lessons learned is the importance of water for the Panama Canal operation and for the livelihood of Panamanians as a whole.

One last question for you before we move on. Panama also has a railroad and a highway that serves as a complement to the waterway. How is that working during this crisis?

It has worked to some capacity. There are several bottlenecks that we must look at. When we had the political turmoil in Panama, even connectivity throughout the Isthmus of Panama was compromised. That's one issue.

Second, the overall transferability of cargoes through the Isthmus of Panama, either road or rail, depends on how many containers you can unload or reload at the terminal ports. So, when you look at it at a system, probably the roads and the railroad have capacity, but when you look at in a systemic way, probably the bottlenecks are in the capacity that the ports have in order to unload and reload containers. They are working on that. Some companies did extensive use of that to some limited success, but at least it provided an alternative to sailing through the Panama Canal.

It is an alternative that is available. It could be improved. We are talking in conversations with the private sector here in Panama, to assure that that capacity is used at its fullest. And that's an option that Panama offers, particularly to container traffic that has to be used, and has to be used at its capacity to complement the Panama Canal operation.